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THE EVALUATION OF SMALL AND MEDIUM ENTERPRISES ROLE IN ECONOMIC DEVELOPMENT OF AZERBAIJAN

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ABSTRACT

The worldwide experience proves a special role and an importance of small and medium enterprises within the national economies. The business sector and especially the Small and Medium-sized Enterprises (SMEs) play an important role in the development of the economy and a significant contribution to the sustainable and inclusive growth. SMEs, having enormous potential in employment generation and job creation, as well as in fostering economic growth, could be considered a backbone of each country's economy. A strong and well-developed SME sector contributes significantly to export, innovation, and creation of modern entrepreneurial culture, playing at the same time a significant role in achieving prosperity in the country. The rise and development of SME's sector is undoubtedly necessary, since it is difficult to imagine the rising of overall standards of living without such development. The purpose of this research is the evaluation of the potential role of SMEs on the future economic growth and development of Azerbaijan. On this research paper the characteristics classifications and roles of SME on different national economies will be analyzed as well.

Keywords: *Importance of SMEs, Small and Medium-sized Enterprises, roles of SMEs, SMEs in Azerbaijan economy*

1. INTRODUCTION

Small and Medium Enterprises are important part of the national economies and, as such as of the world economy. SMEs contribute to employment creation, wealth creation, poverty alleviation and income generation. Usually in advanced economies SMEs constitute the overwhelming share of operating enterprises, generate more than 50% of turnover and provide two out of every three jobs in the private sector. In OECD countries, more than 99% of companies are SMEs and generate about two-thirds of GDP on average (OECD, 2009). However, SMEs in developing countries face numerous impediments, namely, lack of finance, lack of business skills and lack of operating space. In developing countries or in countries in transition, SMEs represent more than 90% of the total number of companies, but their contribution to GDP is generally quite low – in many cases less than 20% (OECD, 2009). The main weaknesses of the SME sector in general are limited access to finance, a low degree of professionalism and existing business schools, difficulties in recruiting qualified personnel, and the absence of economies of scale and it is these areas which may require special attention. By understanding the problems faced by SMEs in Azerbaijan it could be provided the necessary background to develop policies for their support. Different incentive mechanisms aiming to improve the entrepreneurial environment of Azerbaijan have been observed in the last years. Especially after the sharp down of oil prices the government aimed differentiation of economy and decrease impacts of oil price fluctuation. Improving the state's economic basis requires an economic environment where business can prosper. To strengthen and diversify the economy, policy makers and local leaders need to know the characteristics and impact of small businesses on the local economy.

Understanding the characteristics of poverty and the contribution of small businesses to economic growth of the local economy is crucial in designing specific and appropriate development policies. The targets of such policies are to improve and expand community-based capabilities and initiatives in order to assist small communities to retain and expand local small businesses. "The Strategic Roadmap for the production of consumer goods at the level of small and medium entrepreneurship" which signed by the president of country in April 2017 is developed as a part of a nationwide effort to achieve competitiveness, inclusiveness and sustainability in the economy. The main objective of the aforementioned Strategy is to ensure that small and medium entrepreneurship becomes the key enabler for sustainable economic development in Azerbaijan. Also President of Azerbaijan Ilham Aliyev has decreed to create the Agency for Development of Small and Medium-Sized Enterprises under the Ministry of Economy in December 2017. According to the decree, the Agency is a public legal entity that supports the development of small and medium-sized businesses in the country, provides a range of services to the SMEs, coordinates and regulates the services of state bodies in this field. In this research several methods were used simultaneously, including those of description, statistics, comparison, analysis, systematization and generalization. The importance of the SMEs and their role on national economies were analyzed based on various sources of information and statistics. The classification of SMEs were analyzed by the country and region based. Also using systematization and generalization methods were described the potential role of SMEs on Azerbaijan economy and positive impacts on economic development of country.

2. THE ROLE OF SMES ON NATIONAL ECONOMIES

SMEs have a considerably effective role in the development process of national economies and the protection against the negative effects of the global competition especially based on their employment facilities and their flexible structure reacting rapidly to environmental changes. In addition to that, because of their local characteristics that protect the alienation and their roles that strengthen the middle class, SMEs are also important as social perspective. Many authors reasonably consider SMEs as a backbone of the economic development and a key factor of social stability. The contribution of these companies can be summarized in a few key points, as follows:

- a) Small and medium enterprises solve employment problems of the country.
- b) Small and medium enterprises make a significant contribution to the GDP - of the country.
- c) Small and medium enterprises provide a valuable contribution to the development of large enterprises.
- d) Small and medium enterprises make a significant contribution also in export-import of the country.

