

THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION

ON THE TOPIC

**“CASH MANAGEMENT PRACTICES OF SMALL AND MEDIUM ENTERPRISES
IN AZERBAIJAN”**

Tanriverdiyeva Narmin Etibar

BAKU – 2019

THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN
AZERBAIJAN STATE UNIVERCITY of ECONOMICS
INTERNATIONAL GRADUATE AND DOCTORATE CENTER

Head of the Center

Asisst. Prof. Ahmedov F.S.

“ _____ ” _____ 20 ____

MASTER DISSERTATION

ON THE TOPIC

**“CASH MANAGEMENT PRACTICES OF SMALL AND MEDIUM ENTERPRISES
IN AZERBAIJAN”**

Code and name of Programme: 060403 Finance

Specialisation: Financial management

Group: 650

Master:

Tanriverdiyeva Narmin Etibar

_____ signature

Scientific Supervisor

PhD. in. Econ., Muradli N.I.

_____ signature

Program manager

Can. of. Econ., Asisst. Prof. Seyphullayev I.Z.

_____ signature

Head of the Department

Dr. of. Econ., Prof. Kalbiyev Y.A.

_____ signature

BAKU – 2019

Azərbaycanın kiçik və orta sahibkarlıq müəssisələrində pul vəsaitlərinin idarə edilməsi praktikaları

Xülasə

Tədqiqatın aktuallığı: Tədqiqat mövzusunun aktuallığı kiçik və orta sahibkarlıq müəssisələrinin ölkə iqtisadiyyatındakı rolu və kiçik və orta sahibkarlıq müəssisələrində pul vəsaitlərinin idarə edilməsinin əhəmiyyəti ilə bağlıdır.

Tədqiqatın məqsəd və vəzifələri: Bu tədqiqatın əsas məqsədi tez-tez dəyişən iqtisadi mühitdə kiçik və orta sahibkarlıq müəssisələrinin pul vəsaitlərinin idarə edilməsinin struktur dəyişikliklərini araşdırmaqdır.

İstifadə olunmuş tədqiqat metodları: Araşdırma zamanı Azərbaycanda kiçik və orta sahibkarlıq müəssisələrinin dinamikası, eyni zamanda kiçik və orta sahibkarlıq müəssisələri ilə pul vəsaitlərinin idarə edilməsi arasındakı əlaqələri müəyyən etmək üçün təsviri analiz, statistik müqayisə, ümumiləşdirmə kimi metodlardan istifadə edilmişdir.

Tədqiqatın informasiya bazası: Tədqiqat zamanı Azərbaycan Respublikası Dövlət Statistika Komitəsi, bir sıra xarici ölkələrin dövlət statistika idarələrinin internet səhifələrində göstərilən məlumat bazalarından, müxtəlif iqtisadi ədəbiyyatlardan istifadə edilmişdir.

Tədqiqatın məhdudiyyətləri: Araşdırma zamanı istifadə olunması zəruri olan statistik məlumatların əldə olunmasındakı problemlər, tədqiqatın daha effektiv olmasını təmin edə biləcək bəzi nəzəriyyələrin öncədən Azərbaycanda araşdırılmaması bu tədqiqatın əsas məhdudiyyət səbəbləridir.

Tədqiqatın nəticələri: Azərbaycanda kiçik və orta sahibkarlıq müəssisələri böyük hərəkətverici qüvvəyə malikdir. Kiçik və orta sahibkarlıq müəssisələrinin fəaliyyətini pul vəsaitlərinin idarə edilməsi olmadan həyata keçirmək qeyri-mümkündür. Kiçik və orta sahibkarlıq müəssisələrində pul vəsaitlərinin idarə edilməsi zamanı qarşıya çıxan problemlərin həlli yollarını araşdırmaq lazımdır.

Nəticələrin elmi-praktiki əhəmiyyəti: Azərbaycanda kiçik və orta sahibkarlıq müəssisələrinin artan əhəmiyyəti, bu sahədə daha çox araşdırma tələb edir. Pul vəsaitlərinin idarə edilməsi zamanı kiçik və orta sahibkarlıq müəssisələrinin qarşılaşdığı problemləri və onların həlli yollarını tapmaq gələcək dövrlərdə bu sahənin inkişaf etməsinə böyük təkan verəcəkdir.

Açar sözlər: kiçik və orta sahibkarlıq müəssisələri, pul vəsaitlərinin idarə edilməsi, Pul vəsaitlərinin idarə edilməsi problemləri

LIST OF ACRONYMS

| | |
|----------------|---|
| AIC | Azerbaijan Investment Company |
| AZPROMO | Azerbaijan export and investment promotion foundation |
| EU | European Union |
| GDP | Gross Domestic Product |
| NFES | National Fund for Entrepreneurship Support |
| OECD | The Organization for Economic Cooperation and Development |
| SME | Small and medium enterprises |
| UK | United Kingdom |
| USA | United States of America |

Table of Contents

| | |
|---|----|
| LIST OF ACRONYMS | 4 |
| CHAPTER 1. INTRODUCTION | 6 |
| 1.1. Research Background..... | 6 |
| 1.2. Research Objective..... | 7 |
| 1.3. Significance of the Study..... | 8 |
| 1.4. Research Questions | 8 |
| CHAPTER 2. LITERATURE REVIEW | 10 |
| 2.1. Overview and Definition of SMEs | 10 |
| 2.2. Importance of SMEs in Developing Countries..... | 15 |
| 2.3. Cash Management and Related Studies. | 20 |
| CHAPTER 3. DATA AND METHODOLOGY | 27 |
| CHAPTER 4. CASH MANAGEMENT PRACTICES IN THE WORLD | 29 |
| 4.1. Cash Management Practices in Advanced Countries | 29 |
| 4.1.1. The United Kingdom..... | 32 |
| 4.1.2. The United States of America..... | 35 |
| 4.2. Cash Management Practices in Neighbouring Countries | 39 |
| 4.2.1. The Republic of Georgia | 40 |
| 4.2.2. The Russian Federation | 44 |
| CHAPTER 5. CASH MANAGEMENT PRACTICES IN AZERBAIJAN | 49 |
| 5.1. Nature of SMEs in Azerbaijan..... | 49 |
| 5.2. Importance of Cash Management for SMEs in Azerbaijan | 56 |
| 5.3. Cash Management Challenges Faced by SMEs in Azerbaijan | 60 |
| CONCLUSION | 66 |
| REFERENCES..... | 69 |
| List of Tables | 71 |
| List of Figures | 72 |

CHAPTER 1. INTRODUCTION

This paper analyses cash management challenges for small and medium enterprises in Azerbaijan economy. It has been investigated how cash management strategies used by SMEs and how those strategies are important for SMEs in Azerbaijan. The international cash management practices and challenges also examined during the thesis.

1.1. Research Background

The most critical task of any organization is to provide its financial and economic activities with cash. It is possible to carry out this function by keeping a regular job of accounting, cash movement, and analysis of cash flows.

Cash management has involved increasing awareness from both practitioners and academics during recent years. In Azerbaijan, the increasing interest in this topic is connected with the liberalization of the money market, technological progress, and internationalization of businesses. The financial fluctuations have required management of businesses to analyse their cash management strategy and policies in detail. Issues have required extra demand for numerous forms of cash management services, either produced in-house or obtained from outside suppliers.

Modern cash management usually focuses on the part of the cash management that is responsible for operations on the money market. A person in charge of the cash management function is concerned primarily with short-term financial activities. Knowing how to further improve the cash position of the company, including managing receivable accounts, improving cash flow, transferring funds, and controlling cash disbursements, is more important than before in a changing money market environment. Furthermore, one should recognize the fundamental standards of short-term investment, as well as investment policies, presented instruments, along with investment policies and methods to diminish the cash management charges or to increase incomes.

Cash management is increasingly being described as an essential organizational function. Evidence in this area suggests that cash managers' role and responsibilities are expanding beyond conventional boundaries. This has enhanced cash management research and related areas.

Proper cash flow management is vital to managing economic growth, managing working capital, managing investment, ensuring financial stability, a prerequisite for an organization's high performance.

Today, the primary stimulus for the country's economy's development is the state and development prospects of small and medium-sized enterprises. Small and medium-sized enterprises are an incentive to economic development, and the welfare of the people and the country as a whole depends on the state of the sector. It is possible to create small and medium-sized enterprises in any area of the economy.

Small and medium-sized enterprises are a completely independent and most typical way of organizing society's economic life under the conditions of Azerbaijan's modern economy, having their distinctive characteristics, advantages and disadvantages. Functioning on a specific market, rapid response to changing market conditions, direct communication with the consumer, narrow specialization within a particular market segment, and the ability to create small and medium-sized enterprises with low initial capital—all these features of small and medium-sized enterprises are its undeniable advantages that increase stability on the domestic market.

1.2. Research Objective

The main idea of this study is to investigate in a changing environment the structural changes in the cash management process in SMEs. This work surveys the cash management practices in Azerbaijan-based companies and will compare cash management practices in Azerbaijan and other countries. This is done using data from the financial statements, etc.

To achieve this purpose, the following objectives are addressed:

- To recognize the role of small and medium enterprises in the formulation of economic activity;
- To identify foreign cash management process in the short and medium enterprises;
- To determine current cash management practices in small and medium enterprises.

1.3. Significance of the Study

The relevance of the topic of dissertation research is related to the importance and priority of the role of small and medium businesses in the economy and the importance of cash management strategies in small and medium enterprises.

It is expected to benefit from this study;

- The owners and managers of SMEs as an effort to provide their achievement.
- Further SMEs which will study how to improve cash management to survive.
- Other researchers who will further research on cash management and success of SMEs in Azerbaijan.

1.4. Research Questions

Cash management is seen as one of the vital components of effective management of working capital. Cash management plans and controls cash flows within and outside the industry, cash flows in the workplace and cash balances at once.

Small and medium-sized enterprises are referring to the potentially most essential factors in accelerating market transformations and ensuring modern society's socio-economic development. The construction of small and medium-sized enterprises contributes to the gradual creation of a large percentage of SME

owners whose decent living standards are the basis of the Azerbaijani state's socio-economic reforms, the foundation of political stability and social democratic development.

The questions listed below were observed during the thesis in order to find a relationship between cash management and SMEs in changing economic conditions.

- What is the effect of cash management on the financial performance of SMEs?
- What are the main reasons for cash management challenges faced by SMEs in Azerbaijan?

To identify and find the answer to these questions cash management practices of foreign countries and Azerbaijan's examined.

Six chapters are categorized in this paper, one of them being Introduction. The next one is the Literature Review, which observed the definition of cash management and studies related to small and medium-sized enterprises in this part. The data and methodology used during paper writing are listed in the third chapter. The following section shows cash management practices in developed and neighboring countries and the nature of small and medium-sized enterprises. After that the small and medium enterprises of Azerbaijan observed the importance of cash management and their challenges. The latest chapter deals with conclusions and general study recommendations.

CHAPTER 2. LITERATURE REVIEW

This chapter presents theories relevant to successful cash management and the impact on profitability in SMEs of this management. Small and medium-sized enterprises, as well as the importance of small and medium-sized enterprises in developing countries, have been reviewed. After that, it will also discuss cash management practices and related studies.

2.1. Overview and Definition of SMEs

Worldwide and domestic experience shows that one of the critical elements of a market economy is entrepreneurship. The nature and extent of business activity affects the rate of economic growth, the structure, and the quality of the gross national product solves the population's employment problem.

In the development of economic theory, the terminological essence and content invested in the concept of "entrepreneurship" changed and streamlined.

Classical economists R.Cantillon, A.Turbot, F.Quenet, A.Smith, J.Schumpeter, J.-B.Say, A.Marshall, F.von Hayek, L.Mises, I.Kirzner, M.Weber, V.Zombart, P.Drucker and other researchers have benefited significantly from the study of entrepreneurship. They considered the main points and characteristics of entrepreneurship: risk-bearing and economic uncertainty (R. Cantillon, F. Knight); revolutionary change in production factors (J.-B. Say); organization of the innovative idea's practical implementation (P. Drucker, F. Tossig).

In the works of the famous English economist R.Cantillon, the concept of "entrepreneur" appeared as a scientific term. He developed the first concept of entrepreneurship and gave a clear definition of the term "entrepreneur," meaning a person acting at risk because he buys at a particular price and sells at an unknown price. Entrepreneurs do not necessarily perform their production activities, he believes, but their essential characteristics are foresight and risk-taking.

The entrepreneur was identified with the capitalist by representatives of the English classical school (D. Ricardo, A. Smith). By "entrepreneur," A. Smith

understood the owner, taking the economic risk for the sake of realizing any economic idea and profit that he planned, organized production, managed its results. He was thinking the concepts of "capitalist" and "entrepreneur" were synonyms.

D.Ricardo also identified the function of entrepreneurship and capital ownership. One of the reasons for the impossibility of separating these functions is because the owner, relatives or friends provided the main form of ownership at the zenith of the industrial revolution in England (the 19th century's 40s) as a family-owned small or medium-sized business and capital (Blaug 1994).

To summarize the point of view on entrepreneurship, it can be presented as an economically free innovation activity associated with risk, responsibility and competition in order to achieve new outcomes, meet personal and social needs.

The majority of entrepreneurship is undeniable to be small and medium-sized enterprises. The importance of entrepreneurship cannot be undermined, in particular the importance of small and medium-sized enterprises. It is not synonymous with the terms "entrepreneurship" and "small and medium-sized enterprises." If there is a rather harmonious economic theory of "entrepreneurship" in the scientific literature, then the concept of "small and medium-sized enterprises" is still being studied and systematized. Many scientists define small and medium-sized enterprises.

There is no accepted explanation for small and medium-sized enterprises, according to John and Sylvester (2011); it can vary depending on many factors. Many researchers and policymakers have tried to determine the exact definition of small and medium-sized enterprises over the year. Total value, product value, relative size within the industry, annual sales or receipts, number of employees, net value and others have been used for this purpose. Nevertheless, the criteria vary considerably.

The most common standard, often differentiated by industry, is the number of employees. However, there are often additional restrictions on the company's

turnover, the valuation of net assets, or the financial independence of the company's owners.

Furthermore, in foreign practice, and more recently in the scientific literature of Azerbaijan (Abdullayev L.(2011) ; Orujova L., Hasanov R.(2016) ; Salimzade M., Xalilov Q.(2010) ; Abbasova, N.(2017) and others) as well as in legislation, small and medium-sized enterprises are considered as a single phenomenon, and therefore the term "small and medium-sized enterprises" or SMEs is often used.

It is possible to define SMEs in multiform. This categorization can be based in our country on multiple employees and annual income. According to the "Criteria for the division of micro, small, medium and large entrepreneurship subjects" in Azerbaijan, SMEs are defined as an enterprise with no more than 250 employees and also working with an annual income of no more than 30 million AZN (Decision of the Cabinet of Ministers of the Republic of Azerbaijan on the approval of "Criteria for the division of micro, small and medium-sized enterprises"

However, these numbers were different until recently. So that SMEs defined as the entity which has employees not more than 125 workers and with an annual income that not more than 1,25 million AZN till December 25, 2018 (decision of the Cabinet of Ministers of the Republic of Azerbaijan on approval of "Criteria for large, medium and small entrepreneurship" for 2015).

As Anita (2012) emphasized, the United Nations Industrial Development Organization (UNIDO) also uses several employees to give different classifications for SMEs to different developed countries. Large firms, for example, are companies with 500 or more employees in industrialized countries; medium-sized firms work with 100-499 employees; small firms work with 99 or fewer employees.

The classifications are like this in developing countries: large firms are firms that work with 100 or more employees, medium firms work with 20-99 employees,

small firms work with 5-19 employees, and micro firms work with fewer than five employees (Anita, 2012).

