

Bachelor Thesis

Development of small business in Azerbaijan



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Introduction

Small businesses are important economic actors in the economies of countries (Stanworth and Gray, 1993, NUTEK, 2004, Wolff and Pett, 2006). They are the main source of employment (Storey et al., 1987, Castroiovanni, 1996, Clark III and Moutray, 2004) and seeds for future large companies and corporations (Castroiovanni, 1996, Monk, 2000). One of the key features of small businesses is the creation of conditions for a more equitable distribution of the product and property. It also helps to reduce income and wealth inequality among different strata of society.

The experience of developed countries shows that in recent years the role of small enterprises in the economy has grown, and most enterprises are classified as small and medium-sized enterprises - more than 95% (Ayyagari et al, 2011). After the recent economic crisis of 2008, world practice shows that small businesses were able to respond faster to crises than large corporations, and indeed, they survived and developed. For this observation, many developed countries have developed various mechanisms of non-financial and monetary incentives aimed at increasing the weight of small businesses in various fields.

In recent years, various incentive mechanisms have been observed, especially after the post-oil era, in order to improve the business environment in Azerbaijan. In this sense, some small enterprises were established, and improvements were noted in the registration and administration of taxes. The number of individual entrepreneurs increased; nevertheless, the role of small enterprises in the country's economy is still limited, and small business does not attach importance to the overall economy. After a sharp decline in oil prices in the world, the need to develop small businesses in the oil sector that shaped the national economy has become a topical priority for the state. Some restrictions are associated with the uneven distribution of extra-budgetary funds for informal and technical resources, complex procedures for access to small businesses, such as low-level investment in small businesses, financial and tax issues, financial accessibility (in particular, loans from banks), lack of market infrastructure

and a number of problems in the current legislation. All of the above factors combine and require that their presence is taken into account and not evaluated when developing business strategies in the country. In addition to these areas, this study focuses not only on the importance and value of small enterprises in the national economy but also on key activities that need to be taken to develop entrepreneurship and small businesses in Azerbaijan by analyzing existing business activities in the country and identifying key constraints.

This article explores the role of small businesses in the economies of different countries, especially in the case of Azerbaijan. The aim of the study is to support and enhance the development of small business in the country by determining the effectiveness of programs implemented by the government to help increase the activity of small businesses. He must adapt them to the conditions of Azerbaijan. The development of entrepreneurial culture and expansion of small business in the current period are of great importance for the future economic growth, incomes of the country's population and employment.

The study was structured as follows. Chapter 1 describes the literature review, the definition of small and medium-sized businesses, and readers were able to learn about the various models of small business and the mechanism for their implementation. The next chapter examines the role of small business and its role in economic development in different regions and countries, such as the United States, the European Union, Asia, Georgia, Russia, and Turkey. The next chapter examines the real situation of small businesses in Azerbaijan, the SWOT analysis of small businesses, possible limitations for the development and growth of small enterprises, and the role of public policy in the development of small businesses. As a result, a number of proposals were made for the development of small entrepreneurs.

Literature Review

Globalization, transitional and developing countries and their institutions face great difficulties in using trade and investment opportunities. Although governments make policies in trade and investment, they are trade and investment companies, and they are based on the role of the economy.

In transition and developing countries, small enterprises are important players. These firms, as a rule, account for 90 percent of all firms that are not part of the agricultural sector, are the main source of employment and produce large domestic and export earnings (OECD, 2009). Consequently, the development of small enterprises is a key tool for further poverty reduction.

Chapter 1

1. The role of small business in the development of a modern market economy.

1.1. Small business as a form of entrepreneurial activity

Importance of small business

Small enterprises are the main part of the economy of individual countries and form the basis of the world economy. In Duarte (2004) this is undoubtedly crucial for the overall sustainability and health of small businesses. According to the Organization for Economic Cooperation and Development (OECD, 2000), small enterprises account for more than 95% of enterprises and account for 60-70% of the work. As an alternative, the United Nations Industrial Development Organization (UNIDO, 2005) estimated that small businesses account for 90% of private firms and employ 50-60% of the total workforce. In both cases, Wennekers and Thurik (1999) state that "small firms are a tool for the development of entrepreneurship". Small enterprises play an important role in ensuring competitiveness and introducing new technologies to the market of products and finished products. It is important for all countries of the world to create favorable conditions for small businesses, provide quality services and competitive products at affordable prices (Robin, 2013).

Even small businesses are associated with employment, economic growth and productivity during a crisis or recession (WIPO 2010). In the financial crisis of Asia, small and medium-sized enterprises have been described as an "army of ants" of Taiwan to fight the crisis (Hu, 2003). Small enterprises play an important role in the economy as healthy competitors; stimulates higher competition, lower prices and more competitive products (Johnson and Soenen, 2003). In the absence of small enterprises, large enterprises will have a monopoly in a number of business areas. When discussing efficiency, small businesses play an important role. According to Stephen Jarvis (1996), some activities with small enterprises that are small and medium-sized enterprises that work as subcontractors for large enterprises, especially large enterprises, and that provide raw materials and by-products or distribute

products, may be transferred. Economist Zoltan J. Ax (1999) observed small businesses in the United States and Europe and increased his importance since 1980. For example, General Motors in the US uses about 37,000 small enterprises for auxiliary installation and other services. This experience is used not only by Americans but also by European companies. The Italian company Benetton produces about 95% of its products through subcontracting small businesses (Iordache, 2014).

Lucas (2005) says that small businesses are the loss of the entire English economy and account for more than half of Britain's trade turnover. In Romania, the share of small and medium-sized enterprises is 99.47%, and 98% of these small enterprises are privately owned (Statistical Yearbook, 2012). The economy of the European Union and not only of European countries is generally supported by small and medium-sized enterprises; Small businesses in Europe are the first to create income, innovation, employment and entrepreneurship skills. According to the annual report on the status of small enterprises in the European Union (European Commission, 2014), more than 99.8% of the 20 million registered EU entities are small enterprises in 2012, and the majority of them are 92%, Microenterprises with less than 10 employees. In 2012, more than 87 million people and 67 percent of the total employment accounted for more than 58 percent of the gross value. These figures show that small businesses are the backbone of the EU economy: they are the main source of private investment, economic growth and jobs. The economy of many countries is based on the strengths and dynamics of both small and complex private enterprises (Hallberg, 2000). Small and medium-sized enterprises play an important role not only in the economic development of developed countries but also in the transfer of the economy and developing countries in terms of increasing women's employment and promoting gender equality.

Small and medium-sized enterprises are an important source of economic growth, dynamism and flexibility in developed industrialized countries, as well as in developing countries and play an important role in development. Considering 132 countries, one study found those 125 million small businesses and 71.2% (89 million)

in developing countries (Kushnir et al., 2010). For countries with economies in transition, small businesses are crucial for several reasons. First, they can provide economic benefits beyond a single enterprise; that is, to encourage experience, training and adaptation. This possibility is especially important for countries that are already part of a centralized system. However, although small businesses do not create new jobs, they reduce the erosion of human capital, opening up new alternative employment opportunities for relatively skilled and unemployed workers (EBRD, 1995).

In most transition economies, the small business sector is not necessary and even discriminatory at the beginning of the transition period, focusing on the rapid privatization of large enterprises (LEs) rather than small business development. The development of small enterprises is especially important in the early stages of the transition period (EBRD, 1995, Smallbone and Welter, 2001), which is also important for the development stages after the transition. M. Porter (1990) argued that invention and entrepreneurship are at the centre of the country's comparative advantages and competitiveness. Small and medium-sized enterprises are relatively innovative compared to larger firms because of their ability to quickly and effectively apply inventive development (Acs and Yeung, 1999, Qian and Li, 2003, Verhees and Meulenbergh, 2004, Timmons, 1998). From a very small point of view, small businesses, in particular, the lower bureaucracy, improve customer service, more efficiently and effectively internal communications and take a step forward than LE in less complex areas to solve problems (Sharma et al., 2005).

90% of small businesses, according to Fadaunshi and Daodu (1997) in Asian developing countries such as Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India and Sri Lanka; In addition, small businesses provide 98% of Indonesian workers, 78% in Thailand, 81% in Japan and 87% in Bangladesh. The activities of small and medium-sized enterprises in Asia are important for the development of African countries, especially in such areas as economic development, job creation and poverty eradication (Rogerson, 2001). For a long time, small businesses have

been a major part of job creation and economic growth in the African continent with a 40% unemployment rate, especially in South Africa (Friedrich, 2004; Watson, 2004). According to Rwigema and Karungu (1999), 90% of all official enterprises in South Africa are small, medium and micro enterprises. The small business sector is the largest contributor to the South African economy.

Andersson et al. (2007) is another aspect of small business. It is important for women in the economy of small businesses. The author notes that women entrepreneurs can not only create more jobs in the country but also hire women to reduce gender discrimination in the labor market. In addition, a reduction in the unemployment rate among women helps reduce the risk of trafficking in human trafficking, while women do not need to look for work outside the community. Finally, women entrepreneurs can strengthen the younger generation by demonstrating their ability to fulfill their views and their ability to work in the workplace and in the community.

The role of small business in the development of economy

On the road to development, small enterprises and micro-firms play a key role, since they are designated as a mechanism for economic development, but they are basically the largest share of enterprises. Industry and its economic and social development and environmental sustainability are at the heart of the discussion, as the term "sustainable development" is widely used by the Brundtland Commission in 1987. There is now a consensus among politicians, governments and non-governmental organizations, more efforts are needed to integrate economic, social and environmental objectives into industrial policy and decision-making (United Nations, 1998). The increase in the share of enterprises in terms of job openings and increased incomes has prestige among local authorities. In addition to attracting investment, along with encouraging entrepreneurship, most local and regional development strategies (OECD, 2003) have two parts. The size of these firms is perceived as an important factor in their success, as it allows some of the more flexible firms to find. Inforegio (2000) provides unique opportunities, such as

flexibility and employment potential, a small tool for regional development. A large number of small businesses are more flexible, faster and more compatible with larger organizations. Smaller companies are limited to shortcomings, usually based on the convenience and timely response of their customers to the creation and maintenance of profitable market niches. In this case, a positive relationship between the transformation potential and profitability is necessary for the survival of small firms that react quickly to market objects (Caloghirou et al., 2004). The famous futurist John Naysbitt (1994) predicted the increasing importance of the concept over time: "small is beautiful."

Small enterprises are the basis of economic growth; Develops technical innovations necessary for economic development. Many new enterprises come from innovations, and new discoveries bring more adventurous adventures. The creativity of small companies is a burning spirit of entrepreneurship, leading to economic development. Paul Almeida, the professor at Georgetown University (2004), explains that "small businesses play a unique, active and important role in the invention of new technological spaces in the innovation process and the development of high-tech information networks." When it comes to the question: "Will the future work and where they will come from?" Former US Treasury Secretary John W. Car, who answered the question, "it is clear that small companies and innovations will play a key role in a short answer" (Zoltan Acs et al., 2005).

In the new context of the information revolution - a concept that involves the transformation of physical, material resources into the economy - small and medium-sized companies are increasingly interested in innovation and progress. A number of small businesses, a small number of tangible assets and less complexity of activities and structures will make it easier to facilitate professional activities, decision-making and information resources activities in all priorities. The spirit of entrepreneurship, the power of interpersonal relationships and the combination of certain groups, volatility, flexibility and organizational dynamism are based on the entire economy and knowledge. All the above-mentioned enterprises are not large and small

companies; they are small enterprises and develop a modern organizational strategy. In addition, wider and wider social networking centres, which are the center of the innovation process, and smaller companies, build regional networks more easily than larger companies that provide more experience and an exchange of ideas. There is a positive correlation between information-driven companies and the economy in order to eliminate all this (Nicolescu, 2001).

1.2.Foreign experience of small business development

In this part of my dissertation, I have researched small businesses and their development in the context of the European and US model.

1.2.1 Small business in the context of the Europe model

Classification of small enterprises

Small-sized enterprises also play an important role in the European economy. The European Union analyzes enterprises in three categories to determine their size; the table below shows the categories that define enterprises as micro, small and medium enterprises.

Table 1: EU categorization of small- and medium-sized enterprises

Company Category	Employees	Turnover	Balance Sheet Total
Micro	<10	< €2 million	< €2 million
Small	<50	< €10 million	< €10 million
Medium-sized	<250	< €50 million	< €43 million

Source: Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium enterprises. (2003/361/EC), Official Journal of the European Union, L 124/36, 20 May 2003

Companies in EU member states are classified according to the total number of recruited employees, annual turnover and balance sheet. The status of the object will not change if the enterprise exceeds certain criteria when calculating statistical results. At the same time, an enterprise that serves a larger number of employees, turnover and/or balance of two consecutive reporting periods, loses its status as a micro, small or medium business and cannot benefit from European policies.