Authors Scott & Bruce (1987) provided a qualitative definition for SMEs. According to these two authors, SMEs are those enterprises that have the following characteristics:

- Management is independent; usually the managers are also owners
- Capital is supplied and ownership is held by a small group of individuals
- The area of operations of such enterprises is mainly local.
- The enterprise is small when it is compared with the major units in its field.

According to the Organization for Economic Cooperation and Development (OECD, 2000), SMEs represent more than 95% of enterprises and create 60-70% of jobs. Alternatively, the United Nations Industrial Development Organization (UNIDO, 2005) calculated that SMEs account for 90% of private firms and employ 50-60% of the total labor force. SMEs act as the core of economic growth; they generate, to a greater extent, the technical innovation needed for an economy to progress.

Many new jobs come from innovation, and new discoveries bring about even more entrepreneurial adventures. The creativity of small companies is the fuel of the entrepreneurial spirit leading economic growth. A strong and well-developed SME sector significantly contributes to export, innovation, and creation of modern entrepreneurial culture, playing at the same time a significant role in achieving prosperity in the country. SMEs play a unique, active and critical role in the innovation process by their ability to invent new technological spaces and improve high technology information networks (Paul Almeida, 2004).

3. THE CLASSIFICATION AND ROLE OF SMES IN DIFFERENT ECONOMIES: COMPARISON ANALYSES OF EXAMPLE COUNTRIES

There is not a complete definition for SMEs yet. There are used different definitions on various countries, even institutions use different definition, for example the World Bank defines SMEs as enterprises of 300 employees, UNDP defines SMEs as enterprises that can employ up to 200 employees, whereas African Bank uses a threshold of SMEs 50 employees. For comparative analysis, it would be more appropriate to describe the category of small and medium-sized businesses by scheduling different countries and country groups.

3.1. European Union

According to European Commission the small and medium enterprises are classified as enterprises with fewer than 200 employees, with annual turnover of less than 50 million € and a total balance of less than 43 million €. Therefore, the number of employees is the main and the initial criterion for determining on which category is classified an enterprise according to the European Commission.

Table 1: European Union categorization of SMEs. (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)

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

Data gathered by the European Commission suggests that SMEs constitutes 99.8% of all businesses and play a significant role in employment by employing two-thirds of the labor force in Europe. The statistics show that SMEs contribute 69% to employment growth and 66.8% to total employment.

Table 2: SMEs and large enterprises: number, employees and value added in the EU28, 2015. (Eurostat, National Statistical Offices, DIW Econ, 2017)

	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%

SMEs play significant role to create value in EU countries economy. Value added by SMEs was 3,938,103 billion EUR, which constituted 57% of total value added by enterprises. However, the contribution of SMEs to GDP of individual countries varies, depending on the political and economic situation of the country concerned (Eurostat, 2017).

3.2. Turkey

SMEs play a significant role in the Turkish economy. The determining factors of a company for categorization by the government include headcount, turnover and balance sheet total, similar to the criteria of the European Union. According to Turkish legislation, small- and medium-sized enterprises are classified as 3 types: micro, small and medium companies.

Table 3: Classification of SMEs in Turkey (The Union of Chambers and Commodity Exchanges of Turkey)

Category	Employees	Turnover	Balance Sheet Total
Micro	<10	≤ 1 million TRY	≤ 1 million TRY
Small	<50	≤ 5 million TRY	≤ 5 million TRY
Medium-sized	<250	≤ 25 million TRY	≤ 25 million TRY

According to the Turkish Statistical Institute, in 2014, there were 2, 677, 00 enterprises and 99.8% of all enterprises in the country were small- and medium-sized enterprises. 73.5% of employment in the country is dependent on the SME sector. Small businesses have a contribution of 53.5 % to value added. They also account for 54.1 % of all wages and salaries, 55% of total investments, 60.1% of total export, 62% of turnover and 24% of total loans. These statistics demonstrate the importance of small- and medium-sized enterprises for the Turkish economy (Turkish, Statistical Institute, 2017)

3.3. Russia

Table 4: Classification of SMEs in Russia (European Investment Bank, Small and Medium Entrepreneurship in Russia, 2017)