By describing its functions, the essence of the small business is most fully revealed. The functional approach includes studying small business activities and assessing their impact on regional and country development as a whole (Basharina, Morgunova, Philimonova 2009).

Small and medium-sized entities play a key role in the country's socio-economic and political life. In the scientific, economic literature (Sitnikov ; Evalenko ; Bezgodov ; Brtsieva), the functions of SMEs are summarized.

The importance of SMEs by social significance (according to Tumilevich, 2014):

- Small enterprises contribute to the formation of the middle class, the guarantor of political stability and the driving force of a market economy in a democratic society;
- Forming a culture of management, innovation and creativity resulting from the constant promotion of the most prominent middle-class representatives;
- The ability to create new jobs that can lead to job losses;
- Damping – smoothing the contradictions between the richest and poorest strata, reducing social tension;
- Implementation of entrepreneurial initiative and creativity among the broad population.

The importance of SMEs by economic significance (Balbina, 2016):

- The decrease in market fluctuations, i.e. the increase in social welfare, is reflected in the loss of a share of the gross domestic product contribution, with the increase in unemployment in the country;
- Function of integration. Small businesses are rapidly responding to the ever-changing needs of society, continually adapting to market conditions. Without this,

the economy would have acquired a "patchwork" character, i.e. some needs were completely satisfied on the basis of which profitable production could be created, while others were not satisfied, the realization of which would not bring such a high income;

- Developing competitive relationships. The concept of "generations" has recently been found in the literature, meaning a group of fast-growing small businesses involved in copying products from leading firms. Small firms can compete seriously with large firms by offering a product of similar consumer properties at a lower price and oust them from a significant part of the market. Because of the lack of research costs, companies incur lower costs in the production of goods by copying already known products. Large monopolies, too, often inflate prices, small firms, use other strategies to survive in the competitive struggle. Small businesses often compete with large corporations' inefficient divisions. They can compete with the most influential businesses together. This is facilitated by their multiplicity and flexibility as well as a quick update;

- expanding the production of consumer goods and services using local raw material sources that are unattractive to large businesses, bringing them closer to the consumer, engaging in the production of part of the population's material and financial assets previously used solely for personal consumption;

- Development and introduction of technological, technical and organizational innovations, which contributes to the development of scientific and technological progress. To survive in the competition, small firms are more likely to take risks and implement new projects;

- Source of relatively stable budget revenues.

By political significance the importance of SMEs (Badal Natalya, 2017):

- The formation of political views. Being the most numerous class of owners, representatives of small businesses either form their political views or become the object of a struggle by various political forces for votes. According to the historical

experience of some countries, sentiments among small-scale owners in conditions of economic recession and political instability may take extreme forms and encourage support from the most extremist political forces.

2.2. Importance of SMEs in Developing Countries.

Today, the advantages of small business are much more pronounced than the disadvantages compared to other sectors of the economy. This is the small business specificity-to wake up in a time of global economic recession, solving the many economic and social problems.

Small and medium-sized enterprises (SMEs)'s purpose is increasing significantly (Russian Entrepreneurship'No. 9 (231) for 2016). This is because of the SMEs ' features and capabilities such as:

- Functioning in the local market;
- The faster adaptability to the local economic conditions, the turnover of the fixed capital and resources, as well as a smaller amount of the necessary initial investment compared to the large businesses;
- The high speed of the response to the market conditions and consumer preferences, the ability to quickly introduce changes in the course of production and the product itself, depending on the internal and external factors;
- Direct communication with the consumer;
- The narrow specialization in the individual segments of the goods and services market;
- Ensuring mobility and the ability to adapt to technological deviations quickly.

The small enterprises ' functioning demonstrates an excellent adaptation to external conditions, strengthening market relations by their development. Due to their flexibility and speed of decision-making, small businesses are more

comfortable in controlling the production process and changing it quickly due to market demand changes (Volkova, Kozyren 2016).

Small and medium-sized enterprises make a significant contribution to the development of the country's sustainable competitiveness, in conditions of continuously increasing competition with foreign companies due to the ability to respond quickly and appropriately to changes in demand and consumer preferences, creating the necessary flexibility for the national economy (Egor 2017).

According to Duarte (2004), there is no doubt that SMEs are essential for the overall circulation of an economy. The Organization for Economic Cooperation and Development (OECD, 2000) states that 60-70% of newly created jobs and 95% of the businesses represented by SMEs.

It is a fact that economic growth and jobs associated with SMEs, even during periods of recession in developing countries (WIPO 2010). Small and medium-sized enterprises can reduce the economic impact of the crisis. Significant differences between small and medium-sized enterprises are the high speed of resource movement in high demand areas, rapid cost recovery and competition development.

Because of all its advantages, small businesses can mitigate the negative consequences of the difficult economic situation, so in the context of bankruptcy and stagnation of large-scale city-forming enterprises, small businesses should be given a special place in the anti-crisis measures system. In this regard, a great deal of attention is paid to issues of federal and regional support for small businesses (FDIC Small Business Lending Survey, 2018).

Most small US businesses are family owned, according to Federal Deposit Insurance Corporation (FDIC, 2018). Family businesses are believed to be the economic crisis's most successful survivors. On the example of developed countries, experiences should be adopted in supporting family business, female entrepreneurship, promoting youth business, starting from schools and universities,

as each business organization is a "miniature society" and, better understanding the peculiarities of this society, the state will be able to quickly identify the necessary ways of support.

As well as small business medium enterprise is also a segment of entrepreneurship that has a significant impact on the development of the world's domestic markets, connecting large companies, small businesses and consumers. Such features characterize medium-sized business as a high share of the economy, innovation leadership, domestic market focus, flexibility and, at the same time, scale, size and revenue limitation, government support. Medium enterprise is the pillar of any developed country's economy as it creates jobs, releases new types of goods and creates the prerequisites for healthy competition development (Konstantin, 2017).

Elizabeth (2017) stated that the following conclusion is generally accepted over the years of research: there are many methods and mechanisms for supporting small and medium-sized enterprises, but they cannot be effective unless they are adapted to local characteristics and national socio-economic characteristics. To solve this problem, there is no universal method. Some countries have benefited from decentralized strategies to support small and medium-sized enterprises, while some, particularly small countries, have been able to support small and medium-sized enterprises using centralized approaches. Some countries focused their programs on supporting large businesses, resulting in smaller businesses becoming followers rather than leaders in growth. Despite all the differences in support strategies for SMEs actors, there are also standard success criteria based on the experience of studying state programs that support SMEs in various countries.

SMEs are generally considered the backbone of the economy, as well as the driving force in advanced economies for innovation and production. Being competitive with small and medium-sized enterprises and encouraging the emergence of start-ups in countries belonging to the Organization for Economic Cooperation and Development (OECD) are key to future economic efficiency and

a prerequisite for sound structural changes in which traditional sectors are losing their share and giving way to knowledge-based sectors. One of these economies is the British economy; statistical records show half of the trade turnover from SMEs (Lukasc 2005).

The rapid development of small and medium-sized enterprises in the United Kingdom over the past 30 years was largely due to strong government support. In France, the public sector also played a major role in the development of small and medium-sized enterprises, particularly at regional level. In Italy, mistrust of small and medium-sized enterprises towards the state was observed, and business associations developed and implemented mechanisms to support small and medium-sized enterprises.

The above examples show SME practices in developed countries. These examples may be critical elements for developing countries to build their own experiences.

It is undeniable that in developing countries, SMEs are a fundamental part of the economy; they play a key role in promoting growth, innovation and prosperity. Warner (2001) mentioned the significant interest of developing countries in SMEs. There are obvious reasons for that. First and foremost, the development of SMEs can lead to an effective program against poverty. On the other hand, SME development can lead to an efficient system of innovation and stable growth.

A social microcredit program (Kiutprogram) has been implemented in Hungary between 2010 and 2012 with the assistance of the European Commission, which can be attributed to programs supporting inclusive entrepreneurship. Its goal was to promote vulnerable groups' social mobility by providing opportunities for self-employment and creating small businesses for them. The project also offered opportunities to transfer free business to legal firms (OECD, 2016).

The Government of Georgia launched the "Produce in Georgia" program in 2014, according to the OECD (2016), to support the country's industrial and agricultural production. Support mechanisms included co-financing interest rates

on commercial bank loans, co-financing leasing interest rates, as well as providing consulting services. Part of this program is the support program for micro-business and small business, which consists of two components: financial support and technical support.

Mexico has paid considerable attention since 2007 to the involvement of small and medium-sized enterprises as suppliers of goods and services in federal government procurement. It was decided in 2007 that the share of small and medium-sized enterprises in federal procurement should be 20% in 2009, and that it should be increased to 35% by 2012. A specific Internet portal for small and medium-sized enterprises was created for informational support in implementing this decision (OECD, 2013).

The study conducted by Kushnir et al. (2010), which includes 132 countries, shows that developing countries account for 71.2% (89 million) of total SMEs (125 million).

Over the ex 20 years, it has become evident that only the adoption of programs for the growth of small and medium-sized businesses is not a sufficient measure to solve problems in this area. Much more critical should be attached to the right combination of different approaches, such as the development of clusters and the promotion of innovation, selective industrial initiatives.

Women-owned SMEs are another critical section that needs to be highlighted. Women-owned SMEs play a significant role in achieving gender balance in the labor market, according to Andersson et al. (2007). Having such SMEs in the economy is ideal not only for the sake of reducing female unemployment, but also for creating new jobs across the country.

Small and medium-sized enterprises contribute to the restructuring of the economy as an independent and indispensable element of a market economy, strengthening the economic base of the regions, increasing total production and retail turnover, creating a favourable environment for the development of

competition, creating employment for a significant part of the population and encouraging the introduction of science.

It is evident that small and medium-sized enterprises can face bankruptcy without financial activities, which will affect the economy as a whole. Small and medium-sized enterprise cash management is an essential part of managing its financial activities as a whole. Effective cash flow management as part of the overall financial strategy of the company requires the formation of its specific policy. It is therefore necessary to examine cash management in all countries.

2.3. Cash Management and Related Studies.

Cash is the most limited resource in the transition to market-based business methods, and managers' ability to distribute and use money rationally determines an organization's success. For all types of businesses, cash is vital (Abel 2008).

According to Meyer, et al. (1992) cash is the most liquid asset of the company. Cash management is one of the most critical components of the financial policy of an enterprise. First, cash is fully responsible for the timely solvency of the company. Secondly, for the effective management of the enterprise, it is necessary to know the primary sources of income and the direction of the use of funds. Thirdly, from the standpoint of the current activities, one has to work not only with the profit but with the money.

Srinivasan (1999) states that for a variety of purposes cash management can be envisaged. Cash management plays a leading role in ensuring their balance in types, volumes, time intervals, and other significant features. Cash management issues can be death for each type of company, according to Ekanem (2010). To solve this problem successfully, the company must implement in the organization a system of planning, accounting, analysis and control. The organization's business planning as a whole and cash flow in particular significantly enhance the cash management efficiency resulting in:

- reduction of the current needs of the organization in them based on increasing the turnover of monetary assets and receivables, as well as the choice of a rational structure of cash flows;
- efficient use of temporarily idle funds through the organization's financial investments;
- ensuring the necessary solvency of the organization in the current period by synchronizing the positive and negative cash flow in the context of each time interval.

The effective management of the funds in the organization will have a positive impact on the stabilization of the financial situation of the organization and will help to achieve the desired result – profit (Olga 2017). In a competitive and unstable environment, it is necessary to quickly respond to deviations from the normal activities of the organization.

One of the primary purposes of cash management is to ensure the implementation of short-term and strategic plans of the company while maintaining its solvency and its financial stability based on the rational use of assets and sources of financing. To achieve the goal of cash management, it is necessary to create a mechanism for the efficient cash management, providing business processes with the necessary cash resources and maintaining an optimal balance of free cash by regulating the balance of their income and spending (Erkki 2004).

Moyer et al. (1992) also state that the following factors determine the effectiveness of cash management in an organization:

- Efficiently organized cash flows are a prerequisite for achieving high-end results in the organization's activities.
- Useful cash flow management is the key to financial balance. Synchronization of cash flows provides an accelerated implementation of the strategic goals of the organization.

- Rational cash flows help to increase the rhythm of the operational process and ensure the growth of capital accumulation.
- Effective cash flow management is the key to reducing the organization's insolvency risk.
- New forms of cash flow management allow the organization to receive the additional income generated directly by cash assets.

Briggs and Singh (2000) found that sufficient cash flow management reduces the need for borrowing capital, provides more rational and economical use of their financial resources, which are formed from domestic sources, reduce the dependence of the enterprise's development rates on the loans attracted, and ensure the insolvency risk of the business entity is reduced. Active forms of cash flow management allow an enterprise to receive additional profit generated directly by its cash assets.

As suggested by Irina (2008) cash management requires constant monitoring of the uniformity and synchronism of the formation of positive and negative cash flows in the context of the separate intervals of the reporting period.

Methods of cash management were considered in the works of I.A. Blanca, O.A. Shevchenko, T.V. Kharitonova, L.E. Basovskogo, E.S. Stoyanova et al. According Kushnir et al. (2010) cash management methods include:

- **Cash flow synchronization.** By trying to increase the accuracy of forecasts, and by ensuring that cash receipts are combined with cash payments in the best possible way, a firm can reduce the current balance in a bank account to a minimum. Knowing this, utility companies, oil companies, credit card companies, and others agree with suppliers on the transfer of amounts payable, and with buyers about receiving debts by constant "payment cycles" during the month. This contributes to the synchronization of cash flows and in turn helps to reduce the balance on the account, bank loans, interest costs, and increase profits.

- **Use cash on the way.** Cash in transit is the difference between the cash balance reflected in the current account of the company and passing through bank documents. Thus, in the bank account for some time there will be an additional amount of money that can be used. If the work with debtors in this firm is established the better than that of its creditors (this is typical of large and more profitable firms), then the accounting documents of the firm will show a negative balance; while the documents of the bank that controls its operations are decisive.

- **Acceleration of cash receipts.** An equally important problem in managing money is finding ways to increase their income to the enterprise. Consider the main ones:

1. Finding additional cash flow from the fixed assets of the company;
2. Accelerate the turnover of funds;
3. Delimitation of payments to creditors according to the degree of priority to reduce cash outflows;
4. In order to increase cash flow through the revision of capital investment plans;
5. In order to increase cash flow from interested financial sources not related to mutual trade;
6. Increasing sales.

- **Payment control.** Nothing contributes to the control of cash payments, as centralization of settlements with creditors. This allows the financial manager to correctly assess the incoming cash flows for the company as a whole and to make a schedule of necessary payments. Besides, it becomes possible to more effectively control settlements with creditors and the movement of funds along the way. Of course, the centralized system also has its drawbacks - the branches and local branches of the firm may not be able to make timely payments for the services rendered, which is fraught with the loss of the benevolent attitude of customers and an increase in operating costs.

The survey by Teigen (2001) focused on analyzing the business process of the treasury department concerning analyzing cash management practices. Cash management is the management of cash flows so that at any given moment in time the inflow of money to the company's accounts as a result of the repayment of receivables and other customer debt compensates for their outflow associated with making current payments to suppliers, contractors, to the budget, and so on. Teigen (2001) surveyed that cash management helps various departments of the organization, which had similarities with treasury managing.

Van, H (1985) defines that, cash management includes maximizing cash liquidity, by managing the company's money. Any company must have enough cash to make current payments, purchases raw materials, pay wages, acquire long-term assets and repay liabilities on time. According to Kovalev (2011) the main stages of the organization cash management process:

- An analysis of the cash flows of the organization in the previous and reporting periods - the primary purpose of this analysis is to determine the level of support for the formation of funds, the effectiveness of their use, as well as the balance of positive and negative cash flows of an enterprise in terms of volume and time. Cash flow analysis is carried out at the enterprise as a whole, in the context of the main types of economic activity, following the individual structural units. When analyzing cash flows, the methods of statistical analysis, grouping, comparison, index, coefficient, and factor analysis were used.