The European Union does not consider students and students working in

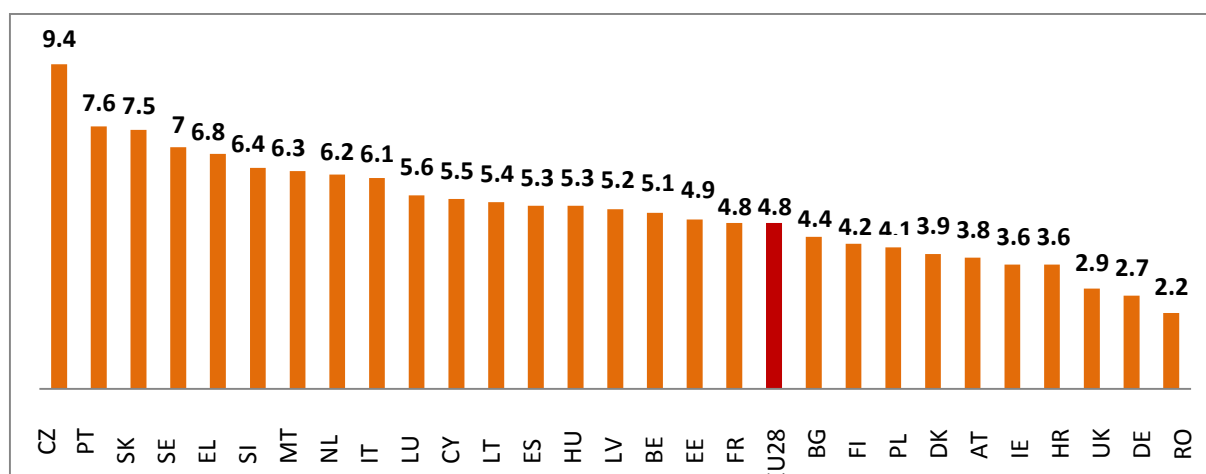
companies such as employees. The criteria for the staff include: "Employees, beneficiary staff, national legislation employees, business managers and partners, who are permanently operating and receiving financial benefits from entrepreneurial activities" (European Commission, 2005). In addition, the number of employees is calculated based on the year; therefore, seasonal workers and part-time workers are considered part of the unit.

The annual turnover is determined by calculating the company's income, which is not included in the amount of money received from the business and paying taxes. The balance is the value of the company's assets.

1.2.2. The role of small enterprises in the economy of the European Union

The information collected by the European Commission shows that small and medium-sized enterprises account for 99.8% of all enterprises and play a significant role in employment, using two-thirds of the workforce in Europe. Statistical indicators show that small enterprises account for 69% of employment growth and 66.8% of total employment (2016). Relations between enterprises and employment growth depend not only on the number of employers but also on the number of new enterprises. Figure 1 compares the EU member states with what is the smallest enterprise for every 100 people.

Figure 1: The number of small enterprises per 100 inhabitants, 2015



Source: Eurostat, National Statistical Offices and DIW Econ, 2017

The same report notes that employment growth in the EU region largely depends on the number of newly opened enterprises. Small and medium-sized enterprises also increase the total cost of countries. Additional information published by the European Union in one of the annual reports indicates that the number of people employed in the post-global financial crisis has declined, due to the newly

opened enterprises and the work opportunities they create (2016).

Classifying the growth of employment by smaller countries by 2015, the largest increase in employment was observed in Malta, 4.8% (European Commission, 2016). One of the growing employment indicators in Malta is the launch of the Maltese Initiative, which aims to create more than 60 million Euros for small enterprises in Malta and is funded by the Republic of Malta, the European Investment Bank and the European Investment Fund on July 15, 2015 (European Investment Fund). Greece ranked second in the list, employment in small enterprises increased by 4.3 percent. After the global crisis, the employment of small businesses in Greece declined and was the beginning of the recovery in 2013. In 2013, the number of people working for the first time since the global crisis increased and expanded (European Commission, 2015, GSEVEE and others, 2014). In the EU28, the average rate of employment growth is only 1.5% higher than in Malta and Greece. In some countries, small enterprises have a negative and very low level of employment. For example, in Finland, the growth rate of employment in small enterprises is -0.3%, and in France more than 0.1%.

Figure 2: EU SME employment growth by Member State, 2015

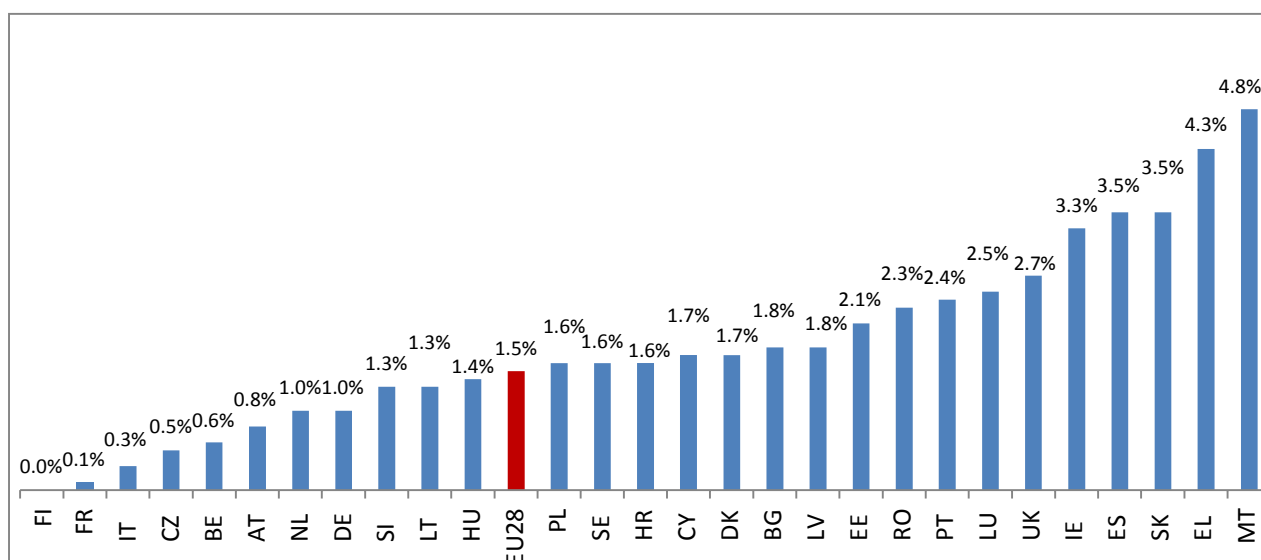


Table 2 below shows the number of enterprises, including the number of employees employed for each classification by size. The number of small and medium-sized enterprises is 99.80% of all enterprises and employs 66.80% of all employees employed by each enterprise.

Table 2: SMEs and large enterprises: number, employees and value added in the EU28, 2015

	Micro	Small	Medium	SME	Large	Total
Enterprises	21,256,252	1,378,702	224,647	22,959,600	44,458	23,004,059

Number	92.80%	6%	1%	99.8	0.2	100%
%						
Persons employed						
Number	40,057,408	27,503,428	23,170,352	90,731,192	45,168,732	135,899,904
%	29.50%	20.20%	17%	66.80%	33.20%	100.00%

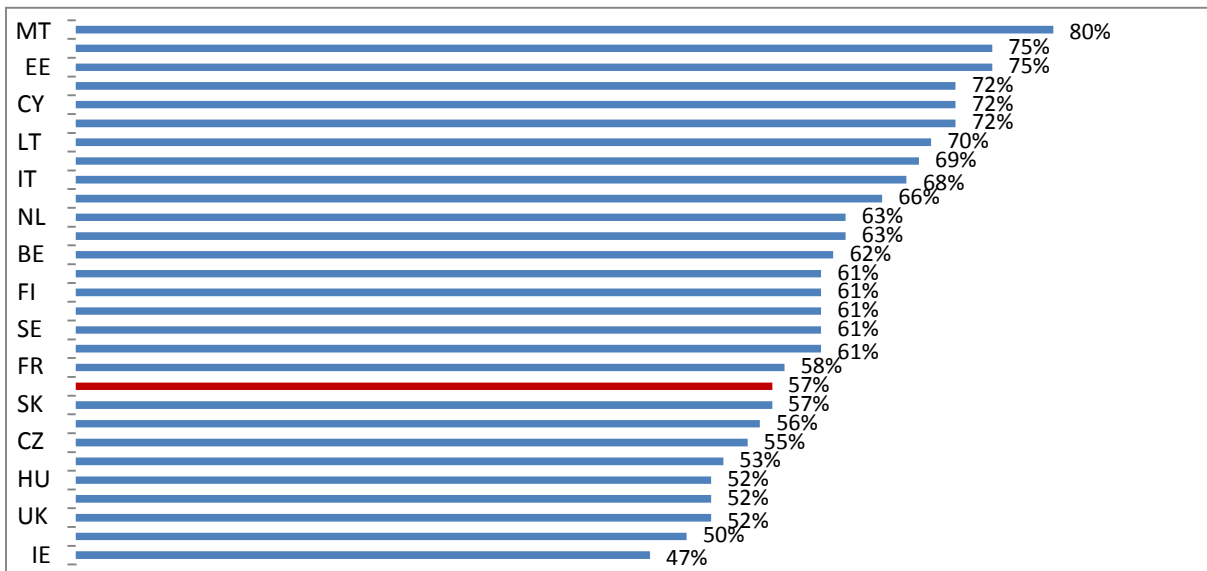
Source: Eurostat, National Statistical Offices, DIW Econ, 2017

While large companies or their smaller partners do not know about the growth of the economy, it can be seen from the table above those small and medium-sized enterprises, especially in 2015, made a big contribution to the European economy, than large companies, especially by reducing unemployment.

Value added

In 2015, small and medium-sized enterprises play an important role in Europe, with contributions from each country listed in paragraph 12 below. The added value of small businesses amounted to 3.938.103 billion euros, which is 57% of the value added. Nevertheless, the contribution of small enterprises to the GDP of individual countries varies, as shown in Figure 3 below, depending on the country's political and economic status.

Figure 3: Contribution of SMEs to value added in different member states in 2015

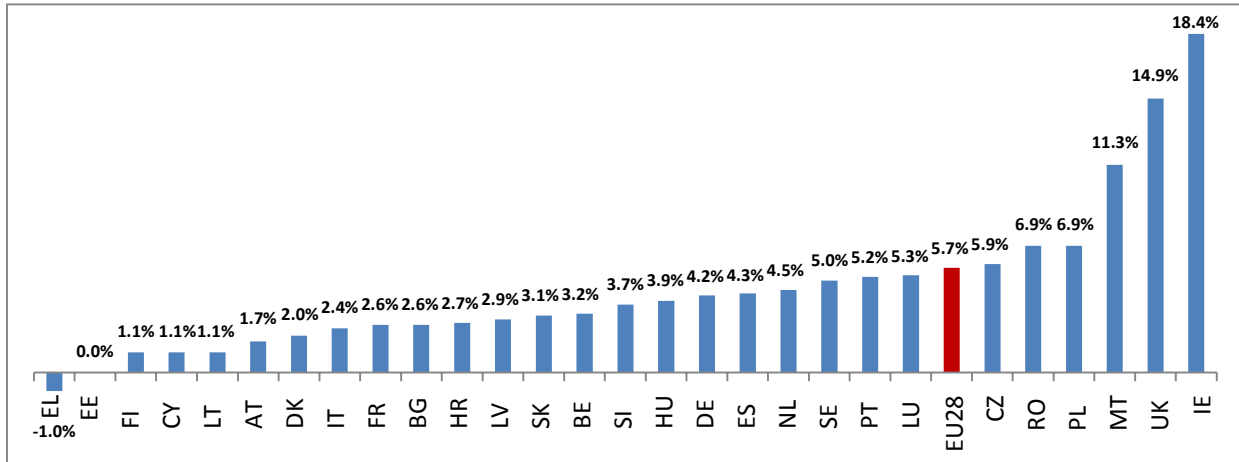


Source: Eurostat, National Statistical Offices, DIW Econ, 2017

Moreover, from the sectorial point of view, most of the added value belongs to the wholesale and retail trade sector, 22%. The share of manufacturing is 20%, and the third contribution to value added of small businesses is the business services

sector by 14%. Construction and housing and food sector are in the fourth and fifth places, respectively, by 11% and 4%. Other areas help increase the total cost of small businesses by 20%.