	Revenue (mln EUR)	Number of employees
Micro	< 1.5	<15
Small	1.5 – 10	15 – 100
Medium	10 – 25	101 – 250

Small business has been growing in Russia, but medium-sized business declines from the 2010 to 2015 years. The government in Russia decided to double the share of SMEs in the economy by 2030, and, therefore, according to entrepreneurs, it is essential to give public service to outsourcing, limit benefits for municipal unitary enterprises and support freelancers. The Ministry of Economic Development of the Russian Federation is preparing the strategy for the development of small and medium business up to 2030. As the first version of the plan says, the number of people employed by small and medium business should grow to 40 million people (today it is 17.8 million).

3.4. Georgia

Table 5: Classification of SMEs in Georgia (Law of Georgia No. 519 of 12 June 2012, on the Georgian National Investment Agency; Tax Code of Georgia)

Definitions of micro, small and medium enterprises in Georgia				
	Employment		Turnover	
	Definition 1	Definition 2 (for tax purposes only)	Definition 1	Definition 2 (for tax purposes only)
Micro		Self-employed (no hired labour)		≤ 30,000 GEL (12,465 USD)
Small	≤ 20 employees	Self-employed (no hired labour)	≤ 500,000 GEL (207,750 USD)	≤ 100,000 GEL (41,550 USD)
Medium	≤ 100 employees		≤ 1,500,000 GEL (623,250 USD)	

Today, SMEs are the basis of the Georgian economy. SMEs make a significant contribution to Georgia's economy, making up 94,1% of enterprises, 42,7% of employment and 20,6% of value added in 2013 (OECD/European Union/EBRD/ETF, 2015). The role of SMEs is manifested in the fact that it is able to improve early mechanisms to be flexible and adapt quickly to changing conditions of the economy and the market.

4. THE SMES CLASSIFICATION IN AZERBAIJAN

Micro and small and medium sized entrepreneurship in Azerbaijan is divided into two groups: individual entrepreneurs (i.e. sole owners of the enterprise without forming a legal entity); and small- and medium-size enterprises (i.e. legal entities). All individual entrepreneurs are legally considered small enterprises by default, whereas those registered as legal entities are classified according to two indicators: number of employees and annual turnover (CESD, 2012).

Table 6: Criteria of determination of SMEs in Azerbaijan (Azerbaijan Republic Cabinet of Ministers Order June 29th 2016)

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 (USD 117647)	Up to 200 thousand manat (Up to 117647)
Medium	Between 25-125 employees		Between 200-1.250 thousand manat (USD 117647 –USD 735294)	
Large	More than 125 employees		More than 1.250 thousand manat (USD 735294)	

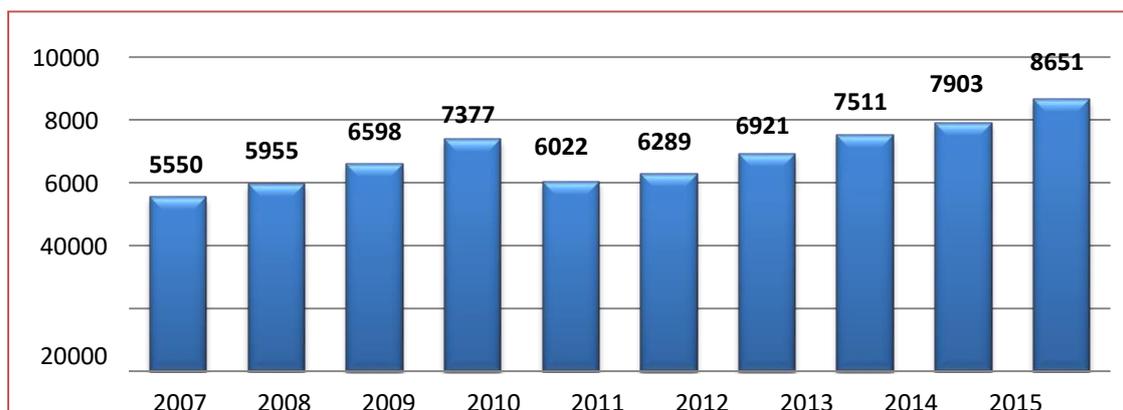
According to the new order, the classification of existing enterprises under the categories small, medium and large is mainly determined by their "average number of employees" and "annual

revenue". If any of the criteria exceed its limits, it causes a change in the classification of the company to the higher level. As for new enterprises, a year after the date of their state registration and tax accounting, small, medium and large enterprises are classified based on their "average number of employees". Also, based on the new order, the overall value of all of the enterprise's goods, activities and services during the course of one fiscal year is added to its annual revenue. When comparing the classification of the European Union, Turkey and in Russian, we can see that the maximum limit for the number of employees required by this type of entrepreneurship in relation to the European Union and Turkey is very small. At the same time, a lower limit has been set in terms of turnover. This is one realistic problem in classification SMEs in Azerbaijan.