- Assessment of the influence of factors on the formation of cash flows (both in the reporting and in the previous period) - at this stage, a factor analysis of the influence of external and internal factors on the cash flows of the organization. The external factors may include market conditions, taxation system, availability of loans and borrowings. The internal factors are the life cycle of the organization, the duration of its operating cycle, depreciation policy, the ratio of operating leverage, and other factors.

- Development of cash flow optimization directions - the essential tasks in the process of developing directions for optimizing cash flows are identification and implementation of reserves, which will reduce the dependence on external sources of raising funds, allowing for balanced cash flow; an increase in positive and a reduction in negative cash flow.

- Budgeting cash flows for all activities. Budgeting cash flows are predictive, due to the uncertainty of a number of its fundamental prerequisites. Thus, the budgeting of cash flows is carried out in the form of several planned calculations of these indicators under various scenarios for the development of individual factors (optimistic, realistic, pessimistic).

- Control over the implementation of the directions of optimization - the object of this control is the fulfillment of the planned targets set in the budget for the formation of positive and negative cash flows, identifying the reasons for the change, an analysis of the liquidity and effectiveness of cash flows taking into account specific changes (Kovalev, 2011).

In particular, the modeling method used in long-term projections helps to develop a model for determining a company's need for cash, using the historical data of an enterprise related to the relationship between individual items in the balance sheet (Allman-Ward, Sagner, 2003). Many models are used to manage cash in the enterprise; the most famous ones of these models are the following:

The Baumol model shows important cash management priorities in a stable business environment. It is believed that an organization has a certain amount of money, which it continually spends on paying suppliers' bills. In order to pay bills on time, an organization must have a certain level of liquidity. The price of maintaining the required level of liquidity is the possible income from investing an average cash balance in various types of government securities.

Thus, the cash received from the sale of products (goods, works, services), the company invests in government securities. However, at the moment when the

money is running out, the stock of money is being replenished to its original value by selling the previously purchased government securities.

This model is considered relatively simple and to a certain extent acceptable for enterprises characterized by stable and predictable cash flows.

The model of Miller and Orr is more complicated than the model of Baumol but more practical. It is focused on use in unstable economic conditions.

Within this model, the cash management mechanism is as follows. Under market conditions, the balance of funds in the accounts changes chaotically until it reaches the upper or lower limits. In the first case, the company must begin to buy enough securities in order to return the stock of funds to a certain reasonable level (point of return). In the second case, the company must sell its securities, which ultimately leads to the replenishment of the stock of funds to the standard limit.

The use of these cash management models should be based on the use of computerized automation equipment. It is impossible to conduct daily and sometimes hourly monitoring of funds on the account without modern information technologies. As a rule, the accounts of the company are in the bank. Therefore, when these models are implemented between the bank and the enterprise, a system of interaction should be organized to effectively track the cash balance on the account and make operational, financial decisions on its use.

CHAPTER 3. DATA AND METHODOLOGY

The research was carried out using both qualitative and quantitative methods. All data used in the research collected from the State Statistics Database of the different countries. Simultaneously used methods of description, analysis, modeling, statistics, comparison, system and generalization. Two essential parts of this study are involved, primary research and analysis. The above methods have been used in both parts.

During preliminary research, the entire dynamics of small and medium-sized enterprises, the relationship between SMEs and cash management were examined using different information sources. To do this, small and medium-sized enterprises and cash management practices have been defined in different countries and regions. The following part of the study, which was the part of the analysis, explained the nature of SMEs in Azerbaijan, the importance of cash management and their challenges.

In the first place, the description method was performed to explain cash management and small and medium enterprises. Initially, the descriptive method was used in the processing of the study theoretical parts. On the other hand, different types of cash management models and their practices, SMEs and their mechanism of realization have been clarified, particularly in the literature review.

Methods of analysis and synthesis were used in the next part of this study. The method of analysis was used to evaluate the development process of small and medium-sized enterprises in Azerbaijan and to examine what kind of cash management challenges small and medium-sized enterprises face in order to expand SMEs ' activities.

In Azerbaijan statistical methods are used to determine which problems of cash management and SMEs make necessary changes in their lives and to define what kind of practices are suitable for SMEs. Some dynamics were evaluated and the trend was located, allowing forecasts to be realized, according to collected statistical data.

Furthermore, in order to make comparisons between approaches of various countries cash management practices and the SME sector, guidance was worked on finding unifying systematic approaches to use them in the economic comparison method of Azerbaijan.

CHAPTER 4. CASH MANAGEMENT PRACTICES IN THE WORLD

This chapter will examine cash management practices in the world, in order to find the most suitable one for Azerbaijan's economy. It will first discuss cash management practices in advanced countries. The next part of the chapter there will be identified cash management practices of neighbor countries. Initially, in both parts of this chapter, SMEs and cash management relationship defined.

4.1. Cash Management Practices in Advanced Countries

The success of the company does not the amount of money in its bank accounts; it is the financial management to provide such a profit on the activities of the company, which significantly exceeds the one that an investor can receive from less risky investments, such as a bank deposit. The more availability of funds will not allow achieving this goal. Therefore, management is focused on building a business that can generate stable cash flow and generate a higher return on investment. It is a fact that cash flows play a significant role in the production and economic activities of the organization (McMahon, 2013).

According to Nick (2009), cash management is one of the main activities of the company. Cash flow management includes calculating the time of cash flow (economic cycle), cash flow analysis, forecasting, determining the optimal level of cash, budgeting cash. Cash management of any commercial organization is an essential part of the overall management of its financial activities. The primary purpose of cash flow management is to ensure the financial balance of the enterprise in the process of its development by balancing the volumes of receipt and expenditure of funds and their synchronization in time.

Flynn (2009), indicates that cash flow management involves the analysis of these flows: the accounting of cash flows and the development of a cash flow plan. The cash management process of an enterprise is based on certain principles; the main ones of them are:

1. the principle of informative authenticity;

2. the principle of balance;
3. the principle of efficiency;
4. The principle of providing liquidity.

Taking into account these principles, a specific cash flow management process is organized. Cash flow is a process that is projected, analyzed, monitored and managed. However, cash management involves both legal and operational responsibility. In some countries, legal liability meets the requirements of the law on insolvency.

For example, in the UK it is allowed to continue commercial activities. When you have financial difficulties, the director provides financial services. However, many top managers have little understanding of the cash flow, and existing incentives often direct their energy to other aspects of business, such as sales or the development of a new business line. Accordingly, many enterprises may use cash inefficiently, tying up vast amounts in working capital and inefficiently utilized assets (Chris, 2018).

Cash flows serve all aspects of the financial and economic activities of the organization; ensure the financial balance of the organization at all stages of the life cycle; reduce the risk of insolvency; contribute to the acceleration of capital turnover; reduce the need for borrowed capital; generate additional income that can be used to finance investment activities; increase the rhythm of the production process by complying with the principles of logistics.

Small and Medium Enterprise is one of the leading economies in many developed and emerging economies. There is no single practice about classification and indicators of small and medium-sized businesses in the world practice. However, the single classification within the European Union is valid. Thus, enterprises whose annual turnover does not exceed 10 million euros and those with a working population of 10-49 are small, with annual turnover not exceeding 50 million euros and the number of employees is 50-249. In big countries such as the

United States and China, small enterprises are enterprises with 100 or 1000 people or less. According to the classification of Turkey, enterprises with an annual turnover of 5 million liras and 50 percent of employees and an annual turnover of 25 million liras and 50-150 employees are considered as small and medium-sized enterprises.

According to Storkey Co's (2011), research results small and medium enterprises have long played an essential role in the economy of Western countries; its contribution to the GDP of these countries on average exceeds 50%. In the Russian Federation, this indicator is much lower (about 20%), which does not diminish the significance of SMEs for the country's economy, since the small business provides job creation and contributes to the development of the services sector. Supporting SMEs can help solve many problems.

It is apparent that cash management and SMEs are connected. SMEs are critical for all countries; on the other side cash management is the central part of controlling SMEs. Without cash management, SMEs can face death, and without SMEs, countries can lose a considerable portion of economic growth.

For this reason, many types of research examine the relationship between cash management and small and medium enterprises.

Thanks to the active state regulation of small and medium-sized businesses in Western Europe (Germany, France, Italy, Great Britain, Spain, the Netherlands, Sweden, Finland), the USA, Japan, China in the XXI, world leadership in economic development, improvement of the standard of living of the population has been maintained, the introduction of innovative developments. It is quite apparent that for all these countries small and medium-sized businesses are the basis of the economy, providing the country with goods, work, and services, the population - jobs, contributing to the replenishment of the budget revenues (Storkey Co, 2011).

Soenen and Aggarwal (1989) analyzed cash management practices in companies located in the UK, the Netherlands, and Belgium. They focused on

practices in trading, manufacturing, and service companies. According to the policy and responsibility of cash management, cash flow planning, use of cash management services and banking relationships and other vital parts studied. From their experience, it became clear that there are differences among international practices related to cash management.

So, it is inevitable that in order to choose the most suitable practices for our SMEs, other practices must be searched. As a result of reviewing other country's practices, it is recognized that the most advanced countries in cash management are UK, USA, Australia, Canada, and Sweden. It is evident that for SMEs, cash flow management still is a big challenge. Research conducted about this problem shows precisely how the SMEs of the world are managing their cash.

All examinations indicate that cash management and SMEs must be searched together, in order to get functional outcomes.

In Australia, the Government thinks that cash management problems that are faced by SMEs are connected with the lack of information about new technologies and the use of them. The Commonwealth Bank announced that 80% of SMEs did not get enough long-term benefits because of this problem. However, according to the surveys, only 48% of SMEs admit that they delay learning how new technologies work and how they can get long-term benefits (Examples of International Practices, 2011).

All of the above examples illustrate the importance of investigating this problem. That is why let us look at the practices of some countries in more detail.

4.1.1. The United Kingdom

The UK financial sector is one of the leading in the world and ranks third after the United States and Japan in size. It employs more than 50 thousand enterprises, including insurance and investment companies. The UK financial sector has about 3 thousand financial groups (Department of Business, 2018).

London is the undisputed leader of the British financial sector. However, Edinburgh and Glasgow in Scotland, Birmingham, Bristol, Leeds, Liverpool and Manchester in England, as well as Belfast in Northern Ireland are also important sites for financial transactions. In 2016, it created about 12% of the country's GDP and employed about 2 million people (7% of the country's working population), two-thirds of who work outside London.

In UK businesses with fewer than 250 employees are named as small and medium enterprises. Table 1 shows that in 2018 SMEs were over 99% of all businesses. It is undeniably that SMEs play an essential role in the UK economy. So, the productivity of SMEs is vital for the overall economy.

Table 1: Private sector businesses in the UK by number of employees

| | Businesses | Employment | Turnover |
|----------------------------------|-------------------|-------------------|-----------------|
| Micro (0-9 employees) | 96% | 33% | 21% |
| Small (10-49 employees) | 4% | 15% | 15% |
| Medium (50-250 employees) | 1% | 13% | 15% |
| Large (250+ employees) | 0% | 40% | 48% |

Source: *Business statistics, Business Population Estimates, 2018*

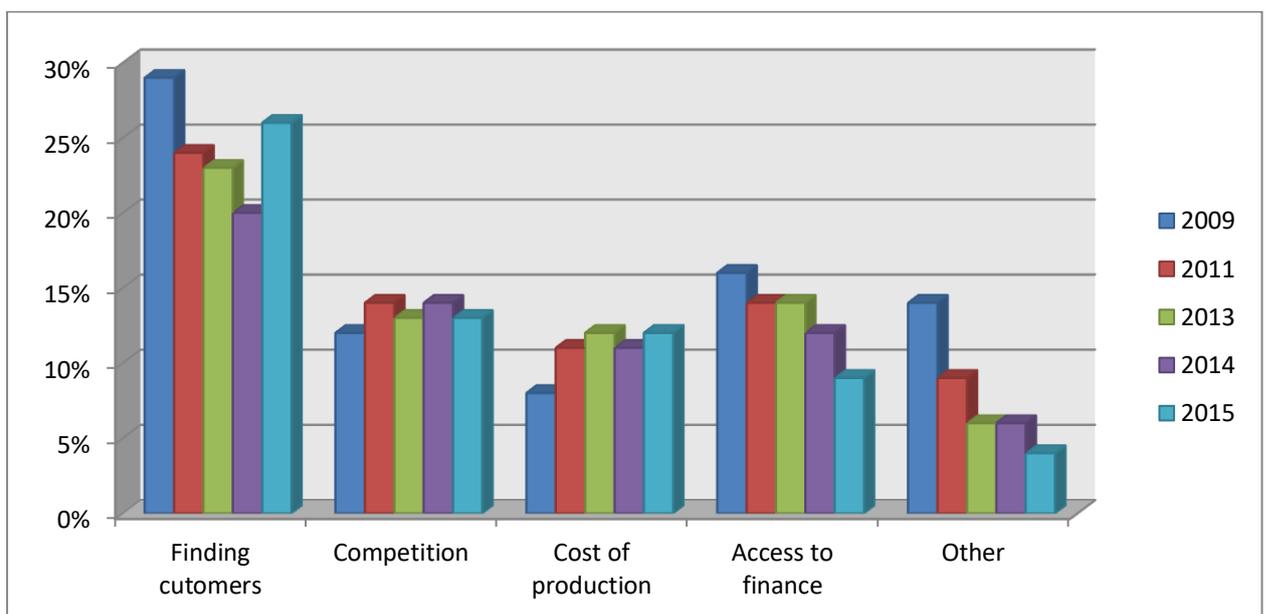
The increase in the number of SMEs is recorded since 2000. According to statistic data, 64% of the increase realized, which 2.2 million of them are SMEs. 16.3 million People employed by small and medium businesses.

In Britain, according to the Federation of Small Business (FSB), the contribution of SMEs to the country's GDP is 50%, and sector companies provide jobs for approximately 14 million British. It is not by chance that the deputies of the British parliament, D. Davis and J. McFall, point out its importance, stating that 4.8 million SME companies provide approximately 60% of employment. They also write about the potential to create another 2 million jobs, which will accelerate the growth rate of the national economy.

In Britain, SMEs are increasingly working through the global Internet communication network, as this can significantly reduce costs. Only 9% of respondents do not use which are primarily representatives of SMEs over 65.

According to Panteia (2015), the main problems of SMEs categorized in Figure 1 below. The survey showed that many problems correctly connected with cash flow problems, which leads to SMEs to face death. It seems from the results that the most crucial problem was finding new customers. It is a fact that after 2008 the access to finance is another big challenge for SMEs in the UK. These two problems connected and end up with cash flow problems. According to Pantie's data, 8% of surveyed SMEs in the UK indicated that they have problems with the cost of production or labor resources in 2009. This problem is another significant issue in the process of creating positive cash flow practices although it was low in 2009 since then there were many fluctuations in this rate.

Figure 1: The most common problems among SMEs.



Source: SAFE (*Survey on the access to finance of enterprises*), Analytic Report, 2015

According to Ben (2016), cash flow problems are one of the significant challenges that SMEs faced in the UK. In his survey, it was clear that the negative cash flow was a barrier to business growth for 54% of SMEs. 76% of SMEs in order to survive use cash flow for the daily operations instead of financing options. This research shows that the majority of UK businesses, mainly SMEs focused on

long-term financing problems rather than short-term problems. It is showed that 63% of SMEs worry about uncertain contracts with customers, 54% of them face cash flow problems, 51% cite economic and political uncertainty, and 38% are concerned about market changes, 37% point to delayed payments.

In the UK 29% of SMEs need to borrowing working capital. In contrast, 43% of all SMEs report that they have minimal ability to borrow money.

Thus, in the UK, thanks to small business support programs, depressed regions, and urban areas are developing.