Figure 4: EU SME vale added annual growth by Member State, 2015



Source: Eurostat, National Statistical Offices, DIW Econ, 2017

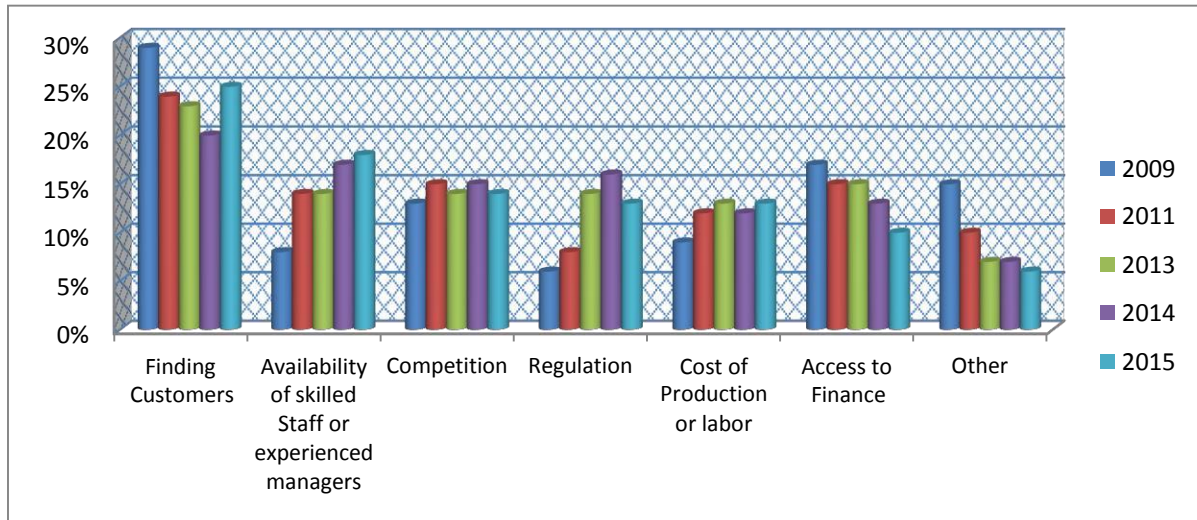
The most common problems among small enterprises in the European Union

Recent statistics Panteia, based on the survey results of various enterprises, has serious problems with small businesses, customers and skilled or experienced employees, competition and regulation are lower (Panteia, 2015). Among the many problems is finding the most interested customers. The search for clients based on survey results every year since 2009 is the biggest problem for small and medium-sized enterprises. Despite the fact that the critical problem has decreased in recent years, it has become a serious problem since 2014. The second most common problem is the availability of a qualified and trained workforce. The actualization of this problem is constantly growing. According to a 2015 survey, 18% of enterprises were forced to find experienced and trained personnel. Another problem of small business is competition. The Panteia data show that the significant problem of the problem has not been changed much, although since 2009 it has been stable by 14-15%.

Regulation and production or labor costs are among the four listed problems; 13% of small businesses expressed dissatisfaction with this category. The Regulation includes European and national legislation and sectorial guidelines. Wages include salaries, wages and salaries paid by the employer. In 2009-2015, some trends were noted with respect to the relevance of these problems. In 2009, this issue was the most important issue among other complications; however, since then he has been

constantly shaking. These costs remain a problem in the relatively stable ratio of small EU enterprises²⁸. The fifth problem of small business is financial resources. Although financial problems in 2009 were the second most pressing problem, the policy of the European Union helped to improve the situation.

Figure 5: The most common problems among SMEs after 2009.



Source: Survey on the access to finance of enterprises (SAFE)- Analytical Report 2015

As we mentioned earlier, small and medium-sized enterprises are an important part of the European economy. Thus, over the past few years, the European Union has launched a number of initiatives to improve the policy of small enterprises in order to improve the economy. These initiatives are aimed at facilitating the environment for small and medium-sized enterprises and removing barriers to their growth.

First, the European Charter of Small Business is adopted by the European Union's Council on Foreign Affairs in 2000. With the adoption of the European Small Business Charter, the reduction in the number of small businesses ensures that unemployment and expansion of the economy and recognized entrepreneurship are valued as a valuable asset. At the same time, the European Union is also committed to strengthening the spirit of innovation and entrepreneurship that will enable European business to achieve the regulatory, financial and administrative framework for entrepreneurship and entrepreneurship and, at the very least, focus on public policy objectives to facilitate access to better research and technology, to improve access to finance throughout the life of the enterprise, provide the best conditions for small businesses around the world, and listen to the voices of small businesses and support elite small enterprises "(European Charter for Small Business, 2000). To fulfill these obligations, the EU has decided to take such measures as training

entrepreneurship, facilitate start-up procedures and simplify laws, such as national bankruptcy laws for small businesses. Small and medium-sized enterprises improve the business environment for small businesses, facilitate small business access to markets, and change tax systems to stimulate start-ups and small businesses, improve financial services, and encourage effective business models for small businesses, small businesses and accessibility. Create a management system and represent the interests of small businesses at the national level (European Charter for Small Business, 2000).

In June 2008, the European Union decided to take another step by introducing the "Small Business Law" to develop the framework created in 2000. The main objective of the Small Business Law is to facilitate regulatory procedures that prevent entrepreneurship and small businesses from coping with business processes, as well as expand access to finance and markets like the European Small Business Charter (the European Commission, ND). The law aims to broaden the benefits of a framework for small and medium-sized enterprises within the framework of the European Charter.

In Europe, only 37% of people who want to work or start their own business are self-employed. A few years ago this figure was below 45%. Below the United States and China, where their number is 51% and 56% are respectively. In addition, enterprises are not as high as US and Chinese enterprises, but relatively slowly. These statistics show that Europeans are not so many employers as their counterparts in America and China (European Commission, 2013). Thus, one of the main objectives of the European Union is to encourage entrepreneurship and encourage people to manage their own affairs and to prevent unnecessary difficulties faced by entrepreneurs. There are many obstacles that the European Union plans to solve; For example, the education system does not encourage students to engage in entrepreneurial activities. The European Union is designed to teach young people the skills of doing business and entrepreneurship to solve the problem of motivation. Investments in business education are important and useful; statistics shows that almost a fifth of students participating in entrepreneurship programs start their own business or business in the future (European Commission, nd). European Union "Erasmus for Young Entrepreneurship" and entrepreneurship education in secondary schools and universities "Your European Business Portal", "European Business Network", "Small Business Support Page" and "Financial Access Portal" for the development of entrepreneurship among young people.

The European Commission has a program "Normative suitability and efficiency" (REFIT) to simplify laws for small and medium-sized enterprises. Its

main goal is simple, understandable, more efficient and cheaper for business. There are annual work programs of the Commission that offer a qualitative overview of new initiatives and guidelines; "The government has different levels to ensure the best possible result: the Commission works with the European Parliament, the Council of the European Union, the European Union and other stakeholders" (European Commission, nd b)

Improving the access to finance

The European Commission works with a number of financial institutions, such as banks, angel investors and venture capitalists to improve business financing. The European Commission does not finance direct enterprises; through local financial institutions. There are thousands of financial institutions that can apply for small business financing. Financial requirements vary, as determined by the relevant organization. Over the past few years, the European Union has implemented a number of programs to improve the financial system, which is one of the most pressing problems facing enterprises. In 2007, the EU developed the "Framework Program for Competitiveness and Innovation" (CIP), which lasted until 2013. Through CIP, "businesses have access to financial means and financial loans with more than 1 billion euros, these tools have enabled more than 340,000 small businesses to finance loans and efficiency" (European Commission, cd.c). In November 2011, the European Commission proposed a new program called "Competitiveness of Enterprises and Small Businesses" (COSME). The European Parliament adopted this proposal in November 2013, and the COSME program received 2.3 billion euros. The main goal of the program is to help small businesses enter the world and domestic markets, solve small business problems and stimulate entrepreneurship (European Parliament, nd). According to the Commission, it is expected that this program will annually produce an annual report of 39,000 companies on the creation or maintenance of 29,500 jobs and assistance in creating 900 new business products, services or processes.

In general, Member States and the European Commission have implemented a number of policies to ensure access to finance for small businesses. The majority of auditing activities occurred in countries where the situation worsened in bank lending after the global crisis. "The most common measure strengthens and strengthens credit guarantee systems, mainly by expanding their volumes and increasing the placement of public funds in such guarantees. More widespread and less widespread policy measures at the national level: further development of corporate bond markets and alternative markets for small businesses to facilitate securitization of loans for small businesses, facilitating access and transfer of financial information, preparation of a

regulatory framework for reverse financing and expansion of the capital sector in the public sector, in parallel, campaign financing organizations are established in different member states "(European Commission, 2015b). The future plans of the Commission are to develop capital markets with the assistance of the Capital Markets Union in order to increase the diversity of financial sources. Other planned actions are to create a better basis for financing small businesses, such as ensuring investor protection and financial stability, providing individual placements and accumulating debt. The Commission also plans to support venture capital and the risk of capital financing in EU member countries.

Access to markets and internalization

Many enterprises find it difficult to export goods and services to other countries. Only a quarter of small and medium-sized enterprises can export, and most of them are exported to other EU countries. The European single market includes more than 500 million consumers of products and services, which creates many opportunities for trade within the EU. The main goal of the European Commission is to increase the ability of small enterprises to export, be competitive, enter foreign markets and find partners abroad.

Improvement of small enterprises over the years

After the signing of the Small Business Act (SBA) in 2008, the global crisis closed the economy and damaged the small business, and the effect of this action was immediately understood. Over the past few years, the European economy has either reached the level of the crisis, or has recovered from the consequences of the global crisis and most of the economic indicators. Although the SBA application is incomplete, the statistics published by the European Union show that the European economy has grown by improving the productivity of small and medium-sized enterprises (European Union, 2016). For example, for the first time since the crisis, the employment of small enterprises in 2014 increased, and a significant increase in 2014 and 2015 was a significant increase of 3.8% and 5.7%. Comparing the indicators of 2015 and 2008, small businesses are more common compared to value added. Taking into account the non-financial sector in 2015, the cost of small businesses in comparison with 2008 amounted to 3.9 trillion euros.

Despite the added value, employment in small enterprises is 2% lower than pre-crisis. However, after 2013, a small enterprise continues to decline and began to grow over the next two years. "For the first time since the outbreak, the employment of small enterprises increased in 2014 (1.1%), while the employment of small enterprises increased by 1.5% in 2015" (European Commission, 2016). A total of 90 million people were employed by small businesses.

The main reasons for improving the activities of small businesses are general

macroeconomic conditions and improving domestic demand. As mentioned elsewhere, European small businesses do not usually export to other countries, and when they do, they are part of the EU28. Therefore, domestic demand is important for small enterprises (European Commission, 2016b).

In addition, the number of small and medium-sized enterprises has increased. According to the latest statistics, there were 23 million small businesses in the EU. Despite the fact that the number of small and medium-sized enterprises fell after the crisis, the pre-crisis level reached its peak in 2012 and continued to grow. At present, the number of small businesses in the EU is 3.3% higher than the pre-crisis level.

Access to finance of small-sized enterprises

Global crises in 2008 also adversely affected access to finance for small businesses. In 2013, some economies were covered, and most countries were rebuilt in 2013. In the economic conditions, this recovery created better conditions for small enterprises than their financial resources.

The main source of funding for EU member states is a bank loan. Loans are part of the financing of small-sized enterprises in a number of countries, such as Greece and Cyprus. Corporate finance in both countries is based on bank debts, and not on the securities market. Despite the improvement of the capital market in several countries, large companies should not rely on bank loans, often small and medium-sized enterprises still depend on bank loans; Examples are the United Kingdom, Germany and France. At the same time, in the European Union there are two types of member states that are not dependent on bank loans. The first group includes countries such as Sweden, Denmark and Finland. In Nordic countries, listed shares are a broader way of financing small and medium-sized businesses. The second group covers Slovakia, Lithuania, Estonia, the Czech Republic and Poland. Companies depend on their own resources as unpaid profits from their financial sources.

Trade credits are a broader way of financing small businesses. In some countries, such as Lithuania, Latvia, the Czech Republic and Slovenia, about 20% of the financial ratio. Nevertheless, debt securities play only a minor role in financing small businesses in the European Union. There are no corporate bonds in Greece, Romania, Lithuania and Cyprus, and France, England, Portugal, Austria and Finland play a small role in financing European companies.

