РОЛЬ МАЛОГО БИЗНЕСА В РАЗВИТИИ АЗЕРБАЙДЖАНСКОЙ ЭКОНОМИКИ

THE ROLE OF SMALL BUSİNESS İN THE DEVELOPMENT OF THE AZERBAİJANİ ECONOMY

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Аннотация

В данной статье рассматривается роль малого бизнеса в развитии экономики Азербайджана. Предметом исследования является сектор малого предпринимательства, его функции и влияние на макроэкономические показатели, а основной целью — оценка его вклада в экономический рост, занятость, инновации и конкурентоспособность. Исследование основано на таких методах, как сравнительный анализ, аналитический обзор и обобщение теоретических и статистических данных.

Результаты показывают, что малый бизнес играет ключевую роль в создании рабочих мест, снижении уровня бедности, региональном развитии и диверсификации ненефтяного сектора. Он способствует формированию конкурентной рыночной среды, стимулирует инновации и повышает гибкость экономики. Вместе с тем исследование выявляет ряд ограничений, включая ограниченный доступ к финансовым ресурсам, региональную концентрацию и институциональные барьеры.

Практическая значимость результатов заключается в возможности их использования для совершенствования государственной политики, направленной на поддержку предпринимательства и укрепление экономической устойчивости. Выводы подтверждают, что эффективные механизмы государственной поддержки, включая финансовые, правовые и институциональные меры, являются необходимым условием устойчивого развития. Делается вывод, что расширение инструментов поддержки и улучшение деловой среды усилят роль малого бизнеса в ВВП и обеспечат долгосрочный экономический рост Азербайджана.

Ключевые слова: малый бизнес, экономическое развитие, Азербайджан, занятость, инновации

Классификатор JEL: L26, O17, O25, E24, O18

Abstract

This article examines the role of small business in the development of the Azerbaijani economy. The subject of the research is the small business sector, its functions and impact on macroeconomic indicators, while the main objective is to assess its contribution to economic growth, employment, innovation, and competitiveness. The study is based on methods such as comparative analysis, analytical review, and synthesis of theoretical and statistical data.

The results show that small businesses play a key role in job creation, poverty reduction, regional development, and diversification of the non-oil sector. They contribute to the formation of a competitive market environment, stimulate innovation, and increase the flexibility of the economy. At the same time, the study identifies several constraints, including limited access to financial resources, regional concentration, and institutional barriers.

The practical significance of the results lies in their applicability for improving state policies aimed at supporting entrepreneurship and strengthening economic stability. The findings confirm that effective state support mechanisms, including financial, legal, and institutional measures, are essential for sustainable development. It is concluded that expanding support instruments and improving the business environment will increase the role of small businesses in GDP and ensure long-term economic growth in Azerbaijan.

Keywords: small business, economic development, Azerbaijan, employment, innovation

JEL CODE: L26, O17, O25, E24, O18

INTRODUCTION

As is well known, the role of entrepreneurship in the economic sphere of a market economy is undeniable. In particular, small businesses have recently received special attention, with various measures being taken to develop and improve them. This is due to the fact that small businesses possess a number of specific characteristics, including flexibility, low capital investment, competitiveness, mobility, ease of management, and their role in economic development. Employment in the country is growing, poverty is declining, a free competitive environment is being formed, new jobs are being created and workers are being attracted, the foundations for widespread entrepreneurial activity are being laid, and the introduction of innovations and advanced technologies into the economy is accelerating. For these reasons, the creation of small businesses, state support for small businesses, and various measures to promote the constant search for innovation and the implementation of innovative changes by small entrepreneurs are of great importance in the economic policies of countries around the world, including the Republic of Azerbaijan.

Currently, the development of market relations has necessitated the formation and development of new forms of economic activity, particularly small businesses. Small businesses provide the necessary market saturation, a tendency toward price stability, and a competitive environment that large monopolistic enterprises lack. This deteriorates product quality and hinders the adoption of new technologies. To support the economy, it is necessary to focus on developing small businesses. This is economically beneficial, as many firms create new jobs. Small businesses are easier to manage in an unstable exchange rate. Small businesses are key contributors to economic competitiveness, job creation, innovation, and increased tax revenue. At the same time, due to their limited financial and human resources, small businesses are particularly vulnerable, especially during recessions. Therefore, these organizations and individual entrepreneurs require comprehensive support from state and municipal authorities—property, financial, informational, consulting, etc.

One of the characteristics of the current stage of economic development is the formation (for post-socialist countries) and further improvement (for developed countries) of a mixed market economy. The most promising are the market type of economic organization of society, the coordination of economic processes within national economic systems, and the competitive market method of decision-making.

METHOD/MATERIAL

Equally important characteristics of a market economy are the realization of entrepreneurial potential and the mobilization of the independent initiative of economic entities. Therefore, small business is the driving force of socio-economic development. Small business is an organic structural element of a market economy. This sector of the economy has historically and logically played the role of a necessary prerequisite for the creation of a market environment.