4.1.2. The United States of America

The importance of the SME sector is recognized worldwide. In developed countries, the size of the SME sector is usually quite large. Small and medium enterprises create jobs and have a significant share of incomes of the population, which largely determine the socio-economic situation. A study conducted in the USA (An Analysis of Small Business by Industry and Firm Size) disclosed that in the SME sector there are 16 times more patents per worker than in large businesses.

One of the most distinguished countries in the field of small and medium-sized businesses are the United States of America. As one of the major economic powers, the US state has managed to develop not only big business but also a small business.

According to the International Monetary Fund's rating for 2013, the United States of America is the largest country in terms of the nominal value of GDP in dollar terms. The value of the gross domestic product of the United States over the past year amounted to \$ 16,799.7 billion, with more than half of the indicator produced by small and medium-sized enterprises (SMEs).

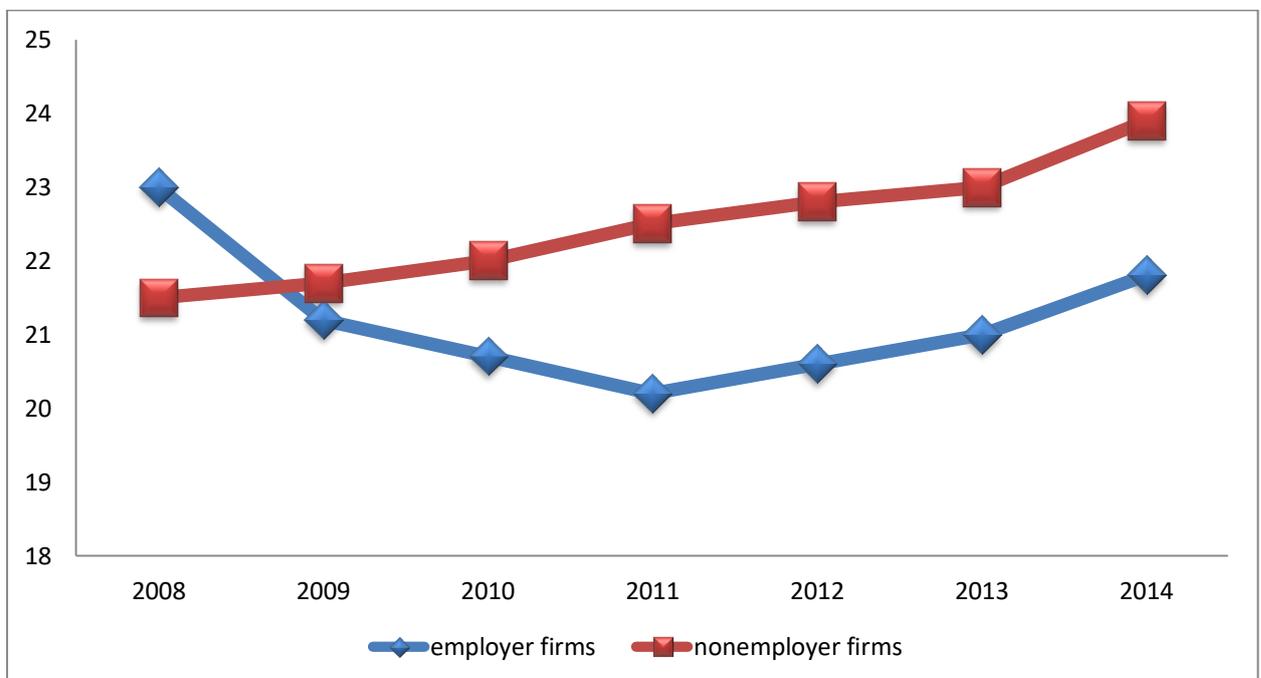
Speaking about the US SMEs, it should be noted that at present in the territory of this country various approaches are being applied to the categorization of small and medium-sized businesses. The most commonly used approach is the

federal agency of the US government - the Small Business Administration (USAA), according to which SMEs include those in which the number of employees is less than 500 people (for most industries) or the average annual revenue of up to \$ 7 million over the last three financial years (for most non-industrial sectors). It should be noted that in most of the largest developed and developing countries there is no division into medium, small or micro enterprises.

The USAA notes that there are 29.6 million small and medium enterprises, which is 99.9% of all businesses. According to the US Government, businesses with fewer than 500 employees are known SMEs. The majority of SMEs are non-employer firms.

Figure 2 illustrates that during 2008-2014, the number of non-employer firms increased significantly. In contrast, the number of employer firms decreased from 2008 till 2011. The main reason for these trends is financial crises. Like other countries in the US economy, SMEs have an essential role, for creating new jobs, by the way, reducing unemployment, increasing economic activity, and growth.

Figure 2: Number of businesses in the US (millions), 2005-2014



Source: *US Census Bureau, 2017*

During and some years later "Great Recession" overall economy, especially small and medium enterprises are affected. The significant indicator of this was

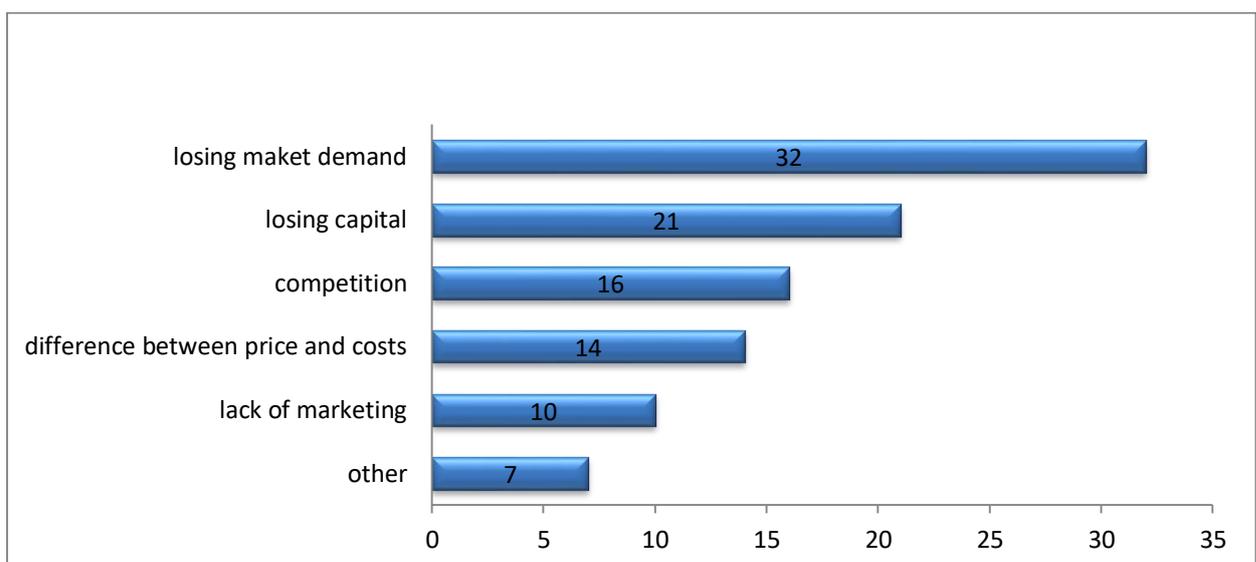
the decreased numbers of employment. Till 2006-2010 the small businesses lose 6 million of jobs, but after 2014 employment that created by the SMEs reached 57 million.

In this country, 52% of the working population is employed in the field of small and medium businesses. In small enterprises, there are about 19.6 million employees. For most workers, small business is a chance to go into a large business. Women also work successfully in small businesses; many of them are managers (more than 9 million) and earn more than \$ 3.6 trillion annually.

Due to the flexible policy in the production and personnel sphere, many small business entrepreneurs achieve success in their activities. At present, there are more than 7 million enterprises in the USA, each of which has less than 500 employees. Also, there are 18.3 million individual non-agricultural enterprises in the United States. About 600 thousand enterprises are registered annually in this country; as a rule, most of them are liquidated.

Shannon (2018) state that there are many reasons for the failure of SMEs, cash management and generally cash flow problems comes at the top of this rank. According to the survey which is conducted by Shannon, lists the reasons for SME failure shown below.

Figure 3: The reasons for failures faced by small and medium enterprises.



Source: *US Government Small Business Administration, 2017*

One of the main problems of small businesses in the United States is taxes. It is challenging to start a business because of licensing fees, taxes on labor and sales. Indeed, the construction of sales and labor taxes is one of the most complexes in the world. The main problems of the tax system - complexity, frequent changes and fragmentation of regulation. Taxes are regulated by four levels of government: federation, state, district, and municipality. Forms of tax returns change with frequency twice a month. To hire an employee, you need to register with five different government agencies. Many small business owners believe that taxes are imposed arbitrarily and unfairly.

The second problem is state regulation. On difficulty with American people in business almost complain about how to get all kinds of permits and licenses. The third problem is hiring workers. In this area, small businesses also have many complaints against officials. Setting a minimum wage of \$ 8 per hour increases the cost of hiring one employee to \$ 5,500–9,500. In addition to payment, business owners must ensure the responsibility of the employee.

As demonstrated above, the US economy is inconceivable without small businesses, and the support provided to small businesses contributes to this.

As well as other countries also in USA cash management problems are one of the biggest ones for SME problems. The majority of SMEs in the USA indicate that 60% of them failed because of free cash flow.

Cash flow within a company refers to free money in the accounts and on hand (free reserve), that is, the most liquid assets. It is expressed by a final indicator with a negative or positive sign, which is formed from receipts and payments. Positive cash flow is better than negative. After all, a company that has available funds on its hands can quickly invest them in a business and get even more money and profits. It is also a weighty argument for banks and lenders considering the possibility of granting a loan.

It is evident that cash management is essential for all types of businesses. In order to make it easy for SMEs, there were many studies. After all investigations,

it was clear that 37% of SMEs stated they need for cash flow increased significantly; in contrast, 34% of them think that it increased slightly.

If the businesses created additional cash, they could use it in many ways. Research results indicated that in the USA SMEs use it as shown below:

1. 33% of them used to purchase additional inventory;
2. 28% of them used to expand operations;
3. 16% of them used to meet current obligations;
4. 10% of them used to invest in employees, in the way of hiring new ones, or increasing salaries;
5. 9% of them used to put additional amounts of cash to the funds;
6. 4% of them used to save cash flows for unexpected events.

Another important thing that must be highlighted is to access additional funding. In the US economy, the majority of businesses accessing traditional and alternative funding accessible. 40% of them using alternative funding. However, in the other way, 20% of US SMEs have difficulties with the traditional borrowing funding.

Despite there are robust aspects of cash management and SMEs, both of them vital for all economies. The whole studies illustrate that in developed countries the importance of SMEs and cash management is increasing day by day.

4.2. Cash Management Practices in Neighbouring Countries

The relationship between Azerbaijan and neighbor countries is getting stronger progressively. It is understandable that the economies of neighbor countries are connected. Almost all changes in the region can make differences in the economic position of the country.

Azerbaijan located in the Caucasus region. Russia, Georgia, Armenia, Turkey, and Iran are neighbor countries for Azerbaijan. The economies of all these countries differ from each other. The country borders the Republic of Dagestan in

the north, Georgia in the north-west, Armenia and Turkey in the west and south-west, Iran in the south, and the Caspian Sea in the east.

Cash is a limited resource, so it is vital to create a mechanism for enterprises to efficiently manage their cash flows, especially in developing countries like Azerbaijan. The main goal of cash management of any commercial enterprise is to ensure economic equilibrium in the process of its activity and development by balancing the volumes of receipt and expenditure of funds, as well as their synchronization in time. To do this, it is necessary to provide financial managers of the enterprise with all the information for conducting a comprehensive analysis, planning, and control of cash flows.

The main advantage of SMEs is their ability to quickly and with minimal losses adapt to changes in market conditions and business conditions. Since the efficiency of the economic activities of SMEs is directly related to the results of the labor of each employee, these enterprises are characterized by high labor motivation of all employees. Small and medium businesses increase the demand for labor and help reduce unemployment in the country.

Let us take a look at some neighboring countries to benefit from the practices of neighbors and to explore ways to deal with similar problems in them.

4.2.1. The Republic of Georgia

Georgia is one of the neighbor countries of Azerbaijan. The economy of Georgia demonstrated its resilience internal and external shocks, including the armed conflict with Russia in 2008, and the attendant effects of the global financial crisis.

The average growth rate of the gross domestic product (GDP) for the period 2010-2012 amounted to 6.6%, but in 2013 the growth decreased to 3.3%, which was due to the reduction in investment and political uncertainty of the post-election period. However, already in 2014, growth resumed, reaching 4.7%, helped by the opening of the Russian market for Georgian products in July 2013 (from which the

wine industry particularly benefited) and the release of cooperation with the European Union in the field of trade to a new level the signing of the Association Agreement (SA) and the WSTA in June 2014.

In 2015, the economic downturn and depreciation of the national currency in many countries that are the main trading partners of Georgia (Azerbaijan, Armenia, Ukraine, and Russia) led to a significant reduction in exports (30%) and remittances (20%) compared with the previous year. In the first half of 2015, the Georgian lari significantly depreciated (by more than 20%). Given the high degree of dollarization of the economy, it is expected that this will have an additional impact on both the financial and real sectors of the economy. Thus, according to the forecast, in 2015, economic growth will be halved, that is, to 2.3%, and in 2016 it will be 2.6% (EBRD, 2015).

The SME sector and cash management in SMEs of Georgia investigated several times. At present, there are two different legal definitions of SMEs in Georgia, one of them is introduced by the Law of Georgia "On the National Investment Agency of Georgia," and the other referred to in the Tax Code, is used exclusively for tax purposes.

Table 2: Classification of SMEs in Georgia

| | Employment | | Turnover | |
|---------------|-----------------|------------------------------------|----------------------------------|-------------------------------|
| | Definition 1 | Definition 2 | Definition 1 | Definition 2 |
| Micro | | Self-employed (no hired labor) | | ≤ 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) | |

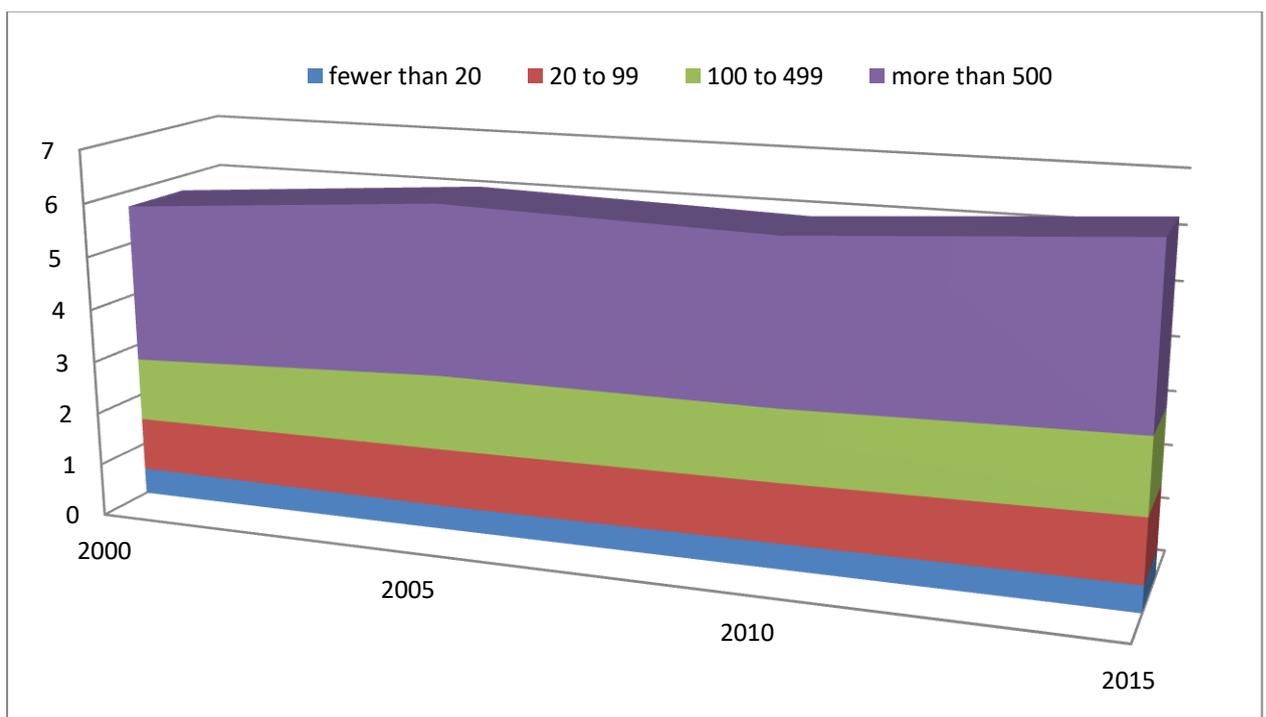
Source: Law of Georgia No. 519 of 12 June 2012, on the Georgian National Investment Agency; Tax Code of Georgia

Small and medium businesses make a relatively significant contribution to the Georgian economy. In 2013, SMEs accounted for 94.1% of all enterprises

operating in the country (5,427 medium and 50,536 small enterprises), provided 42.7% of employment and 20.6% of value added (Small Business Profile, 2018).