Bank Loans

Bank loans are an important part of financing small businesses in the European Union. Recently, bank loans have increased, and the conditions for financing the bank have improved. Interest rates on loans in banks decreased, the repayment period of the loan increased. According to a survey conducted by the European Central Bank

and the European Commission, the conditions for bank lending have improved, and the number of loans extended over the past few years has increased. While the situation with lending is improving, there are still some problems with loans that small and medium-sized enterprises face. For example, borrowing requirements are very high, borrowing costs are sometimes lower, and admission rates for credit customers are higher in many EU countries - in some countries, the return rates are about 20%. Countries with high lending rates include the Netherlands (23.5%), Greece (21.5%) and Ireland (18.7%).

The introduction of a single currency in Europe led to greater integration of financial systems; However, after the crisis of 2008, the situation changed. Interest rates began to change, although rates in some countries were relative to the standard pre-crisis levels. Interest rates remain unchanged, although financial systems have recently begun to integrate.

Non-bank financing

The number of issued bonds increased; However, most of the bonds are issued by large companies, rather than small-sized enterprises. Although private financing is used to finance small businesses, it is more likely for small businesses that make up a small part of a small business. Recent statistics show that only 3% of European small businesses are financed from private sources.

Another way to earn business capital for small-sized businesses is venture capital investment, used to finance start-ups in other parts of the world. Venture investments are not the most common method of financing, and the number of venture investments has decreased in recent years. In the European Union in 2014, venture capital expenditures reached 4.1 billion euros, which is less than the statistical data for 2013. In addition, the role of capital investments in GDP is negligible. 90% of all EU-funded companies are concentrated in eight member states.

1.2.2. Small enterprises in the context of the United States model

Classification of small enterprises

The development level and development of the national economy depends on the ability to create good conditions for small businesses that can provide high-quality and competitive products in a low and localized market. In this regard, the US (USA) is one of the best examples of the role of small enterprises in the economy.

Small businesses or companies with fewer than 500 employees are a major part of the US economy and are the basis of employment (Hammer, Jabara, Cardenas, Wise, Grossman, Peterson, Gosney, 2016). The classification of SMEs in the United States is determined by the Government Administration, the Small Business

Administration (SBA). SBA applies constant "measurement standards" to determine the company's classification; the work presented in the table below is a classification of American small enterprises by the number of employees, annual turnover and direction of activity.

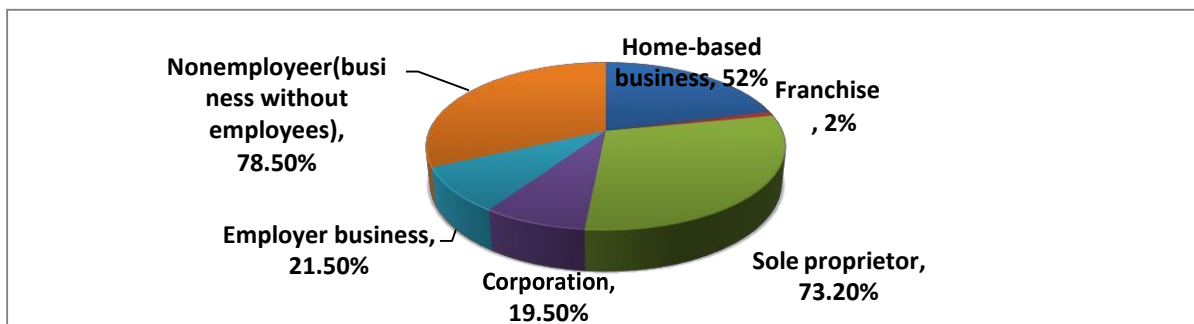
Table 3: Classification of small enterprises in the US

	Manufacturing and service industry	Services		Agriculture
		Majority	Maximum value	
No. of employees	<500	<500	<500	<500
Turnover	-	≤7 mln. \$	≤25 mln. \$	≤0.25 mln. \$

Source: United States International Trade Commission, Small-Sized Enterprises: Overview of Participation in US Exports, 2017

Companies operate in three areas: industry, services and agriculture. Enterprises that produce both domestic and export markets are divided in accordance with these directions. If the company has less than 500 employees, it is considered a small enterprise in accordance with the number of employees.

Figure 6: Small Business shares, %



Source: U.S. Census Bureau, SBO, SUSB, 2017

According to Figure 6, most small businesses in the United States are non-operating enterprises and make up 78.50%. The second largest share belongs to a single branch in 73.20%. Corresponding home enterprises, employers, corporations and franchises make up 52%, 21.5%, 19.50% and 2% respectively.

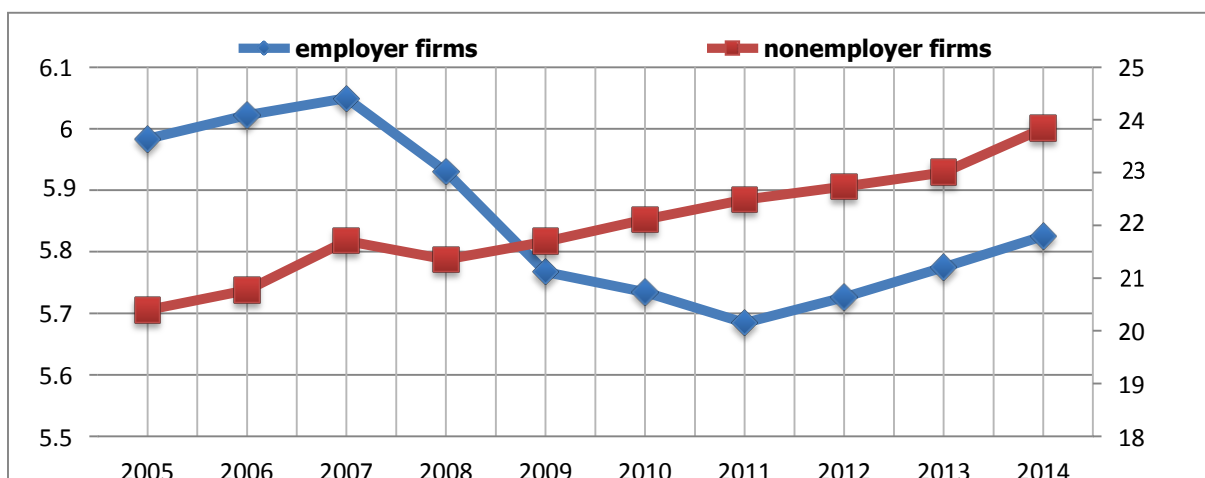
The role of SMEs in the US Economy

According to the measurement of the gross domestic product (GDP) of the Bureau of Economic Review, the United States annually produces seven years. In other words, the US economy develops every year after the Great Depression, which occurred in the early 2000s. Since 2016, the stock markets (Dow Jones Industrial Average and S & P 500) have reached the highest levels of all time. The Bureau for

Unemployment Statistics by the middle of 2016 is 5% or lower and starts at 8% from the beginning of 2016 (OECD-2017, USA), beginning with the Great Depression.

Small businesses are largely included in the US economy in terms of employment, production and technology, and also account for about half of the private sector. Small businesses are the largest in the US economy, and their weight is 50%. Its contribution is about 50%, which accounts for more than 28 million or 99.9% of all companies that employ about half of the private sector employees, about 42% of the total in the private sector, about 63% of new jobs in the private sector, and account for approximately 46% of private sector production (OECD, USA, 2016).

Figure 7: Number of businesses in the US (millions), 2005-2014



Source: United State Census Bureau, 2017

As can be seen in Figure 7, the number of employers and companies that are not employers in the US can be easily traced. According to this schedule, the number of non-employers in 2005-2014 increased significantly; at the same time, employer firms tend to decline from 2007 to 2011. After 2010, the number of employers began to increase, and in 2014 this number reached about 22 million. However, this figure cannot be compared with firms that are not employers; In the United States, more than 4 out of 5 enterprises do not have employees. One of the main reasons for the decline in the number of employers' firms since 2007 is, in fact, the financial crisis.

Small businesses make a significant contribution to employment, job creation, entrepreneurship and economic activity, measuring the GDP of the US economy. As noted earlier, the share of small enterprises in employment is 50%. However, the impact of the financial crisis is explained by the low number of employees.

Between 2007 and 2010, the number of employed has declined, although this is due to a reduction in the number of employers' firms during this period and, therefore, does not mean an increase in unemployment. It should be noted that during the "Great Recession" of 2008-2009, small firms lost 6 million jobs, but after 2010,

the positive trend of unemployment among small firms continued until 2014, and then reached 57 million. While small businesses are a major part of the US economy, tight credit markets continue to grow and increase their competitiveness and productivity and hinder the beginning of a culture that affects the number of employers and the number of employees.

The role of the small enterprises in export performance

The US International Trade Commission (Commission or USITC), despite trade barriers and other barriers, shows that goods and services exported to the United States are more productive than non-export partners. In 2015, small businesses in the United States account for 97.6% of exporters and 97% of designated importers.

At the same time, the total value of goods exported by small US enterprises in 2015 amounted to 642 billion dollars. The United States, accounting for a third of commodity trade. The value of goods by small businesses in the United States in 2011 amounted to 599 million US dollars, representing 33.3 percent of the value of exports of a small enterprise. In 2007-2015, the obvious value of exports of small enterprises may increase. In recent years, small enterprises accounted for 33.6% of the total value of exports and 33% respectively (United Nations Office, 2015), respectively, in 2014 and 2015 respectively.

At the same time in 2015, 96.5% of all American manufacturers exported 839 billion dollars. This is a small and medium-sized company with a cost of 19.1%. Among wholesale wholesalers, 99.2% of wholesalers are small and medium-sized companies, and 64.8% of total exports amount to \$ 303 billion.

Most small exporters represent the United States, NAFTA partners, Canada and Mexico, at least one of the leading markets in the UK, China and Germany. The export of small businesses to Mexico was increased by about 19% between 2012 and 2013. Similarly, exports of small businesses increased by 5% to Colombia during the second year as a partner in the US Free Trade Agreement. Almost 21,000 small enterprises exported goods to South Korea, and in 2013 Colombia exported more than 14,000 exhibits and was a US free trade partner in 2012.

Access to finance

In order to start and expand the US economy, small businesses need access to capital, free money and credit. In fact, since small firms do not have the ability to raise funds from the credit market, as well as their small and limited assets, there are more financing barriers than large enterprises. Small businesses appear to be risky investments and therefore are subject to higher capital costs, given that they have greater volatility in revenues and increases compared to larger firms. Small businesses rely on savings, loans and debts, in particular, on capitalization, especially

when they are available. According to the Kaufman Foundation, 5,000 new companies, 35% of the capital of these firms, 30% of individual savings, 6.3% - friends and family, 6.2% - loans. Investments of Englishmen and mortgages accounted for only one-tenth (Harrison, 2015).

According to the Federal Deposit Insurance Agency, commercial and industrial loans (C & I), which are less than 1 million US dollars, are used as a trustee to measure loans for small businesses. Since 2008, C & I loans have declined sharply due to the "big recession" and fell to about 200 billion dollars. In the third quarter of 2012, they fell to \$ 279 billion but rose 8.4 percent to \$ 324 billion in the first quarter of 2016 (OECD, 2017 US). Loans for small businesses were increased by 5.3% from the first quarter of 2015 to the first quarter of 2016. However, given the large number and adjustment of inflation, the total volume of the small business lending market has declined by 16% since 2008. Losses were been in the amount of 52.5 billion dollars USA (OECD, 2017 United States). The financial needs of small businesses vary greatly. According to the National Association of Small Business, less than a quarter of the 73% of small firms funded in the last 12 months of 2015, and the lack of capital for others, have created difficulties for increasing their business, financing future sales and maintaining it at the required level. Inventory (National Association of Small Business, 2015).

Since the end of the "big recession" interest rates have started from 2009 to 2016 (see Figure 8). During this period, the difference between small and large business loans ranged from 1.5% to 2%. Despite the fact that interest rates were low after the "Great Recession", banks did not abolish their standards and tightened the standards for lending to small businesses by limiting their capital. Banks reported a decrease in demand for loans for small businesses, which is likely to be a response to the tightening of standards. At the same time, small businesses sought loans from other sources, such as alternative lenders (OECD, 2017 USA).

Government policies for improving small enterprises

In order to increase the number of small enterprises involved in exports, the government has adopted several programs to finance small grants and grants. In order to further increase the demand for alternative financing instruments, the government expanded the opportunities for entrepreneurship training for vulnerable groups of the population, expanding cooperation with market participants, and also resuming a new program of leaders. Financial support for small businesses in the US is very successful.