4.1. Current situation of SMEs in Azerbaijan

According to the data provided by the Ministry of Economy of the Republic of Azerbaijan for 2016, the number of entrepreneurship subjects in all sectors of the economy were numbered 792,764. As it turns out, in 2016, the number of entrepreneurship subjects increased by 77,179, as compared to 2015. According to given indicators, 36.1% of total entrepreneurs were registered in the city of Baku and 63.9% in other regions of the country. Small enterprises have seen further development under market relations. Generally, according to the indicators of 2016, the majority of all enterprises in the country were small enterprises (86,517 units), it is clear that the number of small enterprises in 2016 has increased by 7,477 units, compared to 2015.

Figure 1: Number of small enterprises in Azerbaijan (The Republic of Azerbaijan Ministry of Economy, 2017)



According to official statistical data, the share of small entrepreneurship entities in the non-oil sector was 5.8% of value added, 0.7% in total gross profit, 6.5% in annual average employees and 9.2% in fixed capital investments. The diversification and development of the non-oil sector is one of the key priorities in the development plans of the government of Azerbaijan. In this vein, the government has implemented a number of reforms in order to support SMEs. However, as compared to developed countries, the shares of SMEs in value added for the Azerbaijani economy is relatively low. While SMEs contribute more than 50% of value added in developed countries, for Azerbaijan, this figure equals only 4%.

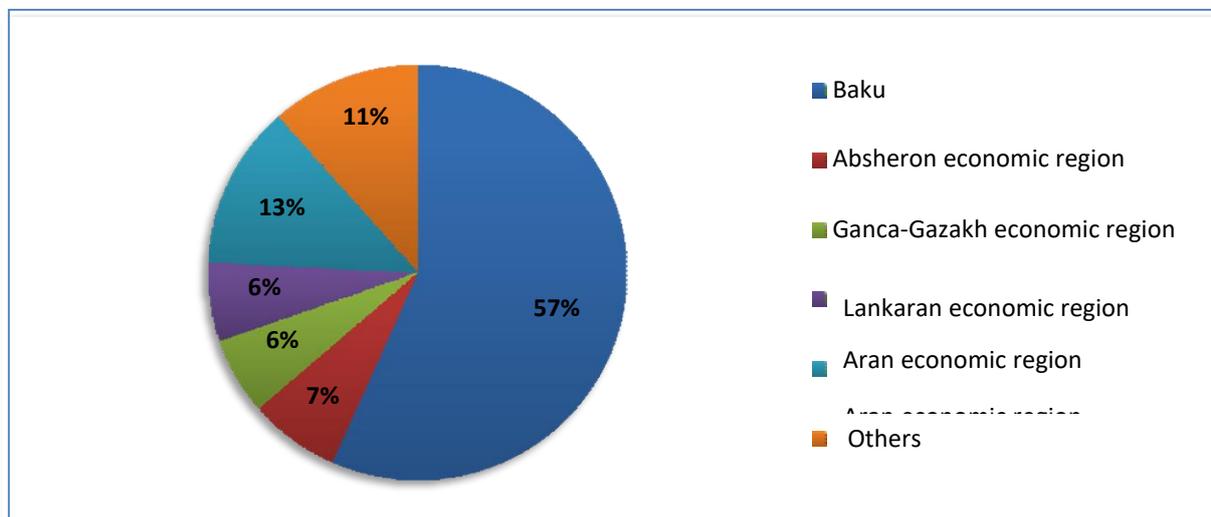
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Table 7: Share of small entrepreneurship subjects in the economy of the country at percentage (The State Statistical Committee of the Republic of Azerbaijan, <https://www.stat.gov.az/source/entrepreneurship/?lang=en>)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Value added	1,6	1,8	2,6	2,8	2,6	2,7	2,7	2,6	4,0
non oil sector	4,2	4,7	5,1	5,2	5,3	5,2	4,8	4,3	5,8
Gross surplus	0,2	0,2	0,3	0,2	0,3	0,4	0,6	0,7	...
non oil sector	2,7	2,3	2,9	3,0	3,0	3,3	3,5	3,5	...
Average annual number of employees	6,7	7,3	7,6	6,7	6,5	6,4	7,9	7,6	6,3
non oil sector	6,9	7,5	7,8	6,9	6,7	6,6	8,1	7,7	6,5
Investments directed to fixed capital	3,9	3,7	3,7	2,8	5,8	3,5	2,7	4,2	5,1
non oil sector	7,3	5,3	5,1	4,0	7,6	4,6	3,8	6,4	9,2
Turnover	4,2	4,5	6,1	8,6	8,1	9,6	10,6	10,5	9,6
non oil sector	7,7	8,4	9,8	15,6	18,3	18,5	20,0	18,4	14,9