According to OECD (2018) in recent years, no significant changes in this area have been observed, although since 2010 the share of SMEs in the structure of employment and the total number of enterprises has slightly decreased, and the growth of the contribution to the creation of total value added has been insignificant. Despite the increase in turnover, between 2006 and 2013, it was 230% (from 2.4 billion to 8.1 billion lari), the share of SMEs in the overall structure of GDP remains small - about 15%. Moreover, the reduction in the share of medium-sized enterprises in the SME sector suggests that expansion of activity is fraught with problems for enterprises.

Figure 4: Georgia Employment by Business Size (Employees).

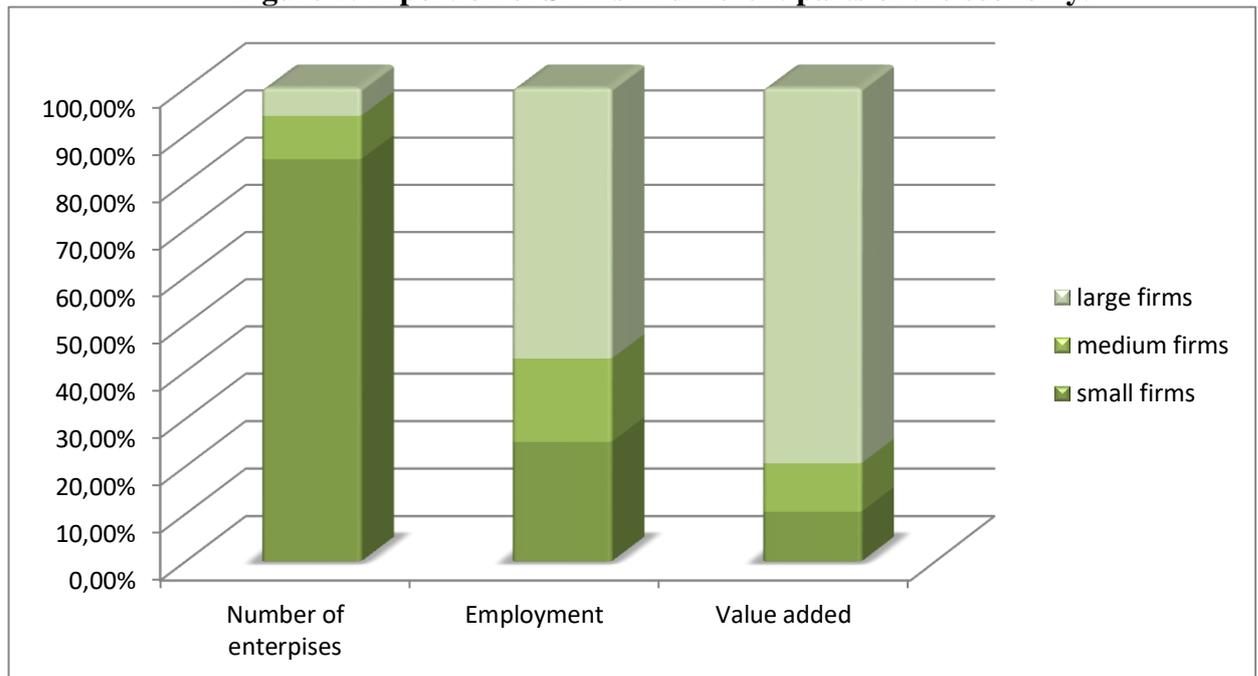


Source: *Statistics of US Businesses (SUSB), 2015*

It is shown from the figure that businesses fewer than 100 employees consist of a large part of SMEs. After 2018 employment that created by the private sector increased 2,6%. Since 2015 73251 new jobs created by SMEs, which 37573 of them owned by SMEs employing fewer than 20 employees.

SMEs have a significant role in the economy of Georgia. After 2010 the number of newly created SMEs decreased, but in the other way, the value added by small and medium enterprises increased. It is indicated in the figure that in 2013 94.1% of active enterprises, 42.7% of employment, 20.6% of value added in SMEs. According to statistic records, the key reason for these results was a reduction of medium firms.

Figure 5: A portion of SMEs in different parts of the economy.



Source: BEEPS Survey, 2014

Access to finance is one of the vital obstacles to the activities of SMEs in Georgia. For example, more than 95% of small and medium-sized firms use banking services in the form of checking or savings accounts. However, only 30% of small firms and 41% of medium-sized firms use bank loans or credit lines. Approximately one-fifth of SMEs consider access to finance as a significant or grave obstacle to business operations. Besides, since this segment is predominantly domestic, access to foreign stocks or loans is confusing. Last but not least, the availability of financing, especially in a local currency, is crucial for the development of the SME segment (European Investment Bank, 2016).

According to Alex (2014), proper cash management helps to get more cash in hand, creates a chance to plan future cash in and outflows, generates opportunities

to make additional investments and. All of these essential for countries in the developing process. The cash management practices of SMEs in Georgia are changing from day by day. Before the main thing that SMEs consider was to meet their actual, daily obligations. However, nowadays numerous studies demonstrate that as SME sector developing cash management styles and practices varied for new forms.

It is inescapable to create SME and does not struggle with the cash problem. In Georgia, some challenges belong to the majority of the SMEs. For example, 85.6% of small firms express that they have difficulties with cash budgeting since the only slight portion of small and medium businesses drawing up cash budget. Nonetheless, effective cash management begins with good cash forecasting.

Another main problem of SMEs with the cash managing process is related to having no bank accounts. 51.3% of SMEs do not know the importance of having bank accounts in order to get control over the cash flow management.

Statistics Reports specify that 26% of all Georgias SMEs suffer from the problem of bad debt, 32% of the challenge with inventory control, 42.7% cannot take control over the purchasing.

All researches that studied before the show that, in order to get more information about SMEs first cash management practices must be observed. In Georgia, the most common occurred cash management problems as mentioned above play an essential role in SMEs lifecycle, which affects all countries economic condition.

4.2.2. The Russian Federation

Russia is an important strategic partner of Azerbaijan. The principles of equality and good-neighborliness, the age-old traditions of friendship and mutual respect are at the heart of the relations of the two countries. The development of interaction between countries objectively contributes to the stability and security in the South Caucasus and the Caspian region.

Small and medium businesses in the Russian economy provide a large number of new jobs, satisfy the various needs of large enterprises, fill the market with new goods and services - this is its central role. For SMEs of Russia, social function is also of great importance, which consists in the fact that through small and medium forms of entrepreneurial activity, people realize and unleash creative potential.

In 2019, Government Decree № 265 on the limiting values of income from the entrepreneurial activity is in force. It shows income limits for small and medium-sized businesses. Previously, to determine whether a company is suitable for the criteria of such an enterprise, the sales revenue was estimated. Now the broader concept of "business income" is used.

To be considered a small, medium or micro enterprise in 2019, one must fit this definition by three primary parameters:

1. fall within the limits of income;
2. fall within the limits of the number of employees;
3. fall within the limits of the share of participation of other companies in the share capital.

Table 3: The Classification of SMEs in Russia.

| | Revenue (mln. Euro) | Number of employees |
|---------------|----------------------------|----------------------------|
| Micro | <1.5 | <15 |
| Small | 1.5-10 | 15-100 |
| Medium | 10-25 | 101-250 |

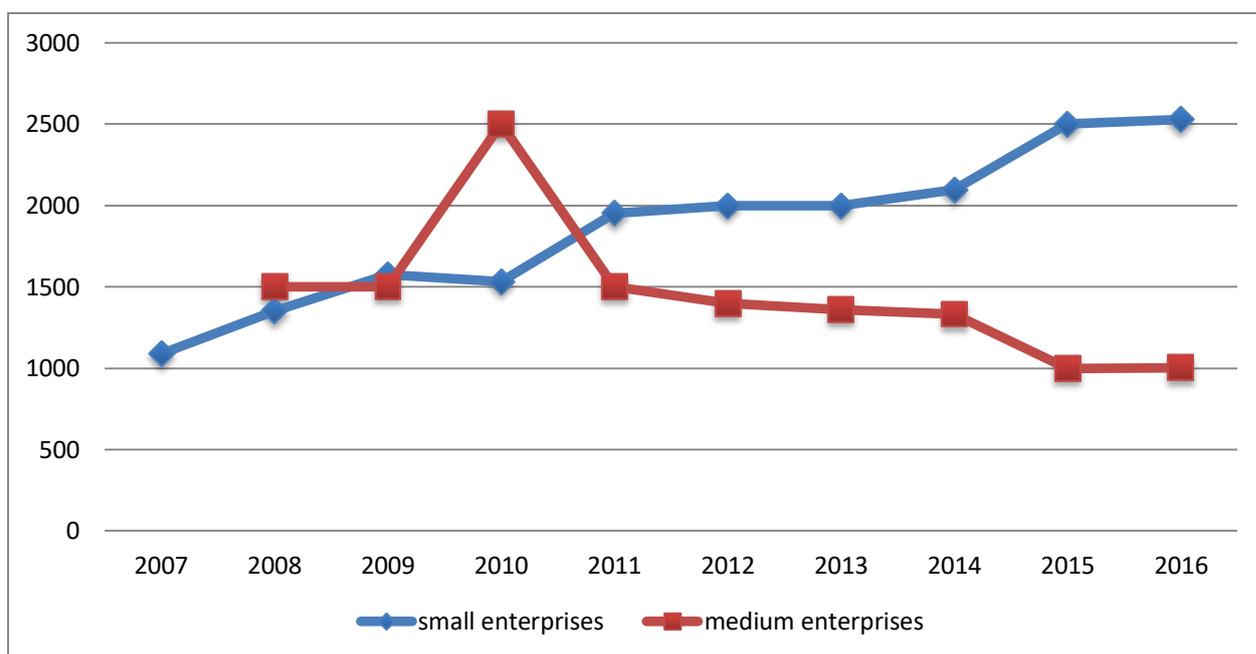
Source: *European Investment Bank, Small and Medium Entrepreneurship in Russia, 2017*

Currently, according to Rosstat, the share of small and medium enterprises in the country's GDP is about 20%. According to the Ministry of Economic Development, the number of small and medium-sized enterprises in Russia is up to 5.5 million. 16.4 million jobs have been created at SMEs. By 2018, the number of

SMEs will increase to 6 million and up to 2.2 million additional jobs will be created.

Government subsidies and special tax treatment contributed to the growth in the number of small enterprises in 2016, after a reduction in the crisis years of 2014 and 2015. A decisive role was played by an increase in the number of funds that, in addition to the state, are investing in start-ups in Russia. In 2016, investments amounted to 17 billion rubles against 13 billion rubles in 2015.

Figure 6: Amount of SME in Russia, 2007 - 2015



Source: *Russian Federation Federal State Statistics Service, Russia in figures 2018*

In Russia, small businesses have been increasingly rising; on the other side medium-sized firms decreasing. The cause of an increased number of small firms is government support and created new programs. Some of the reasons for decreased medium-sized businesses are administrative problems, market conditions and others, and so in Russian economy medium-size businesses falling continuously.

The first and most significant problem of SMEs is the lack of financial resources, not only own but also borrowed. Estimates of experts tell us that only a small part, about 30%, of the actual need for loans for small businesses today is satisfied; in terms of microcredit (i.e., amounts up to 300 thousand rubles) - 10%.

It is challenging to get a loan to a novice entrepreneur. Most of the entrepreneurs do not use borrowed and credit funds due to the lack of small enterprises the necessary security. Therefore, the additional reason is the high risks associated with lending to small enterprises, and the overhead costs of banks, which are almost the same for large and small loans. However, it should be noted that the banks, accumulating experience in this field, are on the way to simplify lending procedures and mitigate conditions. In particular, it is possible to refer interest rates, terms of repayment of loans, commissions.

The next factor causing serious indignation on the part of entrepreneurs is excessive government regulation of business activity; this is called administrative barriers. There is a significant number of inspections by enterprises on the part of supervisory and control bodies, as well as lengthy procedures for obtaining the necessary permits and approvals in various instances. In the elimination of administrative barriers, in business areas, there is a significant potential for expanding small businesses and obtaining new jobs, because Research and practical experience indicate a direct relationship between the state of the business environment and the creation of new jobs. Consequently, this leads to the idea that the fewer obstacles in the country in creating companies, obtaining licenses, registering property rights, hiring workers, entering enterprises in foreign markets, the more comfortable the business feels, which means the creation of new, efficient jobs.

One of the critical problems of business entrepreneurs still notes the level of taxation. At the same time, with the introduction of a simplified tax system for the payment of a single tax on imputed tax (UTII), the tax burden on small businesses was finally reduced. Thus, many individual entrepreneurs switched to these special tax regimes. Of course, the simplified taxation system has its drawbacks, but shortly tax breaks for small businesses, including an increase in the marginal threshold of income that allows the use of a simplified taxation system, are not provided.

The urgency of the cash flow management problem is that a large number of Russian enterprises have not enough money to carry out current, investment, and financial operations. One of the reasons is the imperfection of the financial methods and tools used. Therefore, one of the ways to overcome the shortage of funds is the formation of an effective cash management system that would ensure financial stability and solvency in the long term.

In current conditions for enterprises of various fields of activity becomes the critical problem of cash flow management, since the possibility of further successful functioning of an enterprise largely depends on its solution. This is due to the relevance of the issue. In this regard, there is a need for cash flow analysis. Its primary task is to find grounds for a shortage or excess of funds, as well as to identify sources of income and expenditure.

In Russia, in small and medium-sized businesses and as a whole in overall economy cash management plays an important role, so that there are many pieces of research in this problem. The majority of them say that an uncontrolled cash cycle is a big problem among Russian SMEs.

All examples mentioned above and searched from different countries say that if the country wants to get more economic strength, it must be investigated in small and medium enterprises. Moreover, if small and medium enterprises want to live for long years, they must be paid more attention to cash management.

CHAPTER 5. CASH MANAGEMENT PRACTICES IN AZERBAIJAN

This chapter aims to provide information on the scale and economic significance of micro, small and medium enterprises and the cash management practices used by SMEs in Azerbaijan. This is the basis for understanding its development dynamics, the impact on the economy and the influence of existing problems on the performance of this sector.