The main player in this arena is SBA through the Small Business Investment Company programs and a number of credit guarantee programs. SBA Small Business

Investment Company (SBIC) is a public-private investment partnership established to help bridge the gap between growing capital and the needs of small businesses (US Small Business Administration, 2017). Since 1958, SBIC has more than 10 million investments in small businesses and amounts to more than 57.2 billion US dollars (Global Trade Union of the World, 2016). SBA does not give direct loans to small businesses; more precisely, the basis for loans, and then issued by their partners (creditors, social development organizations and microcredit organizations). The SBA works with approximately 5,000 banking and credit unions, about 250 community development corporations (CDCs), more than 170 non-commercial financial intermediaries and community development financial institutions (CSRs), and nearly 300 small business small businesses (SBICs). SBA guarantees that it will repay the loan, thereby eliminating some of the risks for its credit partners. In other words, when a business is applied to an SBA loan, it is actually applied for a commercial loan, which is built on SBA requirements with an SBA guarantee. Loans secured by the SBA cannot be recruited if the Borrower can obtain other conditions on the appropriate terms. The requirements and practices for guaranteeing the SBA loan may change as the government changes its financial policies and priorities in accordance with existing economic conditions; therefore, he cannot rely on past policies, seeking help in the current market environment. At the same time, the SBA provides a range of financial assistance programs for small businesses specifically designed to meet key financial needs, including debt financing, guaranteed accounts and equity financing.

The largest software is the Credit Program, which guarantees a loan of \$ 5 million for new and existing small businesses. The second main subprogram is the crediting program of Certified Development Corporation 504, which provides guarantees and co-financing of a loan of \$ 5.5 million. The USA for the purchase of fixed capital. The financial and economic crisis that occurred in 2008-2009 influenced the SBA Free Connection Program; After several major initiatives of the federal government, the dollar volume exceeded the maximum level and reached 201.5 billion dollars. The USA in 2014 (the OECD account until 2017). In recent years, the number of guaranteed loans has remained unchanged, especially for beginners. Loan guarantee programs became less effective, which affected many small businesses that were cut off from the credit market. The SBA has taken several steps to address this problem, for example, if possible, reducing or eliminating debtors. For small loans (\$ 150,000), 75% of the larger loans are guaranteed at 85% (Cusmano, OECD 2017).

Previously, the maximum loan amount was \$ 2 million, and the loan maturity

was 10 years for employer's capital and 25 years for fixed assets. The program also showed the maximum interest rate (up to 2.75%) from the prime minister and decreased in volume and repayment of the loan. The maximum loan amount is 5 million US dollars (Cusmano, OECD 2017) under the Small Business Business Law in 2010 to minimize the negative effects of the financial crisis and reduce financial opportunities for small companies. As a rule, guarantee fees paid by the borrower remain unchanged: 0.54% and annual, while the volume of loans and repayments increases. The maximum guarantee rates exceeding \$ 1 million and more than 1 year (Cusmano, OECD 2017) are 3.7%.

Another SBA loan program, launched in 2013, is designed to guarantee guarantees. Thanks to this program, the loan guarantees a loan repayment of \$ 150,000 USD, and small start-ups are needed. At the same time, continuing to work without subsidies from other SBA activities, Credit extends Congress support to increase the guarantee coverage from \$ 17.75 to \$ 23.5 billion. Another useful program, adopted by the SBA, is the Express Express lending program. The program offers a small loan to small businesses in the amount of 500 000 US dollars with greater restrictions: the work must be at least one year.

SBA's Secure Bond Guarantee Program (SBG) assists small businesses that can not obtain guaranteed bonds through normal commercial channels. A guaranteed bond is a three-way instrument between the debtor (someone responsible for their debt or responsibility), the contractor and the project owner. The contractor is the contractor to fulfil the terms of the contract. If the contractor can not successfully execute the contract, the guarantee exceeds the contractor's obligations and ensures the completion of the project (US Small Business Administration, 2017). As part of the SBG program, the SBA guarantees that the SBA will provide a percentage of the damage if the contractor violates the terms of the contract. The SBA guarantee provides an incentive for issuing bonds for the relevant contractors, thereby increasing the contractor's ability to receive bonds and access to contractual opportunities for small businesses. The SBA can enter into contracts for contracts with \$ 5 million (and in some cases even \$ 10 million) covering performance and settlement bonds.

The Foreign Private Investment Corporation (OPIC) is an important part of the US government's involvement in financing development. OPIC provides large direct loans to small businesses to encourage US companies to go beyond the traditional trading line. Political risk insurance provides insurance against incidents such as civil war and terrorism, unconstitutional of foreign states and restrictions on domestic currency (Wood, 2016). In addition, the United States Agency for Trade and

Development (USTDA) offers grants and contracting opportunities for small businesses for potential research projects.

Innovative Small Business Studies (SBIR) and Small Enterprise Transfer Programs (STTR), known as the US Seed Fund, are one of the first sources of capital in the early stages of technology trading in the United States. These programs provide federal research and development with strong potential for expanding trade through the United States owned and functioning small businesses. "In the fiscal year 2017, the US National Institute of Health (NIH) is investing more than \$ 925 million in health and life sciences companies that create innovative technologies that meet the NIH mission to improve health and survival." Innovations in Small Business Research, 2017).

Chapter 2

2. Prospects for the development of small business in Azerbaijan

2.1 Research of the current state of development of small business in the republic

Classification of small business

The further development of small enterprises in Azerbaijan is crucial for diversification, employment, domestic consumption of domestic commodity demand, dependence on imports and sustained economic growth. From this point of view, entrepreneurship in the form of small business should be regarded as the first and the main form of entrepreneurship. The main goal of the Azerbaijani government is to create conditions for the growth of non-oil and trade spheres; from this point of view, it is important to diversify. The basis for diversification is the creation and promotion of an appropriate environment for entrepreneurship, which is important for Azerbaijan. First, given the decline in oil and gas production, the fate of oil and gas production in the country's economy is unclear. Secondly, the crisis in the economic situation in the country shows that it is possible to eliminate the dependence of the oil and gas sector as soon as possible, minimize its negative impact, balance the balance of payments and reduce the balance of uncertain exports. In addition, the oil and gas sector is capital, so it has little effect on the opening or functioning of the workplace; on the other hand, the non-oil sector has a direct responsibility for creating jobs and contributes to the net employment and overall strengthening of the economy. World experience has a significant impact on small businesses in terms of employment, competitiveness, sustainability and overall economic growth. Creating and improving an enabling environment for small businesses should be a key priority, considering everything in Azerbaijan.

In Azerbaijan, micro- and small and medium-sized enterprises are divided into two groups: individual entrepreneurs (ie, sole owners of non-legal entities) and small and medium-sized enterprises (ie legal entities). All individual entrepreneurs are legally considered small businesses, and registered as legal entities are classified by two indicators: the number of employees and the annual turnover (International Finance Corporation, 2009).

The Cabinet of Ministers of the Republic of Azerbaijan on June 5 defined "criteria for small enterprises" as a tool to improve channels for the direct impact of reforms at small enterprises. The new order with minor changes was approved in June 2016 and is now valid. The new procedure simplified certain criteria for small business; As indicated in Table 1, this classification is based on the size of the object, rather than on the classification sector (president.az, 2016).

Table 4: Criteria of determination of small enterprises in Azerbaijan

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

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

According to the new order, the classification of existing enterprises in small, medium and large categories is mainly determined by the "average number of employees" and "annual income". If any of the criteria exceeds its limits, the classification of the company is changed to a higher level. As for new enterprises, small, medium and large enterprises are classified on the basis of "average number of employees" one year after the date of state registration and registration of taxes. In addition, based on the new order, the total amount of all goods, activities and services of the enterprise is added to the annual income for the fiscal year.

All of the above is classified by the number of small and medium-sized enterprises (number of employees or income). However, another approach of Blinov and Shapkin (2003) is classified qualitatively, as a rule, as follows:

- Production of fewer products and services
- Compared to large enterprises united to limit the activities of small enterprises, demonstrating relatively limited resources and high utilization of decentralized financial resources
- High organizational and functional flexibility and mobility
- Low level of the management system, evaluation of the firm's work and simplicity of regulatory procedures
- Open competition
- Limited market segment
- Competitive mechanism of market targeting, free trade and self-sustaining production

Unlike Azerbaijan, the classification of small enterprises in Europe differs in

different ways. For example, small businesses in Europe are determined by the number of employees, annual turnover and total balance; the definition of these indicators is still different. From year to year, the pace of development of small enterprises in Azerbaijan is growing. The areas in which small enterprises develop are inappropriate from the point of view of economic and social prospects and are difficult to access for medium or large enterprises. Here are some examples:

1. Enterprises that produce seasonal products for local markets, shops, cafes, workshops, etc.

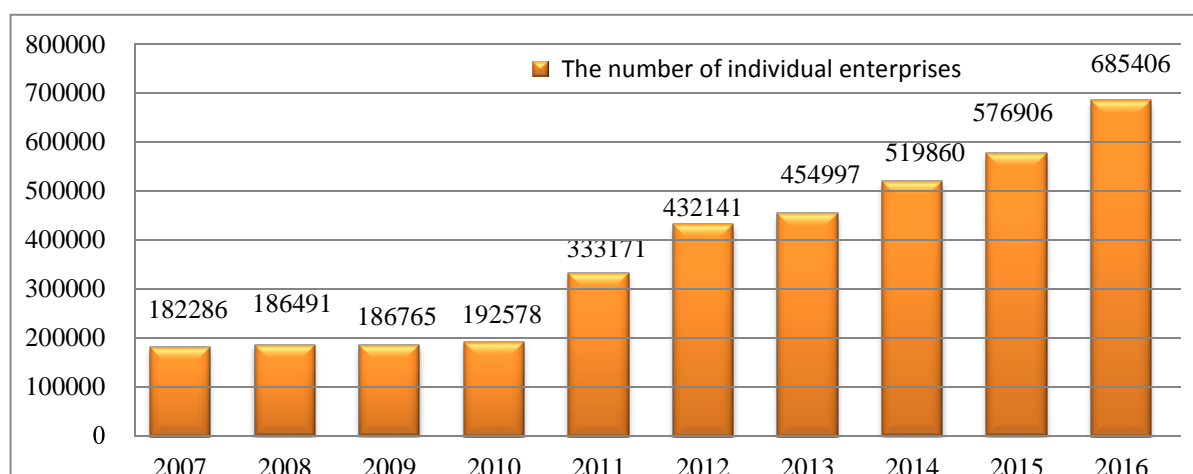
2. Products of machinery (fixtures, parts, tools)

3. Average business.

Realistic situation of small business in Azerbaijan

According to the Ministry of Economy of the Republic of Azerbaijan until 2016, the number of business entities in all sectors of the economy was 792,764 people. Apparently, the number of business entities in 2016 increased by 77,179 compared with 2015. According to the above indicators, 36.1% of the total number of entrepreneurs in Baku and 63.9% in other regions were registered in Baku. Individuals engaged in entrepreneurial activities (without a legal entity) and legal entities may participate in Azerbaijan; will be individually individual entrepreneurs and legal entities, general partnership, limited partnership, limited liability company or merging company. It should be noted that the number of persons engaged in entrepreneurial activities without legal entities is 685,406; their number has increased in comparison with previous years.

Figure 8: Number of individual enterprises in Azerbaijan

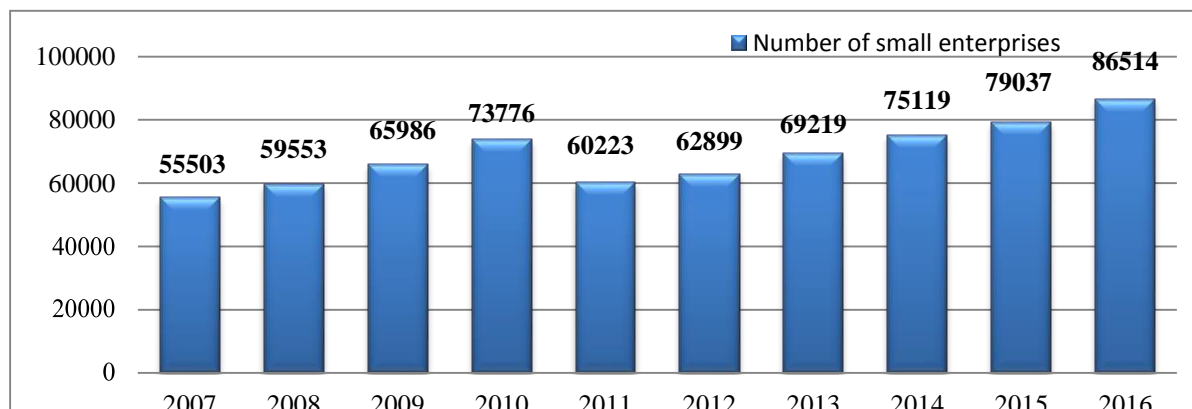


Source: The Republic of Azerbaijan Ministry of Economy, 2017

Small businesses have grown in market relations. In general, according to 2016, most enterprises in the country have a small business (86,517 units), and the number of small enterprises has increased from 26 points to 2016 by 7,477 units in

2015.