Large shares of small enterprises are mainly located in Baku (56.7%), as can be seen in Figure 2. The main reason is that most of the population is concentrated in Baku and, compared to other economic regions or cities, the majority of economic activity is carried out in Baku. The economic regions where small enterprises are mostly located, after Baku, are Aran (13%) and Absheron (7%).

Figure 2: Distribution of small enterprises by economic region in (The State Statistical Committee of the Republic of Azerbaijan, 2017)



In economy, the largest share in the distribution of small entrepreneurship subjects belongs to retail trade, at 49% of small entrepreneurship subjects. After retail trade, 15% belonging to the transportation sector, 7% to accommodation and food service activity, 2% to industry and agriculture, 1% apiece to construction and real estate activities and, finally, 23% belongs to other fields. The major reason is production spheres have been more weakly developed than consumption spheres in the economy of the country. Other reasons are that: the monopoly in retail trade has been weak and the initial capital requirement is small in the retail trade, therefore citizens have more opportunities to engage in entrepreneurial activity in the retail trade area.

*Table 8: Distributions of small entrepreneurship subjects
 (by kinds of economic activity, at percentage)
 (The State Statistical Committee of the Republic of Azerbaijan, 2017)*

	2008	2009	2010	2011	2012	2013	2014	2015
Total economy	100							
of which:								
agriculture, forestry and fishing	2,0	2,0	1,9	1,7	1,6	1,5	1,8	1,8
industry	2,3	2,3	2,2	2,0	1,7	2,0	3,4	2,3
construction	1,1	1,1	0,7	0,7	0,7	0,8	1,2	1,1
trade; repair of transport means	64,6	64,2	64,6	70,2	71,7	70,1	49,1	49,3
transportation and storage	10	10,7	10,7	10,1	10,1	10,7	15,1	14,6
accommodation and food service activities	5,9	6	6,5	3,5	3,4	3,6	6,9	6,7
information and communication	0,2	0,1	0,1	0,1	0,1	0,1	0,2	0,3
real estate activities	2,5	2	0,4	0,4	0,4	0,4	0,8	1,0
education	0	0	0,1	0,1	0,1	0,1	0,1	0,2
human health and social work activities	0	0	0,1	0,1	0,1	0,1	0,2	0,2
other fields	11,4	11,6	12,7	11,7	10,1	10,6	21,2	22,6

4.2. Historically overview of SME development policies in Azerbaijan

Over the past period of time, Azerbaijan has taken several actions to support the development of entrepreneurship. Under the Presidential Decree № 610, dated on 24 June 1997, and № 753, dated on 17 August 2002, “State program for the support of small and medium entrepreneurship in the Republic of Azerbaijan (1997 – 2000 years)” and the “State Program on development of Small and Medium Entrepreneurship (2002 - 2005 years)” were adopted and implemented accordingly. In addition, the following programs contain actions for the development of entrepreneurship, further improvement of favorable business environment, improvement of mechanisms for the protection of the entrepreneurs’ rights and statutory interests: “State Program on reliable food supply of population in the Republic of Azerbaijan in 2008 – 2015 years” approved by the Presidential Decrees № 3004, dated 25 August 2008 and № 3043, dated 15 September 2008 and “State Program on poverty reduction and socio-economic development in the Republic of Azerbaijan in 2008 - 2015 years”, as well as 5 “State Program on socio-economic development of regions of the Republic of Azerbaijan in 2014 – 2018 years” approved by the Presidential Decree № 118, dated on February 27, 2014 and “State Program on the development of industry in the Republic of Azerbaijan in 2015 – 2020 years” approved by the Presidential Order № 964, dated on December 26, 2014.