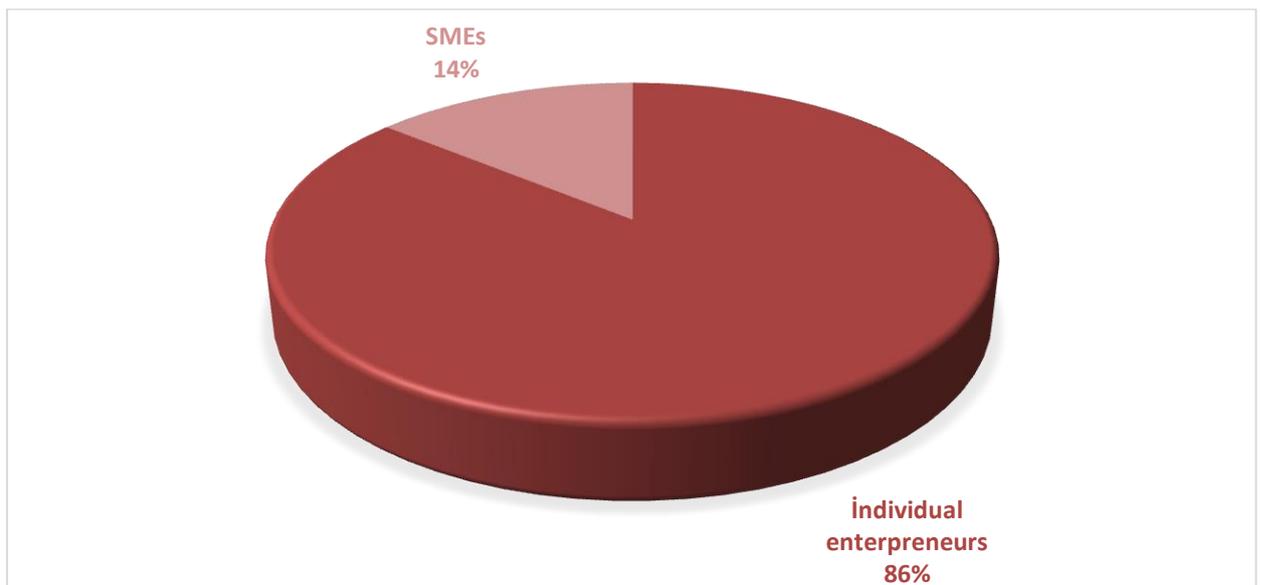
5.1. Nature of SMEs in Azerbaijan

The robustness of the economy in each country is due to the development of small and medium businesses in that country.

In Azerbaijan, small and medium-sized businesses are divided into two groups: individual entrepreneurs (the sole owner of the entity without a legal entity) and small and medium-sized enterprises (legal entities).

Individual entrepreneurs are unequivocally legally considered as small businesses, and those registered as legal entities are listed according to two indicators (number of employees and annual turnover).

Figure 7: Distribution of SMEs and Individual entrepreneurs in Azerbaijan



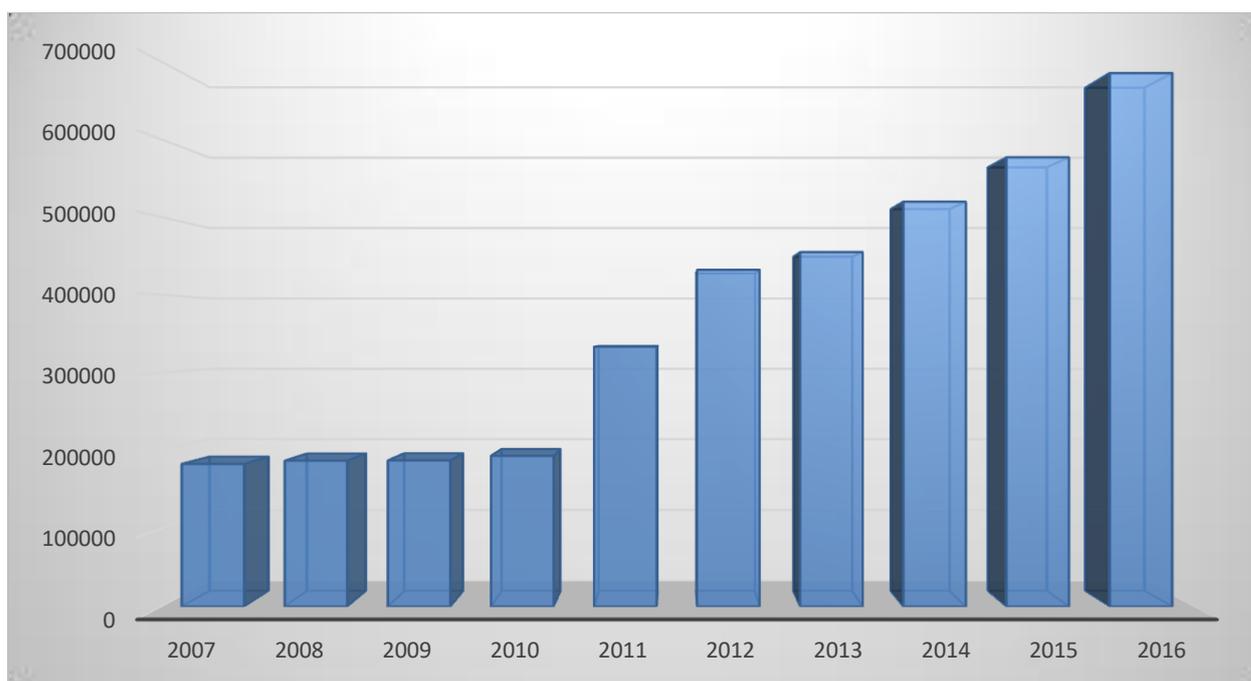
Source: *The State Statistical Committee of the Republic of Azerbaijan, 2017*

An individual entrepreneur is a person (the only owner) engaged in entrepreneurial activity without the creation of a legal entity and has an unlimited liability.

Individual entrepreneurs constitute the majority of the SME sector in terms of several enterprises and employees. In Figure 7, pie chart illustrates that 86% of local entrepreneurs were registered as individual entrepreneurs in 2017 according to the State Statistical Committee.

There is also a significant increase in the number of private and small entrepreneurships in the world in recent years in areas, where large amounts of capital, technical equipment and a large number of workers are not needed. This pie chart can also be illustrated in more elaborated areas and the production of consumer products.

Figure 8: The number of individual in enterprises.



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

Individual entrepreneurship is the main driving force of personal entrepreneurship development. In Figure 8, the statistic dynamics of the number of individual entrepreneurship over the span of ten years is shown. While this type of business is a small and medium-sized business, in general, its weight in the

economy is always treated separately. Individual entrepreneurship also includes self-employed economic activity.

The small enterprise is the entity under the control of a legal entity complying with the criteria set out by the Cabinet of Minister's in the definition of SMEs. Table 5 demonstrates the criteria of determination of small and medium enterprises in Azerbaijan.

Table 4: Criteria of determination of SMEs in Azerbaijan

| | Employment | Turnover (thousand) |
|---------------------|-------------------------|----------------------------|
| Micro firms | 1-10 employees | ≤ 200 |
| Small Firms | 11-50 employees | 200 < turnover ≤ 3000 |
| Medium firms | 51-250 employees | 3000 < turnover ≤ 30000 |
| Large firms | More than 251 employees | 30000 < |

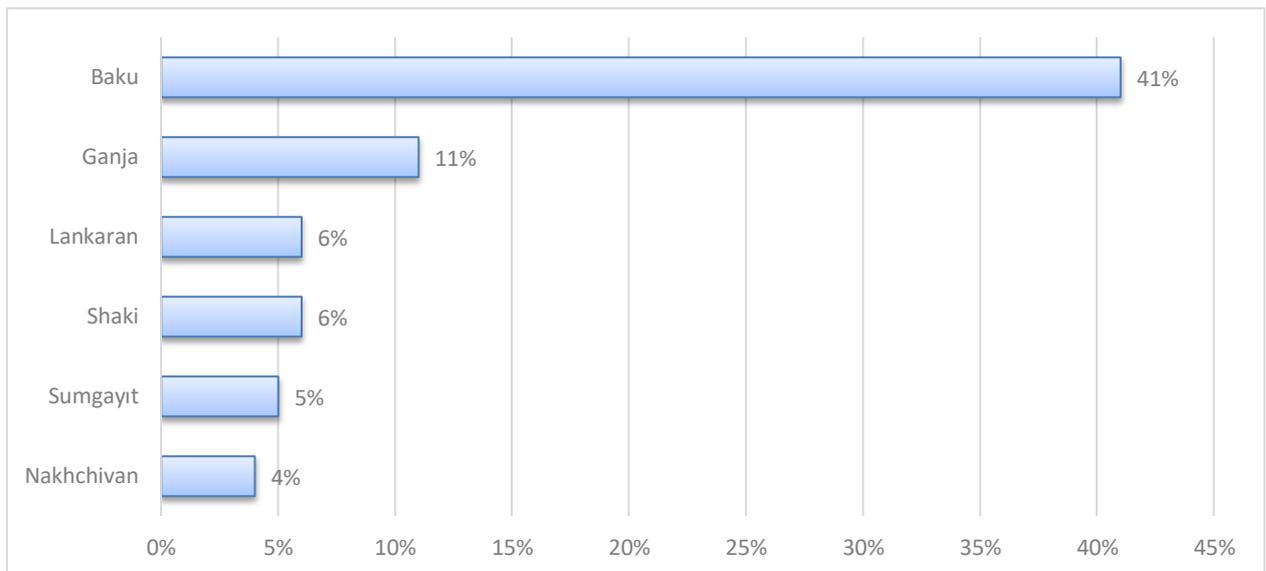
Source: AR Cabinet of Minister's order 21st December 2018.

At the beginning of 2018, about 19,535 small enterprises were registered in the country, accounting for 12 percent of the total SME sector.

Small businesses, as well as individual entrepreneurs, are concentrated mainly in large cities. Thus, according to Figure 9, the total number of small enterprises in Baku, Sumgayit, and Ganja is 57 % of the total number of small enterprises in the country.

Analysis of the SME sector, as well as discussions with entrepreneurs in focus groups, have shown that the business environment in Azerbaijan is rapidly growing, but there are some common issues in the administrative procedures. The scale and frequency of inspections, high requirements for licenses and permits, compulsory certification are the most severe administrative procedures that create difficulties for local entrepreneurship. These administrative barriers negatively impact the development of the SME sector along with the obstacles in obtaining external funding, high rental fees, and infrastructure imbalances.

Figure 9: The number of individual enterprises by regions

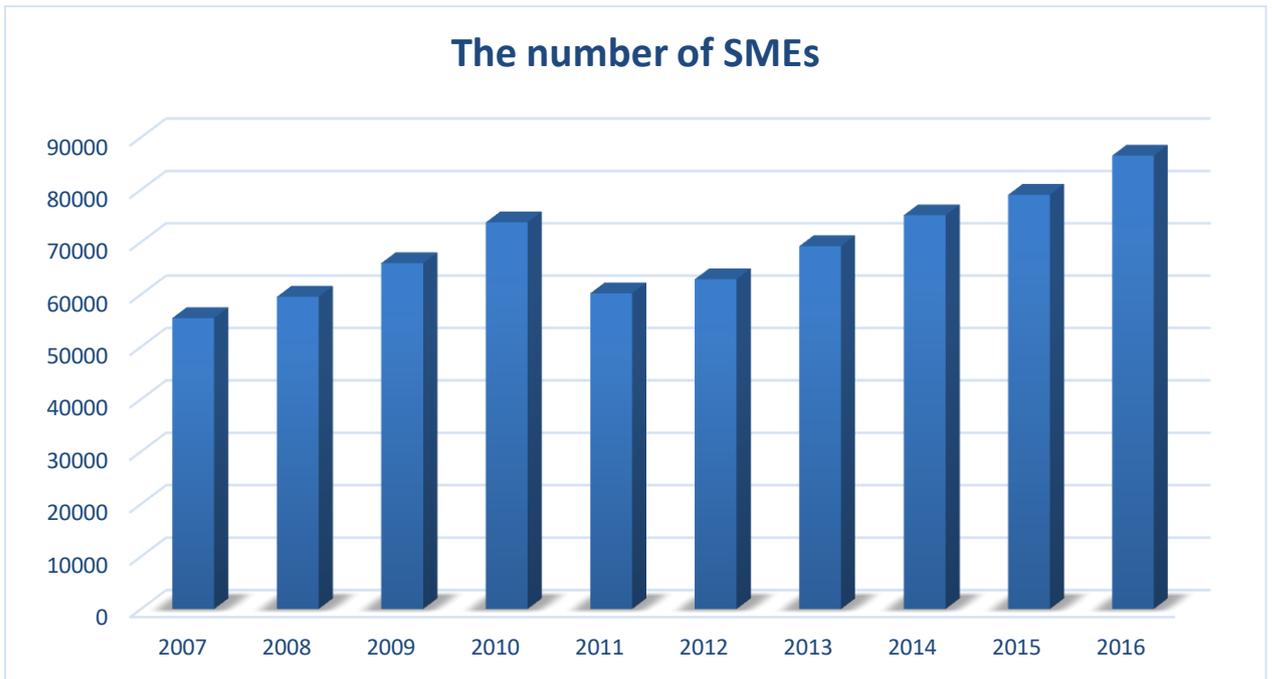


Source: *The State Statistical Committee of the Republic of Azerbaijan, 2017*

The parallel development of small, medium and large types of business subjects is vital in terms of achieving macroeconomic targets at a time when a combination of economic fields is ongoing. Under such circumstances, it is possible to produce competitive products at the market, to supply consumers with goods and services, the proportion of economic resources, and to propagate a specific role of different types of market subjects. In this regard, the development of private and small entrepreneurship in the world is in the focus of attention in recent years in terms of the spread of large and medium-sized businesses and the organization of new commodities and services with small parties.

Small enterprises can be created primarily by the separation of the structural and production units, as well as production units, from the enterprises and associations. In current conditions, the latter is considered more optimistic. Small enterprises can be established with the state, public cooperative enterprises, private persons, and organizations based on other forms of ownership. In Figure 10, the dynamics of the SMEs from 2007 to 2016 is conducted. According to the statistic records acquired from the Republic of Azerbaijan Ministry of Economy, the number of small and medium enterprises is going up year by year.

Figure 10: Number of small enterprises in Azerbaijan



Source: *The Republic of Azerbaijan Ministry of Economy, 2017*

Small enterprises play an essential role in the provision of domestic markets with commodities and services, the liquidation of monopoly and expansion of competition in all spheres, as well as the emergence of entrepreneurial creativity, the production of available labor and material resources, and comprehensive coverage of the needs of the population.

At the same time, small enterprises are moving to the market relations of the government, improving market mechanisms, creating direct economic relations between producers and consumers, as well as involving more workers into the economic reform and the technological restructuring of the production, and ultimately increasing the income and purchasing power of parity,(PPP) which is essential factor.

Compared with international experience, small and medium-sized enterprises in Azerbaijan are relatively new and are not yet fully developed. Although, the majority of enterprises operating in the country are small and medium-sized businesses (92%), gross domestic product (GDP) and share of employment of this sector are minimal. Thus, the share of goods and services generated by small and

medium-sized enterprises in GDP is only 3%, and their share in employment is only 8%. For comparison, it should be noted that, the share of small entrepreneurship in employment in Georgia is 43% and in Ukraine, it is 58%.