Figure 9: Number of small enterprises in Azerbaijan

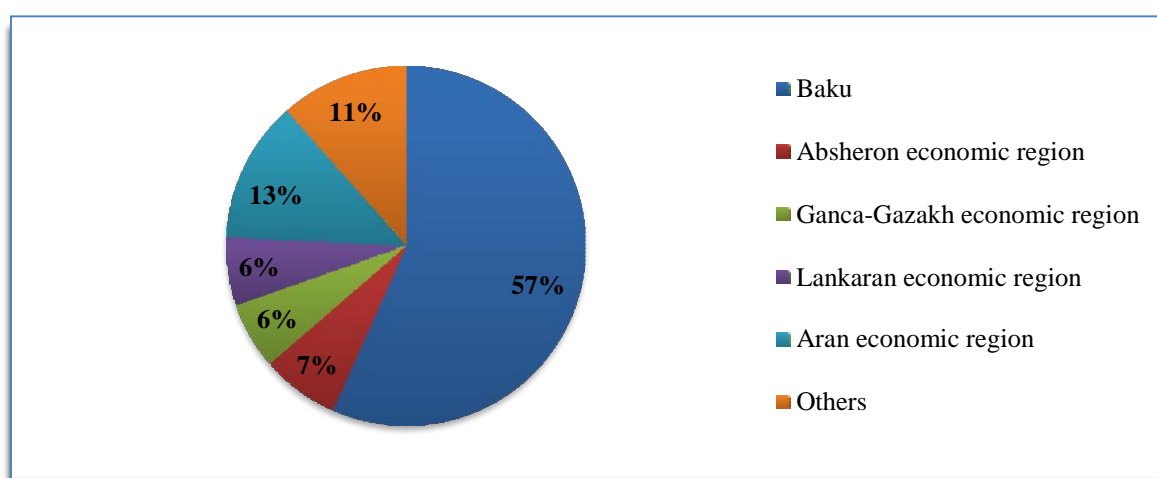


Source: The Republic of Azerbaijan Ministry of Economy, 2017

According to official statistics, the share of small businesses in the non-oil sector is 5.8% of the total cost, 0.7% of gross profit, 6.5% of average annual workers and 9.2% of investments in fixed assets, represented.¹ In general, the number of small enterprises in 2016 was 86,514 people, which is 7,477 percent more than in the previous year.

Not surprisingly, a significant number of small enterprises can be seen in Baku (56.7%), Figure 10. The main reason is that most of the population is concentrated in Baku, and most of the city's economic activity is in Baku compared to other economic regions. Smaller enterprises, mainly after Baku, comprise Aran (13%) and Absheron (7%).

Figure 10: Distribution of small enterprises by economic region in Azerbaijan

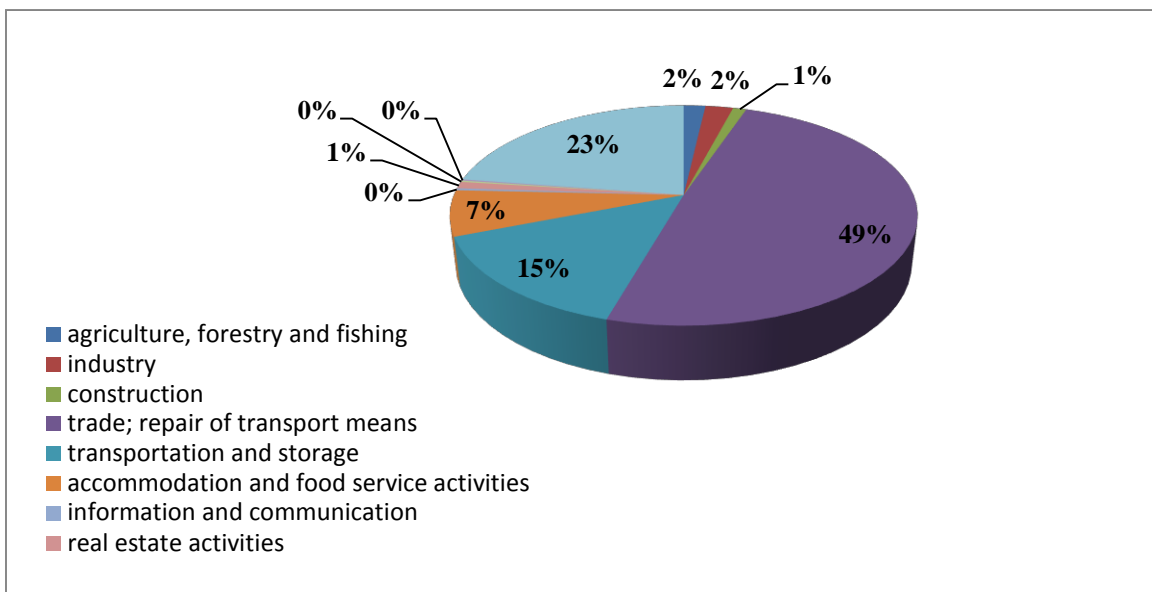


Source: The State Statistical Committee of the Republic of Azerbaijan, 2017

¹ The State Statistical Committee of Republic of Azerbaijan

As shown in Figure 11, the largest share in the distribution of small businesses belongs to retail trade, 49% of small businesses. The main reason is that production areas have become weaker than in the country's economy. Other reasons are as follows: the monopoly on retail trade is weak, and the initial requirement for capital in the retail capital is small, so citizens have more opportunities to engage in entrepreneurial activities in retail trade. After retail, 15% are in the transport sector, 7% in housing and food services, 2% in industry and agriculture, 1% in construction and real estate, and 23% in other areas.

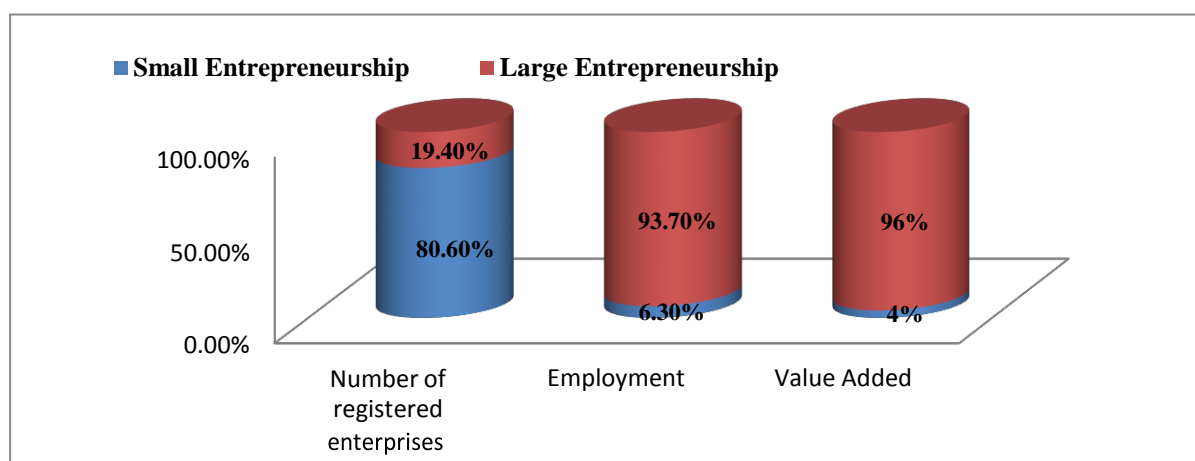
Figure 11: Distribution of small entrepreneurship subjects in Azerbaijan



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

Diversification and development of the non-oil sector are one of the main priorities of government development plans. In this regard, the government has implemented a number of reforms in support of small business. At the same time, the share of small enterprises with added value for the economy of Azerbaijan is relatively small compared to developed countries. If small enterprises account for more than 50% of value added in developed countries, this figure for Azerbaijan is only 4% in 2016 (see Figure 12). This low indicator is due to the fact that Azerbaijan is a country producing oil and exporting oil; it is largely a large company operating in the oil sector in Azerbaijan, and therefore the share of large enterprises in GDP is higher.

Figure 12: Main indicators for enterprises in Azerbaijan in 2016



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

Figure 12 details the main indicators of enterprises in Azerbaijan. In 2016, 80.6% of all companies were small enterprises, and the added value was only 4%. At the same time, compared to other CIS countries, we see that the share of small enterprises in Azerbaijan is unsatisfactory. The share of small and medium-sized enterprises in GDP in GDP is 43% in Georgia, 42% in Armenia and 58% in Ukraine, but this figure is 4% according to the latest figures (2016). Considering that small and medium-sized enterprises play a significant role in the formation of a market economy, they enrich the local market with local raw materials, improve living standards, open new jobs and expand employment, create a competitive environment for free competition, and solve other social and economic problems. There is a need for greater liberalization.

SWOT analysis of small business in Azerbaijan²

SWOT analysis of entrepreneurs in Azerbaijan is one of the main ways to determine the real state of entrepreneurs of the country since this analysis will help create favorable conditions for the further development of entrepreneurial activity.

Strength:

- Extensive e-government infrastructure, a strong contribution to the business environment (single shops, e-government); a successful environment for business registration and ongoing reforms in other areas (credit bureau, mortgage registration, RIA)
- Relatively good infrastructure and services (data on electricity, water-related BEEPS)

² Note. This analysis consists of the proposed items "Production of consumer goods at the level of small and medium enterprises of the Republic of Azerbaijan" in the "Strategic Roadmap of the Republic of Azerbaijan" and "EU4Business Country". INVESTMENTS of small and medium-sized enterprises in Azerbaijan - Eastern Partnership

- State support for the development of small enterprises
- Energy is relatively low compared with neighboring countries

Weaknesses:

- Split the policy of small enterprises among several government programs without formal coordination and integrated strategy
 - Lack of consultations between the public and private sectors in a small enterprise and the lack of a specialized government coordination agency
 - Lack of structured structures that go beyond formal cooperation; limited participation of a small enterprise
 - Limited access to Bank financing (high level of collateral, low level of access, BEEPS and other sources are less developed (the banking sector retains 95% of total assets), mainly loans, consumer loans
 - The weakness of the monitoring and evaluation system to determine the impact of state support mechanisms for entrepreneurship
 - Low level of work skills, especially the average skill level
 - The concept of corruption is still an obstacle to business
 - Challenges to international and regional markets and low international trade habits

Opportunities:

- Adopt a strategic roadmap for the development of the national economy; define an economic development strategy and action plan for 2016-2020, a long-term vision for 2025 and a vision after 2025
 - A new export program focused on the export of non-oil products
 - Participation of small enterprises in public procurement and infrastructure projects
 - Special credit bureaus and preparation for registration of movable property
 - Prospects for WTO accession can increase trade
 - Non-oil sector, for example, agriculture and production
 - Possible availability of labor

Threats:

- External economic factors (financial crisis, the decline in demand in international markets, etc.)
 - pressure on the banking sector as a result of the devaluation of manat in Azerbaijan; banks faced a decline in capital
 - Local competitiveness of local small businesses in international markets
 - Dependence of natural resources on economic volatility
 - Lack of independent executive bodies in key areas such as innovation and

entrepreneurship

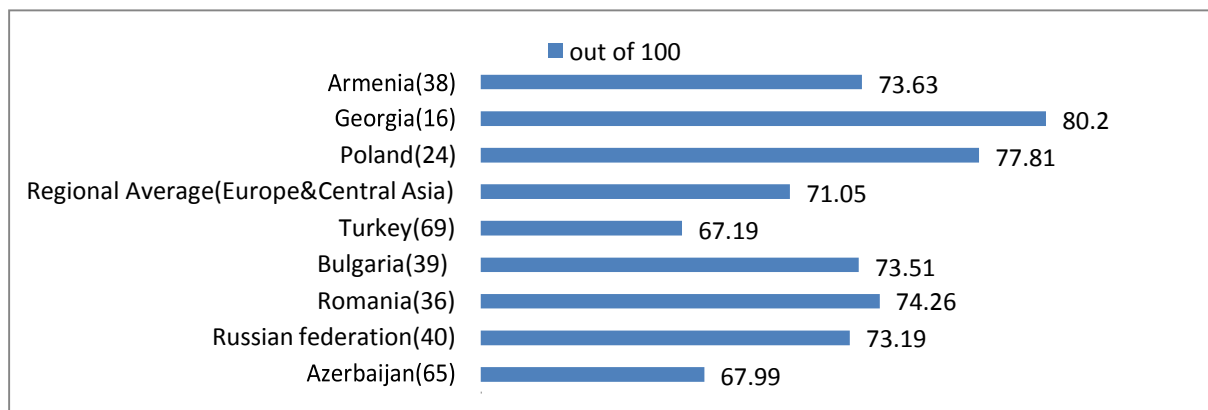
- Non-oil exports have a delay in determining national standards and technical regulations and limited international quality certification
- The Nagorno-Karabakh conflict represents a threat to political and economic stability and has lost considerable financial resources.