4.3. The Strategic Roadmap for the production of consumer goods at the level of small and medium entrepreneurship

“The Strategic Roadmap for the production of consumer goods at the level of small and medium entrepreneurship” is developed as a part of a nationwide effort to achieve competitiveness, inclusiveness and sustainability in the economy. The main objective of the aforementioned Strategy is to ensure that small and medium entrepreneurship becomes the key enabler for sustainable economic development in Azerbaijan (Center for Analyses of Economic Reforms, 2017).

Development of SMEs in Azerbaijan is essential to facilitate economic diversification, increase competitiveness, employment, as well as to meet demand for consumer goods and ensure economic development using local resources. The Strategic Roadmap sets the primary policy direction for short, medium and long term perspectives of economic reforms and development of the SMEs. This document consists of the strategic vision for 2020, long term vision for 2025 and target vision for post-2025 period for Azerbaijan. In addition to describing the development strategies in the Strategic Roadmap and strategic objectives and targets in the action plan for 2016-2020, they also define a series of priorities to achieve objectives set for these years, as well as actions to be implemented under each objective, key implementers and clear-cut deadlines. The effective implementation of the selected priorities in the short term will ensure focused and effective execution, which will lay foundation for further efforts in medium to long term. The following were set as strategic targets for the development of the SME in the country in order to achieve relevant strategic objectives of the Strategic Roadmap and ensure maximum utilization of available potential: (Center for Analyses of Economic Reforms, 2017):

- To further improve business climate and regulatory framework in the country in order to increase SME's contribution to Azerbaijan's GDP in the long run;
- Ensure efficient and cost-effective access to financial resources in order to establish sustainable network of the SMEs;
- Internationalize the SME's activity and increase access to international markets in order to increase currency stocks and bring domestically produced products into line with international standards;
- Increase supply of high-quality products and services in regional markets with special emphasis on training of skilled labor force and improvement of skills of the SMEs;
- Promote innovations to boost competitiveness of the SMEs and strengthen research and development in this field.

Particular attention will be paid to strengthening stimulatory impact of financial and tax policies by introducing improved legislative framework governing the SME-related issues, increasing access to financial resources, strengthening technical and information basis, as well as area-based optimal placement of SMEs in the country, protecting domestic market, developing market infrastructure, introducing "single window" approach for issuance of necessary documents, reinforcing joint work among entities representing this sector, etc. Realization of these strategic targets will bring AZN 1 260 million added value and 34,240 jobs in the sector (Center for Analyses of Economic Reforms, 2017).

4.4. The main strategies and targets of Strategic Roadmap

The strategic vision of Azerbaijan for the development of the SMEs by 2020 is to achieve further improvement of business environment, simplified access for SMEs to financing opportunities and trade markets and ensure competitiveness, as well as increased contribution of the SMEs to economic development bringing up their business knowledge and skills. Azerbaijan' long-term vision for 2025 is to further improve competitiveness of the SMEs, achieve supply of substantial portion of daily consumer products by the SMEs and give rise to significant SME contribution to the country's GDP and employment.

Strategic objectives in SME sector are the followings:

- Shape more favorable business environment for SME;
- Increase competitiveness and role of the SMEs in the economy;
- Ensure that all major parts, particularly intellectual part of works and services are provided through the development of SMEs and consequently, the innovations;
- Increase the SME contribution to employment;
- Ensure that key consumer goods are produced by small and medium enterprises;

- Increase share of the SME export in the overall export of the country.

The Strategic Roadmap for small and medium entrepreneurship identifies 5 strategic targets, with relevant priorities for each strategic target. These can be classified as below (Center for Analyses of Economic Reforms, 2017):

- Improve favorable business environment and regulatory framework for the operation of the SMEs;
- Ensure cost-effective and efficient access to financial sources for the SMEs;
- Internationalization of the SMEs and improvement of their access to foreign markets;
- Increase knowledge and skills of the SMEs and accelerate the introduction of best practices;
- Expand promotion of investments, research and development activities for the SMEs.