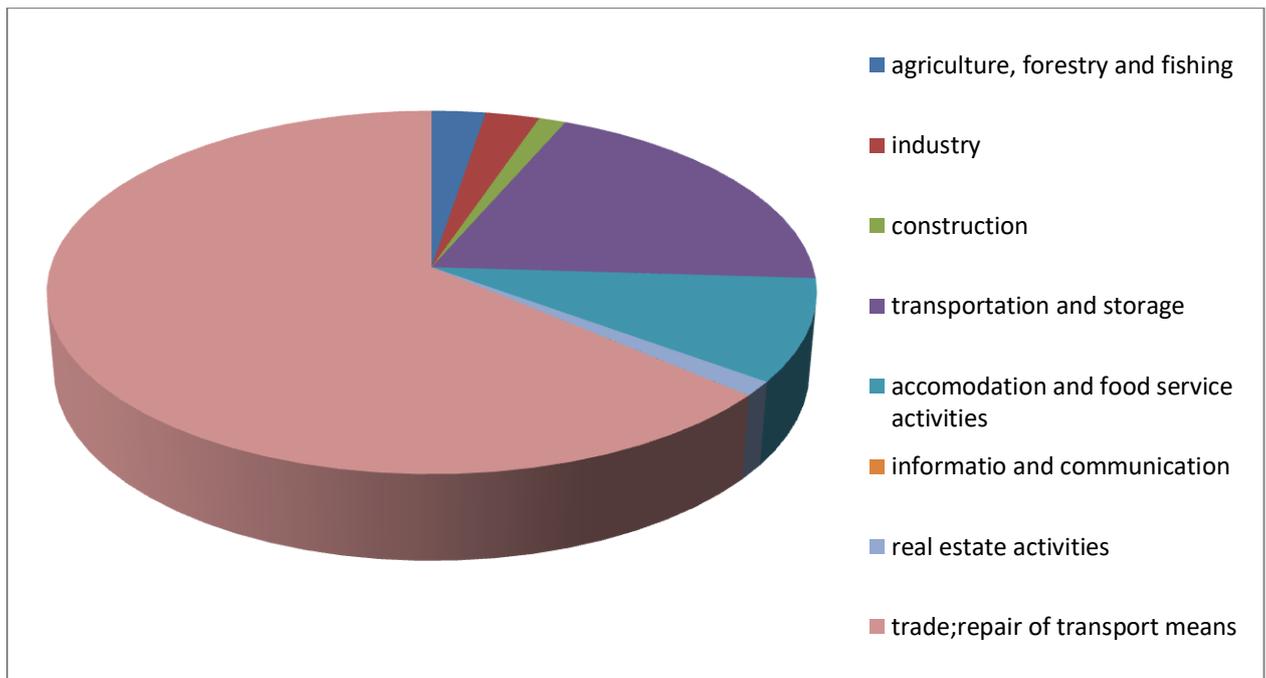
In Azerbaijan, some steps were taken to strengthen the institutional, regulatory and legal environment and conditions for SMEs, in particular by simplifying the procedure for registering companies and developing e-government services. Also, organizational support for SMEs was strengthened by the creation of the Entrepreneurship Development Policy Division of the Ministry of Economy and Industry. However, it is also necessary to adopt an integrated strategy in the field of SMEs in order to overcome the problem of fragmentation of political initiatives, to establish interdepartmental interaction and dialogue between the state and the private sector. Inadequate financial insolvency laws and a cumbersome mechanism for obtaining licenses and permits to conduct commercial activities are also severe problems that need to be addressed.

The global financial crisis, which has covered the world by the end of 2008, had a significant impact on the functioning of SMEs, limiting bank loans, weakening consumer demand, reducing volumes of money circulation and reducing foreign capital inflow. Countries have taken the necessary measures to support the development of SMEs and to stimulate economic development in the country.

In Azerbaijan, the contribution of small and medium-sized enterprises to the country's economy is not at the proper level. This is because the economy mainly depends on the oil sector (Figure 11). Weak access to financial resources is one of the factors that hinder the development of SMEs. Various international agencies are also highlighting the difficulty of involving entrepreneurs in developing their business in evaluating the business climate in the country. That is why, SMEs are trying to solve the financial problem more at home. This does not provide full development.

The variation and growth of the non-oil sector are one of the primary concerns in the government's development plans of Azerbaijan. In this attitude, the government has applied many changes in order to fund SMEs. Nevertheless, as associated with developed countries, the portions of SMEs in value added to the Azerbaijani economy is reasonably low.

Figure 11: Distribution of small entrepreneurship subjects in Azerbaijan



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

The role of SMEs in the country's economy, unfortunately, is not at the desired level yet. The dominant position of the oil industry in shaping the country's economy is the slowdown in the development of the non-oil sector, including the development of small and medium-sized businesses. The share of SMEs in GDP structure is 1.7%, and the portion of created workplaces is about 6%. However, in developed countries, 50-70% of GDP is formed by small and medium enterprises. SMEs create more than 60% of EU jobs.

One of the factors that hamper the development of SMEs in Azerbaijan is that business access to financial resources is weak. While evaluating the business climate in the country by various international organizations, it is also difficult to attract the financial resources required by entrepreneurship subjects to develop their business shooting is noted. Requests, personal interviews, expert assessments,

and international reports show that entrepreneurship entities have financial dependence on foreign sources and the difficulty in obtaining this funding hinders business development.

5.2. Importance of Cash Management for SMEs in Azerbaijan

Cash flow management is an essential factor in accelerating the capital turnover of all types of enterprises, especially small and medium enterprises. This is because of the reduction in the duration of the operating cycle, more economical use of its own and reducing the need for borrowed sources of funds.

Consequently, the efficiency of the enterprise depends entirely on the cash flow management system of the organization. This system is created to ensure the implementation of short-term and strategic plans of the enterprise, preserve the solvency and financial stability, more rational use of its assets and sources of financing, as well as minimizing the costs of financing business activities.

Small and medium-sized enterprises operating in Azerbaijan are mostly used by two significant sources of funding (sources based on banks' activities and sources based on financial markets). Loans to banks, including loans issued by banks, serve as a significant source of external SMEs. The practice of attracting funds from the securities market is not at the level of enterprises, especially in small and medium-sized enterprises.

For all sizes of the SMEs, also all types of the industries, one essential statement is appropriate: If expenses surpass cash, the firm has a cash flow deficiency. The majority of SMEs struggle to control and maintain positive cash flow. With negative cash flow, the business is receiving less cash than it is spending, causing it to struggle to pay immediate bills. This may lead to the SME having to borrow money to cover the shortfall. A consequence of this is that 51% of new businesses do not survive beyond four years of operation as their ability to borrow is severely limited.

Even if it is mentioned that there is a profit phenomenon in the enterprises which are based on the tables such as balance sheets and income statements; this may not mean that the entity has a high rate of cash flow (Sayılğan, 2003). In this context; to finance executives who are trying to maximize the continuity of the activities of the enterprises in a microeconomical sense and to maximize the wealth of the partners in the macroeconomical sense.

One of the essential tools which help the finance manager acting within these objectives is the cash flow statement. The statement of cash flows is the table that shows the cash inflow resources of the entity, the cash items that have arisen during the reporting period or for a specific period, as well as the cash amount at the reporting date.

Other essential information produced by the cash flow table is; information of the cash movements that occur during the reporting period of the enterprise, the amount of the activities arising from the main activity of the enterprise, the number of extraordinary transactions and the amount of investment and financial activities (Sayılğan, 2008).

Cash plays a vital role in the overall economy, for SMEs this role became twice. In developing countries, like Azerbaijan, which still do not have enough added value by small and medium enterprises, cash is crucial for many ways. According to generated surveys in Azerbaijan the owners of small and medium firms categorized some reasons for keeping cash in hand and making cash flow management:

1. Completion of fixed assets and investment;
2. Ensuring the operation of the company;
3. Purchase of raw materials and materials;
4. Payment of wages to employees;
5. Management and all kinds of expenses are required to pay cash

6. To the lenders; principal and interest, tax to the state, dividends to company partners are used in rent payments.

In other word, cash is used for every single step of daily activities. In order to make this process efficient, well developed cash management practices have to be used.

Proper cash management not only creates opportunities to survive for firms, but it also assists in making catch interest of investors, who can invest. It is known that the first thing that they look for, when calculating the chances of business is its cash flow, which reflects its cash management practices.

Nowadays, several organizations are providing financial services to SMEs in Azerbaijan. These institutions include:

- National Fund for Entrepreneurship Support (NFES) of the Republic of Azerbaijan provides entrepreneurs with preferential loans, including allocation of loans under favorable terms from the state budget. In terms of all loans, 97% are small loans, which is 9% of the total amount of loans provided by NFES. To date, NFES has provided loans to 12,500 enterprises, each with an average of \$ 47,000. Most of these loans are devoted to the production and processing of agricultural products.
- "Azerbaijan Investment Company" (AIC) along with domestic and foreign investments, also contributes to the development of other sectors, except the oil and gas industry through substantial capital investments. The AIC's shareholding package ensures that venture capital (entrepreneurship capital) is at least \$ 1 million. AIC's portfolio is multidimensional and combines various industries such as heavy industry, agriculture, logistics, sub-categories of stock and food products.
- Azerbaijan Export and Investment Promotion Foundation (AZPROMO) allocates funds for SMEs to participate in international sales fairs, along with incentive and training activities. AZPROMO helps to attract financial resources to non-oil sector SMEs.

However, there are specific difficulties in accessing the financial resources of the SMEs in Azerbaijan, and the restriction of internal financial resources increases the dependence of the SMEs on foreign financial markets. Although, the involvement of financial resources from foreign financial markets for many reasons is that local SME subjects are not natural. The lack of information, technical problems, and the cost of external resources cause the SMEs to prefer more domestic opportunities.

Factoring, forfeiting and franchising services are not widely spread in the Azerbaijani financial system. There is usually no interest in the securities market. The practice of attracting funds through securities has been poorly distributed compared to loans. SMEs are not interested in transparency and accountability restricted access to market-based sources.

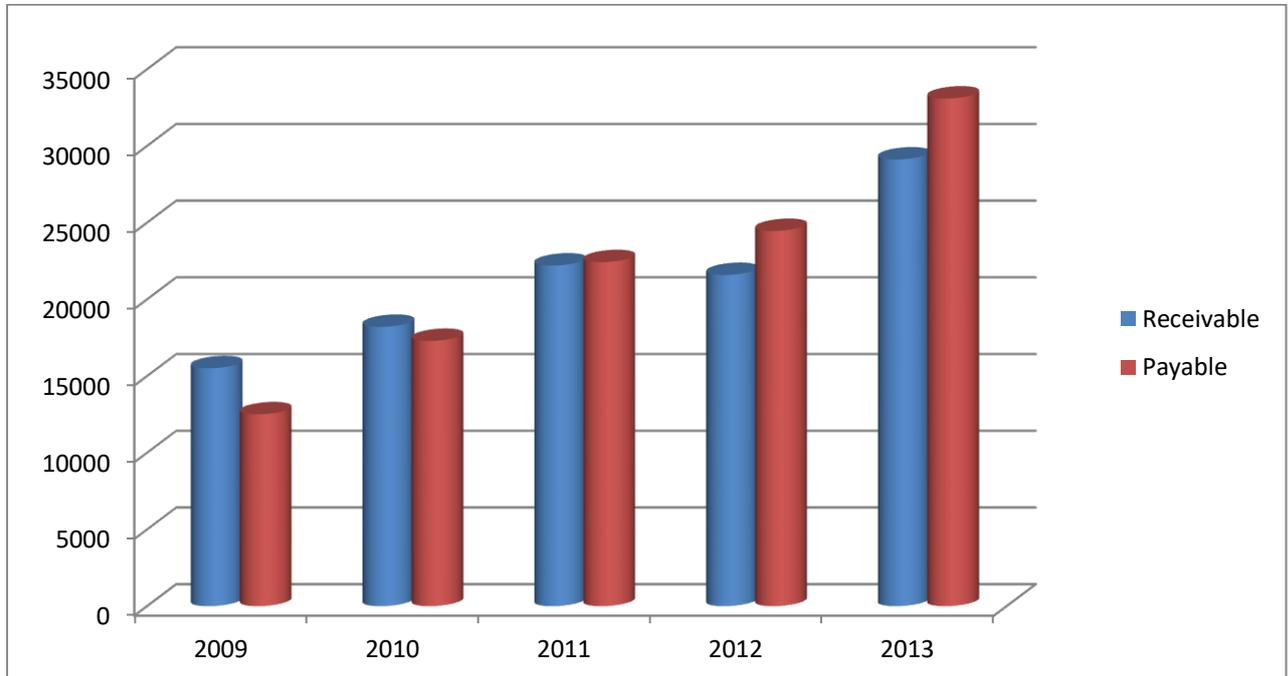
One of the factors that delay the development of SMEs in Azerbaijan is that business access to financial resources is weak. While evaluating the business climate in the country by various international organizations, it is also difficult to attract the financial resources required by entrepreneurship subjects to develop their business shooting is noted. Requests, personal interviews, expert assessments, and international reports show that entrepreneurship entities have financial dependence on foreign sources and the difficulty in obtaining this funding hinders business development.

Statistical data shows that (Figure 12), despite all restrictions, it is small businesses which are considerably increasing their appeal to foreign funding sources. Over the past five years, debtor debts have been overdue. In this process, debtor debts increased by approximately two times and creditors' loans increased by three times. By the end of 2013, small enterprises borrowed 33 million manats.

The country has several institutions providing state support to the development of SMEs, including funding. Entrepreneurship subjects have been issued a total of 1747.3 million manats since the beginning of their activity through

the National Fund for Entrepreneurship Support. State of Agricultural Credits 122.3 million manats were allocated to the agricultural sector through the Agency.

Figure 12: Debtors and creditors of small businesses



Source: *The State Statistical Committee of the Republic of Azerbaijan, 2013*

5.3. Cash Management Challenges Faced by SMEs in Azerbaijan

The experience of developed countries shows that small and medium enterprises by themselves face significant challenges in their work. In the development of SMEs, the main product is that they do not have enough logistical and financial resources. Practically, the development of this new sector of the national economy begins with almost zero. Over the past few decades, this sector has not been particularly noticeable. One of the reasons for this process is the lack of entrepreneurship.

It is valued that approximately 9 out of 10 small and medium businesses fail because of poor cash management practices. To handle the cash flow properly, an entity needs to understand exactly where the cash is and where it arrives. Still, it is vital to be aware of long-term effects, as you are not protected from any surprises because of these four cash flow problems.

Past payments are one of the main reasons for cash flow problems for small and medium businesses. SME owners usually work with tight budgets and rely on paying bills and scales. Most customers are late. According to estimates, on average, SME owners are now 72 days in charge of invoices. The expectation for two months to pay, especially when entities trust their money, can endanger their business.

According to Small Business Research, only 40% of businesses are profitable. Also, only 30% will be broken, and the other 30% will lose money. Lack of profit is one of the main reasons for failures in companies.

While there is a link between profitability and cash flow problems, issues can still be set for companies that have a permanent profit. If a company has a good reputation and is always looking for a profit, it needs to have extra money. Plenty of companies have been forced to pay millions of dollars because they have earned permanent money. The best way to deal with these problems is to always be on the lookout for profit-making opportunities. These include adding new products or services, product mark-ups, consulting work, and offering discounts and deals to increase traffic.

An investment or credit lock to finance business is always a great feeling. However, it faces some serious shortcomings. If a company cannot meet expectations or spend a project, it can pay a fraction of their money. This may be a significant cash flow issue. This is particularly troubling as a result of the loss of necessary capital for their business.

The best way to overcome this issue is to give the company a little break. When requesting a loan or credit, always ask 25% more than needed. Because an unexpected event or an emergency may occur.

Regardless of whether SME is a monthly, quarterly or annual taxpayer, it is responsible for paying taxes at the right time. Taxation is a matter of cash flow; however, accurate or timely information may be extremely harmful to businesses. If the business is flooded or mistaken, it will be exposed to their interests and even

the IRS audit. These penalties and rewards are not just expensive, but they have taken the precious time spent to scale the business.

The best way to withdraw these problems is to stay taxable and apply it to a tax expert. Many business owners are quite busy, so it is a good idea to give taxpayers a job. A tax officer will assist in the preparation and timely submission of taxes, as well as helping to identify potential tax deductions. When it comes to tax, the company must be sure to have enough money to pay them all. While SME can have the actual dollar amount, they can set the base model for the current year's growth, based on the taxes of the past year.