Restrictions on the development and growth of small enterprises in Azerbaijan

According to the Organization of Islamic Economic Cooperation (OICED), the main obstacles to the development of small enterprises in Azerbaijan are financial, tax and corruption. The OICED survey data show that access to finance is crucial and 9% higher than the global average (16%) (Islamic Corporation for the Development of the Private Sector, 2012). The same study identifies tax rates in Azerbaijan as a barrier to small business.

Typical characteristics of small enterprises in Azerbaijan are their location in the country's capital and Absheron, rather than spreading to other parts of the country. As a result, entrepreneurial activity in the regions has not improved compared to Absheron and Baku. Nevertheless, this trend leads to an imbalance and leads to the sustainable development of regional entrepreneurship. According to statistics released by the Ministry of Economy in 2017, about 54% of the total number of enterprises in Azerbaijan (Ministry of Economy, 2016) is in Baku. According to the World Bank, Azerbaijan ranks 65th out of 189 target countries (see Figure 13). Nevertheless, Azerbaijan is in a very good position among 189 countries surveyed for the "general business environment," but "getting a loan" in the country is 118, which is a good indicator.

Figure 6: Overall Business Environment index



Source: World Bank, Doing Business Database 2017

Access to finance

There are various factors that have a serious and negative impact on the activities of small businesses. Small enterprises in Azerbaijan have limited access to loans from commercial banks. One of the reasons for this observation is that the interest rates offered by banks are very high; in particular, banks prefer short-term loans, which, as a rule, have a balance of payments. Although Azerbaijani legislation permits security interests in both movable and immovable property, it rarely expands its financial capacity, except for real estate registered as banks, vehicles, ships and securities. One of the important features of the structures in case of unforeseen circumstances that were not developed in Azerbaijan due to the lack of collateral, the lack of a security register and the legal framework that allows the borrower to store equipment and use it as collateral. Often, banks require collateral in the form of real estate, which complicates the financial situation of small businesses. According to the EBRD's Business Environment and Entrepreneurship, over 45% of all enterprises in Azerbaijan are involved in obtaining a loan (EBRD, 2014). The same study shows that the main reason is high interest (more than 50% of enterprises), the complex procedures, hostages and all other issues that do not involve an agreement. All these conditions require the reform of the banking sector, at least from the point of view of small enterprises. The World Bank also provides other barriers to access to adequate financial resources, including large investments and difficulties in finding business partners (World Bank, 2013). Kuriakose (2013) notes that the three most important obstacles for the construction or operation of the company in Azerbaijan are: complex financing, large initial investments and difficulties with finding business partners. The most common legal and regulatory constraints are consistently consistent with tax rules and very high costs of waiving bankruptcy laws.

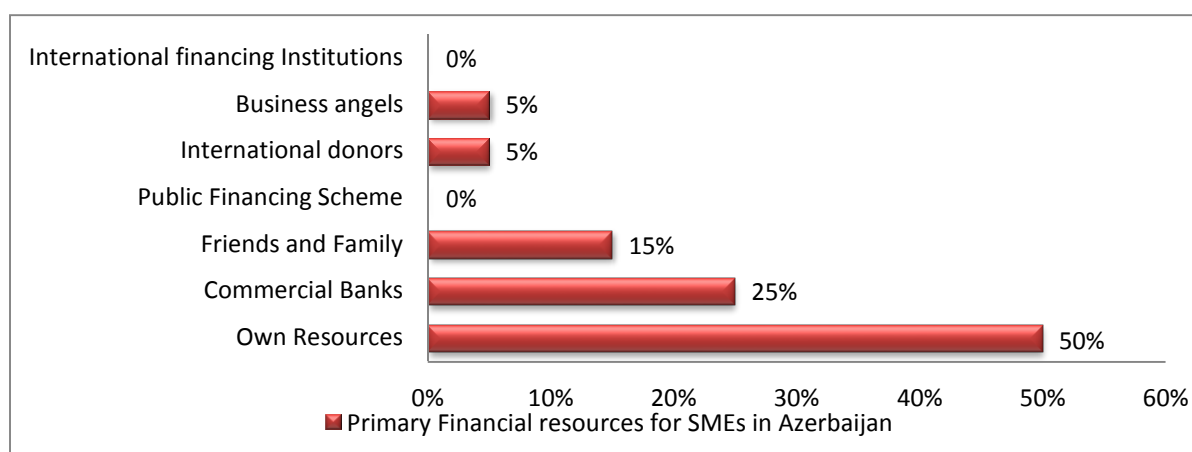
Taking into account the problems facing the banking sector, the Azerbaijani microfinance organizations are a source of significant financing for small business, and their deficit is growing. According to the World Bank (2015), it is estimated that in 2013, microfinance organizations financed about 400,000 small businesses. The share of other financial instruments, such as leasing and factoring, remains insignificant. The World Bank predicts that in 2015 leasing and factoring financing will be 4% and 2%, respectively, for small enterprises (OECD, 2016).

Comparative analysis of the Eastern Partnership countries (EAP) shows that the majority of enterprises in Azerbaijan are built on the own means of entrepreneurs, and in general this trend continues throughout the life of the enterprise. According to this indicator, Azerbaijan is far from other countries AIP. For example, the Eastern Studies Index (2012) showed that almost no small enterprises in Azerbaijan intend to borrow from international donors or international financial institutions. A reasonable

explanation for this lack may be the lack of financial literacy on the part of Azerbaijani entrepreneurs. The gap in financial literacy affects supply and demand; it is unlikely that a smaller organization will be able to apply for funding, which affects the student, financial services, knowledge of existing products and financial institutions. This affects the provision of financial literacy at a low level to create barriers to communication and misunderstandings between financial institutions and clients.

General information of the International Finance Corporation (IFC, 2009) shows that banks in Azerbaijan do not want to lend to small businesses because of the lack of bankruptcy opportunities. At the same time, this approach reduces the growth of small businesses and accelerates the growth of the real economy. According to the World Bank report (2013), Azerbaijan is far from the indicator of other OECD countries for bankruptcy. In other OECD countries, this figure is 73 cents per dollar, but in Azerbaijan, this figure is 39.6 cents per dollar. According to the next OECD study (2016), after bankruptcy after 3/3 of 390 respondents, it was very difficult to restore jobs. Figure 14 below shows the main financial resources for small businesses. According to East Investment Research (2012), about half of the enterprise builds and supports its own business with its own resources. Only 25% of them should receive loans from commercial banks. Entrepreneurs practically do not use alternative lending options, such as international financial institutions and public finance schemes. All this shows that the possibilities for financing small enterprises in Azerbaijan are not diversified.

Figure 7: Primary financial resources for SMEs in Azerbaijan



Source: East Invest Survey 2012

Limited markets (domestic and international)

Insufficient information on market awareness is another constraint on the viability of local small businesses. Prevents the ability of small businesses expands

their borders in international markets. Regardless of their small and medium-sized businesses, most small businesses do not have enough information on market requirements for small business in front of small enterprises. Often, entrepreneurs do not take into account market demand or market opportunities, and thus earn only a short period of time. To integrate into the market of the European Union (EU), small enterprises in Azerbaijan must meet the requirements of the EU market. In Azerbaijan, the level of access to financial markets is also low, as well as other restrictions for innovation and development of small businesses. According to the Central Bank of Azerbaijan (CBAR) and the Agency for the Monitoring of Financial Markets (FISA), the volume of joint-stock companies in Azerbaijan is only 1% of GDP, and the volume of bonds is only 7% of GDP, which means the growth and development of small enterprises (president . az, 2016).

Legal Constraints

Entrepreneurs wishing to engage in entrepreneurial activities prefer to register as individual entrepreneurs, and not legal entities. This observation can be explained in several ways:

1) The registration process. The registration process is much easier for individual entrepreneurs than for legal entities;

2) Costs, such as registration, licenses and permits, are less expensive for individual entrepreneurs;

3) Tax inspection and control. According to businessmen, individual entrepreneurs are checked by local and regional offices to reduce poverty, because there is no list of individual entrepreneurs registered at the headquarters and offices of the ministry. Legal entities must register at the headquarters of ministries and departments; therefore, this is regularly checked by government agencies.

4) The simplicity of procedures in case of termination of entrepreneurial activity.

Another pressure on entrepreneurial activity in Azerbaijan becomes clear when considering legal issues; that is, lack of trust in law enforcement agencies and, as a rule, a difficult working environment. Most entrepreneurs note that they are ready to stay away from the courts in resolving economic disputes. It can also help lower-level court decisions below: influential businessmen/officials make decisions regardless of evidence, lengthy procedures that are not suitable for procedures, transparency of procedures, opportunities for informal payments, high costs for dynamic entrepreneurship and processes. All this boils down to encouraging entrepreneurs to refrain from overcoming the risk of losing more money or starting the whole process. According to the IFC survey in Azerbaijan (2009), half of entrepreneurship in

Azerbaijan did not agree with the following statements:

- 1) Local authorities strictly and consistently adhere to all laws and standards of the central government;
- 2) Local authorities promote business development by creating equal conditions for business;
- 3) Government representatives comment on laws and regulations and regulate their business activities sufficiently and in a timely manner;
- 4) My business environment in my city helps to invest and invest in the business;
- 5) The working conditions in my city are better than in other parts of the country.

The third important legal barrier is connected with verification. As for the importance of research, there can be serious obstacles to entrepreneurs and entrepreneurship. Disadvantages in legislation governing inspections are a serious problem for entrepreneurship. Inspections and permits are ineffective, as expected, despite new improvements in centralized verification and the legal framework supported by ICT for obtaining permits and licenses. It is necessary to increase transparency and certainty; the government must comply with all the methods and targets established by law, which are objective, transparent and accessible to all enterprises.

Limited database/business skills

In response to the changing demands of the labor market in Azerbaijan, the low level of market education and the level of implementation of the education system are forced to pass from school. Thus, there is a gap that leads to the lack of qualified personnel with the professional qualities of the local labor market and the workforce, as well as the disruption of labor in local and national markets. In addition, a significant transformation of the national economy has led to a high demand for professional reconstruction.

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³ <http://www.yoxlama.gov.az>

⁴ www.icazeler.gov.az

targets established by law, which are objective, transparent and accessible to all enterprises.

2.2. The main directions of increasing the contribution of small businesses to the development of the economy of Azerbaijan.

The general overview of small business policy, general strategy in this field

Reforms in the country have created more favorable conditions for the development of private and small business in comparison with previous years. Azerbaijan has adopted a number of legislative acts regulating the development of small and medium-sized businesses, including a system of economic and legal relations. Examples include the Law on Entrepreneurship, the Law on State Support of Small Business, the State Register and the State Register of Legal Entities. At the same time, a number of steps were taken to strengthen the normative, institutional and operational environment small businesses, especially simplifying the process of company registration and the development of e-government services for Azerbaijan. Institutional support was also provided to small businesses through the establishment of a Group on Enterprise Development Policies under the Ministry of Economy and Industry.

The Department of Entrepreneurship Development Policy of the Ministry of Economy and Industry is responsible for the development and implementation of the policy of small enterprises in Azerbaijan. At the same time, there are several organizations, such as the Baku Business Training Center, the National Entrepreneurship Support Fund and AZPROMO, operating under the Ministry of Economy-to support small businesses. Unfortunately, there is no formal coordination platform for developing and implementing a policy of small enterprises between departments and entrepreneurs. Joining this platform (committee or working group) with state institutions, departments and enterprises can improve the effectiveness of small business policies.

The government of Azerbaijan does not have a strategy or program until 2016. However, the Strategic Roadmap for the production of consumer goods in small-sized enterprises of the Republic of Azerbaijan, approved by presidential decree, was approved by the Decree of the Republic of Azerbaijan of December 6, 2016. This "road map" is developed in the framework of nationwide measures to ensure the

competitiveness, coverage and sustainability of the country's economy. At the same time, for the development of entrepreneurship and related areas, the Poverty Reduction Program (2008-2015), the Food Security Program (2008-2015), the Social and Economic Development of Regions (2014-2018), the Improvement of Entrepreneurship Rights and Mechanisms legal protection, development, development of business environment in Azerbaijan, includes the concept of development in 2020. The preparation of such a broad strategy will be aimed at preventing the delimitation of policies and enhancing coordination between the state and non-governmental organizations.