The target indicators of Strategic Roadmap (Center for Analyses of Economic Reforms, 2017):
The followings are expected to result from the implementation of priorities in the SME sector:

- Increase the SME contribution to GDP by 15 percent;
- Increase the SME contribution to employment by 20 percent;
- Increase the SME contribution to non-oil export by 10 percent;
- Increase GDP by AZN 1 billion 260 million in 2020, in real terms;
- Create additional 34240 employments in 2020.

The following key performance indicators have been identified for measures towards the development of SME:

- Increase the SME contribution to products produced within industrial clusters by 40%;
- Improve by 2 times the rate of dispute settlements among SMEs before court procedures;
- Increase recovery rate of the SMEs (from insolvency) by 4 percent;
- Increase by 2 times the indicators of admission of immovable property as collateral by banks;
- Increase share of leasing transactions in GDP by 2 percent;
- Achieve 5 percent increase in non-oil exports;
- Establish 3-5 model entities;
- Establish 5 new business incubators;

For the implementation of this strategy roadmap, President of Azerbaijan Ilham Aliyev has decreed to create the Agency for Development of Small and Medium-Sized Enterprises under the Ministry of Economy in December 2017. According to the decree, the Agency is a public legal entity that supports the development of small and medium-sized businesses in the country, provides a range of services to the SMEs, coordinates and regulates the services of state bodies in this field. A permanent coordination group has been established under the Agency for Development of Small and Medium-Sized Enterprises (SMEs) of Azerbaijan. The decision was made by the Cabinet of Ministers of Azerbaijan with the aim of implementing paragraph 6.14 of the decree of the President of Azerbaijan, Ilham Aliyev, "On ensuring the activities of the Agency for Development of Small and Medium-Sized Enterprises" dated June 26, 2018. According to the decree, the task of the Coordinating Group will be to coordinate the business development policy, ensure the efficiency and effectiveness between state institutions and the agency while providing services to SMEs (Trend News Agency).

5. CONCLUSION

Small and Medium Enterprises play a very significant role in national and world economy. Accordingly, all world countries support SMEs via different promotion mechanisms.

Regarding to this research, we can assume that SMEs play enormous role in socio-economic indicators of each country. SMEs another significant role is to promote establishing competitive economy in a country. Another impact of SMEs is support of diversification of economy. As an emerging country, Azerbaijan has great potential to benefit from the synergies created by SMEs. The research demonstrates the development of SMEs in Azerbaijan is not at the desired level, and their share in economic growth and employment is much smaller than in other developed and emerging economies. In developed countries, 98-99% of total enterprises are small- and medium-sized enterprises. Although in developing countries such as in Turkey and Russia, this figure is smaller, they still take an important place in the national economy. In regard to Azerbaijan, in the country, 83.30% of total enterprises are small enterprises, but only 4% of the added value of the country belongs to SMEs. The strategic target for 2020 year is increase this figure from 4% to the 15%, but it is still low than other countries. For comparison, value added about 57% in the European Union, 43% in Georgia. At the same time, considering that SMEs are non-oil sector units, then it is important to accelerate and expand diversification across the sectors in the economy. The share of SMEs in production areas is relatively low while 1.8% of SMEs are engaged in agriculture and 2.3% in industry. 49% of Azerbaijani SMEs are concentrated in wholesale and retail trade. These figures shows that it is a potential for diversification and development SMEs in all sectors of economy. There are several hindering constraints in development SMEs in Azerbaijan and all these constraints are mentioned in Strategic roadmap for production consumer goods as level SMEs. These constraints are: the high level of centralization of SMEs specially in capital of republic. Access to finance is one of the most rigid problems in Azerbaijan for SMEs; specially after the devaluation of national currency. Other problems of SMEs are: limited access to markets, legal constraints and a lack of entrepreneurial skills. For the conclusion, we can mention that although SMEs have not developed properly in Azerbaijan, certain steps are already being taken to change this – these steps are mainly related to the simplification of business registration procedures and improvement of tax administration. However, based on statistical indicators, we can say that these steps are still not satisfactory and through taking advantage of world experience, it is necessary to implement more incentive methods. And for these reasons the Agency for Development of Small and Medium-Sized Enterprises can play a significant role in development SMEs in Azerbaijan. In the case of sustainable and productive activities towards the strategic targets set out in the Strategic Roadmap for consumer good as level. SMEs, the importance of SMEs in the economy will increase in Azerbaijan. And all these developments will have a positive impact on macroeconomic indicators of country.

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