According to the survey, 69% of small business owners have had problems with cash flow. The most common ones are:

1. Managing receivables - Receivables are a company's cash debt for those who do not know the term. The business serves customers or clients; however, the customer is obliged to pay the company for those services. Receivables are recognized as receivables after they are fully paid.

2. Managing payments – according to "How Small Business Owners Manage Payments" the budget and customers will be sent a service bill at a particular time. On the other side of the money, 47% of small business owners use advanced payment. This allows entrepreneurs, customers, and customers to pay fees before or during use.

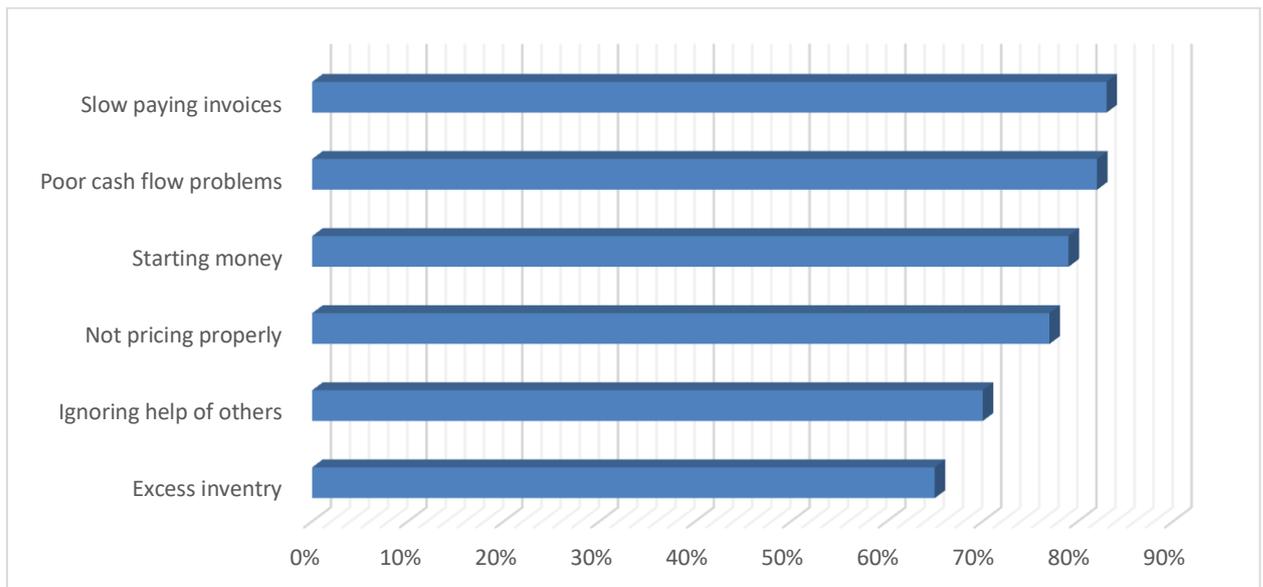
66% of small business owners are obliged to fund the process after paying the company's most significant cash flow. About one third (31%) of small business owners say they expect more than 30 days for payments.

In Azerbaijani economy, SMEs have a significant role, and to find solutions to problems faced by SMEs is also important. The majority of small and medium enterprises in the country are faced a challenge with cash flow and cash management during their lives. Some cash flow problems can be categorized

according to the statistics of SMEs. Figure 13 indicates the main ones of these cash flow issues.

Collecting debt amounts are considered a matter of small and medium organizations. According to my research, 41% of these enterprises failed to show the planning of amounts receivable. Besides, 9 out of 25 small and medium organizations must pay the borrower. 28% of these problems were solved.

Figure 13: Cash flow problems of SMEs.



Source: CESD Paper, *Development of SMEs, 2017*

High overhead expenses are one of the most common problems of cash management faces by SMEs. Overhead costs refer to costs which is the expense of operating a business by any company. They constitute a significant part of the total costs of the company and have a significant influence on the financial result. In Azerbaijan, 53% of SME owners show high overhead expenses as a reason for cash flow problems.

According to research, 72% of small and medium organizations deal with very regular payments, 26% of companies cancel bad debts because borrowers cannot repay loans. Only 29% of the companies that were looking for were able to get bank financing or overdraft to hide the money pit. The other remaining companies prefer to use private financing to cover the cash shortages payable by non-payers.

It is essential that the money which is borrowed is insignificant for lenders. This happens when you want to accumulate debts or bad loans. Also, bad debts affect the company's cash. Thus, lousy debt often arises due to the bankruptcy or insolvency of debtors. In Azerbaijan, small and medium businesses gradually prefer to write off debts.

Forecasting the number of expenses can be particularly tricky. Specific accruals, such as employee benefits, supplier fees, cash for daily operations, are standard and easily accounted for. Moreover, for the expansion of small and medium companies, the indicators are simple for progress and unforeseen reparations or repairs. Also, the number of trading operations can be the basis of dilemmas.

The study showed that only 35% of small and medium businesses prepare cash budgets. So, from the explored enterprises 16 out of 25 organizations are not satisfied with cash flow forecasts. However, most financial experts emphasize that for small and medium organizations cash management methods are the most severe problem, and they cannot understand the existence of dilemmas. Similarly, the period required to impose capital management techniques were considered by the managers of small and medium companies as more laborious than solving other most essential obstacles.

For all small and medium organizations, it is essential to have a bank balance. Also, 8 out of 25 small and medium businesses do not have their bank accounts. Having accounts at banking institutions has many business benefits. This simplifies the definition of efficiency and productivity, increases the efficiency of the company, and creates credibility. Using bank balances, organizations can accurately track the number of cash flows of a business entity.

Small and medium business owners' best recognized their company's activities. Business owners are doing everything to turn their small and medium companies into profitable, dedicating themselves. Besides, the subject for which the owners do not have qualifications, are economic characteristics and problems

of recording transactions. Most companies require proper knowledge and knowledge of cash management to monitor and control the funds of organization.

The initial and vital task of these business institutions is to maintain continuous cash flows from the very beginning of the creation of their business facility and to maintain a balance to achieve their operational goals. 42% of small and medium businesses surveyed indicated that receiving amounts was the most challenging process for them. Payments and payments from customers. 26% of small and medium businesses reported that the company has barriers to send and transfer funds: resources and money. Consequently, 32% of these enterprises have noticed numerous obstacles to the regular provision of payments to sellers.

Another problem that many small and medium businesses face is cash flow control. Approximately 63% of small and medium businesses have cash management problems. Currently, many financial managers and directors of small and medium companies are focused on the revenue, profits, and profits of companies, and not on cash flow.

According to many well-known scientists and researchers, due to the uncertainty regarding the consumer fund of enterprises, a problem may arise with the launch of procedures used and carried out by large international enterprises. Besides, problem-solving, solving cash flow dilemmas are tight due to lack of experience and insufficiency of assets and capital.

Many financial managers and controllers of the company do not concentrate on issues related to the inflow of funds, funds, and outflows. Moreover, main mistakes made by managers do not allow differentiating the company's profit and the volume of cash flows in small and medium companies. When companies have progressive cash and balance, they prefer to spend vast amounts on the consumption and purchase of companies and their needs. They ignore or do not remember the time of their regular payments at a particular time.

CONCLUSION

Regardless of the level of economic development, small and medium-sized enterprises in all countries constitute almost all of the total enterprises in terms of their share and contribution to employment. This applies to Azerbaijan as well. As financial structures of small and medium-sized enterprises are weaker than large ones, cash management is more important to these enterprises. Because big businesses are more flexible when it comes to bank borrowing, they can easily find the money they need from the money market.

While it is known that the cash management strategies implemented by the firms have an effect on the firms' profitability, it is crucial in terms of giving more meaningful results in terms of the fact that this study is carried out in periods when there are no more negative experiences such as global crises, war, market variability and economic uncertainties.

It was observed that a significant proportion of SMEs in Azerbaijan did not carry out financial planning for the future and that 50% of firms engaged in financial planning made simple estimates of income-expense. Using tools like cash budgets and proforma cash flow statements to help companies interpret their future healthily can cause difficulties in interpreting the future and exploiting future opportunities like investment opportunities. Using cash budgets provides SMEs with the following advantages:

- It helps managers to act more rationally and make decisions in their decisions.
- Help managers predict future negativity
- It shows the way the business will follow.
- Indicates how close or distant the targets are, allowing for audit.
- It provides the most efficient use of production factors.
- It acts as a bridge between the departments of the business.

Because of these benefits, small and medium-sized enterprises need to be informed and focused on the tools that enable them to make a healthy decision and express their goals more specifically as quickly as possible.

An essential point in the study is that companies generally keep their maturity short in their payables (50% of companies are two months), but use longer terms in their receivables (37% six months and above). Purchasing discounts on purchases can lead to negativity due to the decline in relationships with the banks. SMEs should use methods such as banking services, early payment discounts, speed up invoice sending, and so on, to speed up receivables in this regard and extend their debt maturity by using checks and centralizing payments as much as possible.

While SMEs say they attach great importance to cash management, they do not collectively manage the liquid management part of the cash management department for some reason.

This can be due to the insufficient level of financial managers' knowledge, the degree of the manager's risk-taking, the inconsistency of market conditions, the limitation of the knowledgeable staff and the budget that can be allocated, or the failure to approve the top management.

What can be done and the issues that need to be eliminated are:

- Because SME managers and owners often lack sufficient management and organizational knowledge and therefore lack a sound vision and mission and financial issues, management should be left to professional managers.
- The use of the computer system and various easy-to-use software is necessary to make cash management effective.
- Cash management should be carried out in a manner that will help an entity operating most appropriately. In other words, cash management should be used as a tool rather than an objective for the enterprise to carry out its activities in the best way. In the long term, the management of cash management as an independent

activity from the operational activities and thus removing the real purpose of the business will not benefit the business nor the economy of the country.

- To maintain the structures and operations of SMEs in the economy, the Government should provide the necessary financial and technical assistance. Low-interest and long-term credit facilities should be provided to SMEs, minimizing bureaucracy and other difficulties.

REFERENCES

In Azerbaijani

1. Azərbaycan Respublikası Nazirlər Kabinetinin 2018-ci il üçün "Mikro, kiçik, orta və iri sahibkarlıq subyektlərinin bölünməsi üçün meyarlar" nın təsdiq edilməsi barədə qərarı - 2018
2. Azərbaycan Respublikası Nazirlər Kabinetinin 2015-ci il üçün "Böyük, orta və kiçik sahibkarlıq meyarları" nın təsdiq edilməsi barədə qərarı - 2015
3. Beynəlxalq Maliyyə Korporasiyası (2009) "Azərbaycanda kiçik və orta müəssisələrin öyrənilməsi", International Finance Corporation, Washington DC – 14-18 səh.
4. Özəl sektorun inkişafı üzrə İslam Korporasiyası (2012) "Azərbaycanda KOM-lar Diaqnostikası" – 21 səh.
5. M.Salimzadə, Q.Xalilov (2010) "Yerli Özünüidarəetmə: Anlayış, Təcrübə, Əməkdaşlıq, Hüquqi Əsaslar" – 10-36 səh.
6. Azərbaycan Respublikası İqtisadiyyat Nazirliyi (2016) "Azərbaycanda Sahibkarlıq Rəqəmlərdə" 2015, 1-3 səh.
7. N.Abbasova (2017) "Number of business inspections drops sharply", Bakı 2-15 səh.

In foreign language

1. L.Abdullayev (2011) "Лизинг в Азербайджане: в новый год со старыми проблемами", Москва, стр. 6-19
 2. Торгово-промышленная палата Российской Федерации (2013), "Программа государственной поддержки МСП", 2012 – 44 стр.
 3. Федеральная служба государственной статистики Российской Федерации (2016), "Количество МСП в России с 2007 по 2015 гг", 2016 - стр. 29-51
 4. Правительство Российской Федерации (2017) "Целевые модели содействия бизнесу" – 2018
 5. В.В.Ковалев (2011) "Управление активами компании", стр. 352.
 6. А.Безгодков (2003) "Формирование механизма реализации стратегии устойчивого развития", стр. 26
-
1. A. Grover and K.Suominen "Summary – State of SME Finance in the United States", Trade Up, January 2014 – 58-67 p.

2. P.Anita “Working Capital Management Practices of Small and Medium Enterprises in the Western Region: A Survey of Selected Smes in the Sekondi- Takoradi Metropolis” , Kwame Nkrumah University of Science and Technology, 2012 – 9-41 p.
 3. Beck, Nathaniel and N.Jonathan “Time Series Cross Section Issues:Dynamics, 2004” 2003 – 69 p.
 4. G.P. Briggs, and S. Singh “Is cash king?” 2000 – 22-37 p.
 5. I.Brtsieva, Small business as an economic category / Society, and economy - 1999№ 9., 148 – 159p.
 6. R. Chris, Business Statistics, Briefing paper - 2018
 7. N.Duarte “The role of SMEs for development: a literature review “regions and fiscal federalism” - 2004.
 8. K.Erkk1 “Cash management behavior of firms and its structural change in an emerging money market” - 2004
 9. R.Johnson, and L.Soenen “Indicators of successful companies” / European Management Journal – 2003, 21(3). 364-369 p.
 10. S.Kuriakose “Fostering Entrepreneurship in Azerbaijan” – 2013, 56-98p.
 11. E.Lukacs “The economic role of SMEs in world economy, especially in Europe” / European Integration Studies – 2005, 3-12p.
 12. Organisation for Economic Cooperation and Development (OECD), Small and Medium-sized Enterprises: Local Strength, Global Reach - 2000.
 13. Organisation for Economic Cooperation and Development (OECD), Small and Medium-sized Enterprises: Mexico: Key Issues and Policies – 2013.
 14. Organisation for Economic Cooperation and Development (OECD), Financing SMEs and Entrepreneurs. An OECD Scoreboard – 2016.
 15. Organisation for Economic Cooperation and Development (OECD), Inclusive Business Creation: Good Practice Compendium - 2016.
 16. Organisation for Economic Cooperation and Development (OECD), “United State”, in Financing SMEs and Entrepreneurs: An OECD Scoreboard United State - 2017
1. Federal State Statistics Service Small and medium-sized businesses in Russia for 2016. Access available:
http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359
 2. FDIC Small Business Lending Survey for 2018. Access available:
<https://www.fdic.gov/bank/historical/sbls/full-survey.pdf>

List of Tables

| | |
|---|----|
| Table 1. Private sector businesses in the UK by number of employees | 33 |
| Table 2. Classification of SMEs in Georgia | 41 |
| Table 3. Classification of SMEs in Russia | 45 |
| Table 4. Criteria of determination of SMEs in Azerbaijan | 51 |

List of Figures

| | |
|---|----|
| Figure 1. The most common problems among SMEs | 34 |
| Figure 2. Number of businesses in the US (millions), 2005-2014 | 36 |
| Figure 3. The reasons for failures faced by SMEs | 37 |
| Figure 4. Georgia Employment by Business Size (Employees) | 42 |
| Figure 5. A portion of SMEs in different parts of the economy | 43 |
| Figure 6. Amount of SME in Russia, 2007-2015 | 46 |
| Figure 7. Distribution of SMEs and Individual entrepreneurs in Azerbaijan | 49 |
| Figure 8. The number of individual in enterprises | 50 |
| Figure 9. The number of individual in enterprises by regions | 52 |
| Figure 10. The number of individual in enterprises in Azerbaijan | 53 |
| Figure 11. Distribution of small entrepreneurship subjects in Azerbaijan | 55 |
| Figure 12. Debtors and Creditors of small businesses | 60 |
| Figure 13. Cash flow problems of SMEs | 63 |