At the same time, two years of business checks in the area, stopping for business licenses and permits to reduce the amount of payment, reducing the simplified number of studies was done, as well as the field of electronic portal owners to protect the rights of appellate boards, creating a "single window "Export-import operations of customs procedures to facilitate the necessary documents and the number of procedures to minimize e-mail services and to strengthen the customs border of goods and vehicles for the protractor Application of international practice in the "green corridor" and other systems, government agencies, entrepreneurs requests reacting directly, Call-center services, information and consulting services, and etc.

At the same time, the Azerbaijani government made two "national action plans" on the theme "Encouraging an open government and fighting corruption (2012-2015)", which are clear, accountable and accountable and public participation. However, despite this strategy, there are still cases of corruption in Azerbaijan, and there is no formal framework for legislation. As can be seen from the above list, a number of initiatives were undertaken to support small enterprises in Azerbaijan and to close the gap in the legislative framework; however, some innovations still need to be made.

Small Business Support Service in Azerbaijan

The Ministry of Finance of the Republic of Azerbaijan, the Ministry of Taxes and other public organizations regularly organize meetings with entrepreneurs in Baku and regions of the country, as well as the Open Doors Day and public forums. However, despite these attempts, there is no systematic information on these consultations or their results.

Recently, the registration procedures for new companies have been improved and ranked 5th in the simplicity of the Doing Business 2017 World Bank report. (2017). According to data collected by Doing Business, 2.0 operations are required to start a business, it takes 3.0 days, spends 1.3% of per capita income and requires 2.0

procedures, it takes 3.0 days, 1.3% of per capita income of the population. Registration for individual entrepreneurs is free, and companies are required to register within three days. Entrepreneurs can register in the public service (ASAN service centers) directly in the State Agency for Public Services and Social Innovations. At the same time, if you need information about permits and licenses, there is a website created by the government at www.icazeler.gov.az.

The Baku Business Training Center (BBTC) and its seven regional offices, the National Entrepreneurship Support Fund, the Export and Investment Promotion Foundation and the AEC have a clearly defined set of support for small enterprises to train staff to improve the management capacity of small enterprises. A small business survey conducted through a regional network BBTC revealed the need for training, and the Ministry of Economy and Industry supports financial assistance. These organizations have implemented a number of services and trained entrepreneurs to various training, such as starting exercises, to help them master their skills. Unfortunately, the Ministry of Economy does not have a specific business plan to support business in Azerbaijan, although these services include business plans, investment projects, etc. It provides free access through the BBTC, which forms training courses. BBTC is financed from the state budget as a whole, and in 2016 this center totals about 155 events in different regions of Azerbaijan. BBTC has well-developed online learning centers, and almost 25% of online learning is women. At the same time, the Ministry of Economy can be observed by launching a number of new sites, such as www.biznesinfo.az (general information about business issues) and www.b2b.az. However, despite improved support services, according to the OECD survey, 79% of small businesses in 2015 are not aware of the services provided by the government or other organizations to support small businesses. (OECD / European Union / EBRD / ETF, 2015)

Unlike other programs listed above, the National Entrepreneurship Support Fund and the ASAN service have recently come together to address issues such as restricting lending to commercial banks, high-interest rates and a shortage of qualified personnel, the development of the ABAD Center and support services. The ABAD service is focused on financial, infrastructure and skilled labor issues. The Economic and Social Center, Orujova and Hasanov (2016) believe that the following events will be implemented through the ABAD Center:

- Implementation of projects to support family farming, small and medium-sized businesses and financing of these projects;
- Identify family farms, small and medium-sized entrepreneurs for ABAD projects and create conditions for the use of modern technological equipment

- for the production of agricultural products;
- organization of transportation and sales of products;
- Training equipment, technical support of this equipment and information on the most advanced technological innovations used in agriculture.
- Monitoring and evaluation of the project and others. (Orujova and Hasanov, 2016)

Innovative policy

Innovations of small enterprises in Azerbaijan are observed only at a very low level, which can be part of a broad, comprehensive national innovation policy. At the same time, a number of government armaments offer private innovative initiatives that are distributed among various state programs and political documents: "National ICT Strategy of the Republic of Azerbaijan for 2014-2020", "Concept of Azerbaijan 2020" and "National Industrial Strategy" At the same time Some state institutions, such as the Ministry of Economy, the Ministry of Communications and High Technologies and the National Academy of Sciences, support innovative initiatives, but among you The above-mentioned structures do not have formal coordination, as efforts in practice are not discriminatory and should not be seen.

In 2012, the Ministry of Communications and High Technologies of the Republic of Azerbaijan established the State Fund for the Development of Information Technologies (ICT Fund). These measures are financed from the state budget and support innovative ICT projects in several ways; for example, provides preferential loans through banks with a maximum interest rate of 5%. Loans can be small (from 10,000 to 50,000 to 3 years), medium (from 50,000 to 500,000 to five years) or large (from 500,000 to 5,000,000). It also provides venture capital for development projects, technologies, equipment and software. The ICT Foundation also provides small businesses for software development and innovative infrastructure projects. The maximum potential provided by the ICT Fund is 300,000 AZN, but the Fund allocated 30,000 AZN to 10,000 manats from 12,000 manats.

"Despite the improvements mentioned above, innovations in small enterprises in Azerbaijan are at a very low level, and product and process updates are limited, and only 2.2% of firms have a new product and 2.8% have a new process in the previous year" (OECD / European Union / EBRD / ETF, 2015).

Affordable and efficient use of small business financial resources

In general, Azerbaijan has made some progress in financing small and medium-sized businesses through the National Fund for Support of Small-sized Entrepreneurship. However, the possibility of financing through banks is a serious problem, as entrepreneurs do not consider banks to be effective and effective

mechanisms for high financing. For this reason, the government provides financial support to small businesses through the National Entrepreneurship Support Fund, the State Fund for the Development of Information Technologies, the State Service for Agriculture and Project Management and the Azerbaijan Investment for financing subsidies. Company and Mortgage Fund.

National Entrepreneurship Support Fund of the Republic of Azerbaijan (NFES): NFES grants privileges to entrepreneurs, including the provision of loans with preferential terms from the state budget. In 2016, 2,402 (97%) investment projects were financed by these loans (22,887,800 manats), 34 (1.4%) on average (8,890,300 manats) and 41 (1, 7%) is large (demand for the loan is 157 652 thousand manats) (NFES, 2016). To date, the NFES has provided loans to almost 12,500 enterprises, each with an average of \$ 47,000. Most of these loans were directed to the production and processing of agricultural products (Ministry of Economy of the Republic of Azerbaijan, 2016).

Azerbaijan Investment Company (AIC): AIC, along with domestic and foreign investment, also supports the development of other sectors, with the exception of the oil and gas industry due to significant capital investments. The equity capital of AIC (capital of entrepreneurship) is at least \$ 1 million. The AIC portfolio is multifaceted and unites various industries such as heavy industry, agriculture, logistics, sub-stocks and the food industry.

Azerbaijan Export and Investment Promotion Fund (AEIP): AZPROMO is the leading organization responsible for developing international trade opportunities for local enterprises, including small businesses. AZPROMO was established by the Ministry of Economy with an annual budget of about 1 million euros and offers all services free of charge. AZPROMO contributes to attracting financial resources for small enterprises operating in the non-oil sector. 2.1% of small and medium-sized enterprises in Azerbaijan are exported directly or indirectly (EBRD, 2014). The main problem is the lack of employer's capital, as 68.2% of Azerbaijani companies use their own or family resources to finance their exports, and only 20.5% use commercial banks (request by East Invest Company, 2014). The Doing Business 2015 World Bank report easily ranked 166th among trade borders due to the large number of documents and the export process (World Bank, 2014). Nevertheless, in 2015 these procedures were simplified - the number of documents was reduced, and electronic services were provided by a decree of the ministry and a presidential decree. In addition to stimulating and training activities, AZPROMO allocates funds for participation in international exhibitions for small businesses. In 2015, AZPROMO established the Exporters' Club, and its main task is to support

manufacturers for exporting Azerbaijani products to foreign markets. According to small enterprises surveyed by the OECD in 2015, most of them were aware of government programs aimed at encouraging companies to export.

The State Service for the Project under the Ministry of Agriculture and the Ministry of Agriculture of the Republic of Azerbaijan: Using state loans at 2% per annum, authorized banks can distribute loans to entrepreneurs and farmers on preferential terms without applying an additional interest rate of more than 5 percent. As a result, small businesses can earn less than 7% of interest rates in local currency.

State Fund for the Development of Information Technologies of the Ministry of Communications and Information Technologies of the Republic of Azerbaijan: The fund finances high-tech start-ups and is 300,000 manats.

Conclusion

In recent years, small enterprises have become one of the main accelerators of the world economy. In recent years, mechanisms for supporting small business and promotion have been widely used to play a role in the development of a competitive economy, the positive impact of income distribution, poverty reduction and rapid response to changing market conditions. From this point of view, there are some financial and non-financial incentive mechanisms in the countries surveyed.

Extensive research shows that the development of small enterprises in Azerbaijan is not at all levels, and their share in economic growth and employment is less than in other developed and developing countries. In developed countries, such as the European Union, the United States and Asian countries, 98-99% of the total number of small and medium-sized enterprises. In developing countries, such as Turkey and Russia, this indicator remains small, but it still occupies a significant place in the national economy. In Azerbaijan, 83.30% of all enterprises in the country are small enterprises, but small enterprises make a significant contribution to the local economy. As a result, when we consider the share of small and medium-sized enterprises in the gross domestic product, we can understand that Azerbaijan is still an underdeveloped and developing economy.

Only 4% of the added value of this country was created by small businesses, and the remaining 96% were created by large private and public enterprises. For comparison: about 50% of the value added in the United States, 57% in the European Union, 47.7% in Japan, 47.6% in South Korea, 56.5% in Malaysia, 43% in Georgia, and 58% in Ukraine are created by small enterprises. At the same time, the share of small businesses in the employment sector is the same. 8.9% of total employment in Azerbaijan belongs to small and medium enterprises. Unlike other developing countries. In Turkey, Russia and the United States, this share is 76%, 23% and 50%, while in the EU this figure is about 67%. In many Asian countries such as South Korea, the Philippines, and Thailand, the share of small businesses is over 80%. 49% of small and medium enterprises in Azerbaijan are concentrated in wholesale and retail trade. On the contrary, the share of small and medium enterprises in production is relatively low, 1.8 per cent of small enterprises are engaged in agriculture, 2.3 per cent in industry. However, the main area of employment of small and medium-sized enterprises in different EU countries is related to construction, property and public catering.

There are some restrictions that hamper the development of small enterprises in Azerbaijan. These barriers include a high level of centralization of small enterprises in Absheron, non-diversification of financing, limited markets, legal restrictions and

lack of entrepreneurial skills. Entrepreneurs are faced with a lack of training to understand the needs of the market, which impedes the development of the business. Access to financing is one of the most difficult tasks for small businesses in Uzbekistan; As a rule, in their current situation, most banks do not want to lend to small businesses when they are considered to be potentially more bad investments. At the same time, the weak development of other incentive mechanisms hinders the successful operation of small businesses in the country. For example, microfinance institutions, which are the main stages of small business in other countries, are not sufficiently developed in Azerbaijan, as well as large-scale venture capital, which is widely used in world practice, is unclear in credit guarantee programs. According to the Doing Business report, which is published every year by the World Bank, despite the fact that in 2016 Azerbaijan ranks fifth in opening a business, it is one of the last places for obtaining a loan. This is the main reason that small and medium-sized enterprises are not developed at any level.

Nevertheless, a number of requests were aimed at eliminating and reducing the barriers that small businesses face. Some state programs were implemented by the Baku Business Training Center (BBTC), the National Entrepreneurship Support Fund (NFES), the Azerbaijan Investment Company (AIC) and the Azerbaijan Export and Investment Promotion Foundation (AZPROMO). Another relevant initiative - the ABAD project, created last year by ASAN, is one of the most important steps for the development of small and medium-sized businesses in the country. However, realistic statistics on the growing role of the real economy and in-depth analysis of small businesses do not show effective results. For example, despite the fact that the president abolished several additional laws several times, surveys of local entrepreneurs are still unclear with regard to compliance by government representatives and bodies.

Taking into account the above, despite the fact that small enterprises in Azerbaijan are not properly developed, certain steps are being taken to change it, mainly due to the simplification of business registration procedures and the improvement of tax administration. However, based on statistical indicators, these steps are still unsatisfactory, and it is necessary to apply the most promising methods, using the world experience.

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