Since the emergence of trade and commerce, small business has been the foundation of expansion. From the first merchant to the modern social entrepreneur—such is the evolution of small business.

The earliest small businesses emerged as merchants and farmers. People were the first to abandon hunting and gathering and consider livestock and crop production as a form of commercial activity.

Small business owners built their enterprises around trade or crafts. A classic example of this can be found in early Rome, where the economy was based on small entrepreneurship and wage labor. Collective markets for shopkeepers and merchants were established—the most famous of these was the Forum Magnum.

From the fall of the Roman Empire to the rise of Europe, the role of small business owners changed little. Small business owners remained local artisans and traders, whose role in their communities was clearly defined by their craft. Some merchants traveled from town to town as itinerant peddlers. Business expansion only began to gain momentum during the heyday of the Renaissance, when trade between countries increased and flourished.[3, p. 16]

A small number of small business owners traveled along trade routes to earn money. Technological advances in transportation and maritime navigation opened up new areas of trade and entrepreneurship.

Most small business owners in colonial America were artisans and merchants. Many owners became wealthy by supplying agricultural populations with goods and participating in transatlantic trade routes.[5, p. 44]

In the early 1800s, during the early years of America, businesses had no choice but to be small. Transportation was both slow and inefficient, leading to excessive market fragmentation to meet the needs of large enterprises. Banks and financial institutions were also underdeveloped, making them unable to support large businesses.

The market environment forces businesses to operate profitably if they want to remain in business. Therefore, certain conditions —economic, social, and legal—are essential for the development of small businesses.

Today, small businesses are extremely important for all countries in terms of added value and their impact on job creation. Beyond their economic influence, small businesses play a significant social and political role in the country. Although the development of small businesses depends on current economic conditions, these businesses face challenges different from those of larger enterprises due to their size. Small businesses play a vital role in the economic and social development of countries due to a number of positive characteristics, such as their ability to quickly adapt to changing market conditions, flexible production structures, their role in regional development, and their contribution to reducing unemployment and creating new jobs. Due to their contributions, small businesses have become a key area of public policy. [10, p. 34]

Small businesses fulfill important functions not only in economic but also in social life. Because small businesses are widespread across a country, they are a significant force in eliminating regional disparities in development, distributing property across a vast territory, creating and maintaining employment, and supporting democratic life. The desire to own a small business, the drive to succeed, their bold steps, and their willingness to invest are the primary mechanisms of political stability. Successful entrepreneurs will influence potential entrepreneurs, encouraging them to participate in the economy, and psychological satisfaction will increase in a democratic environment. Strong small businesses will also have a positive impact on larger enterprises and create social comfort. Because small businesses are widespread across a vast territory, they can play a crucial role in eliminating regional disparities in development, spreading ownership over large areas, creating jobs, and supporting democratic life. The desire to own a small business, the drive for success, bold steps, and the willingness to invest can be attributed to the main mechanisms of political stability. "Small businesses, both in our country and in the global economy, have not suffered greatly from major crises and have even played a significant role in overcoming them." [5, p. 58]

The social conditions for small business development are similar to economic ones. First and foremost, this is the desire of consumers to purchase goods that meet specific tastes and fashions. Needs can change at different stages. Depending on the sociocultural environment, moral and religious norms play a significant role. They directly influence consumers' lifestyles and indirectly influence the demand for goods. Social conditions influence a person's attitude toward work, which, in turn, influences their attitude toward wages and the working conditions offered by the enterprise. Small businesses are involved in addressing social issues related to their employees, such as protecting their health and job security. A key factor in stimulating investment is the rapid growth of the private sector in the economy, particularly the development of small businesses. To implement reforms across all sectors of the economy, approximately 250 laws and over 700 other regulations were adopted. As a result of these decisions, the privatization of state property began through cash and voucher auctions. This allowed for the corporatization or transfer to private hands of over 77,000 enterprises that had been created quickly and had begun generating income, including state-owned enterprises, primarily in the sectors of trade and catering, utilities, construction, and agriculture. Land reform was carried out, including the transfer of over 1.3 million hectares of agricultural land to rural residents with the right to purchase and sell.

Preparations for accession to the World Trade Organization were completed. A key milestone was the development and approval by the President of Azerbaijan of the first small and medium business development program for 1997-2000. Its implementation resulted in the development of the legal framework for this business, and significant changes to entrepreneurship regulation. Organizations providing educational, informational, and consulting services became more active. Measures were taken to protect the rights and legitimate interests of entrepreneurs. To prevent illegal interference in their activities and eliminate unfounded inspections, a "Control Guide" was introduced. The activities of regional small business bodies, international and regional cooperation, and ties with national organizations of foreign countries in the small business sector expanded. [4, p. 49]

Regional small business development also falls short of potential: more than 80% of enterprises in this sector are concentrated in Baku and its environs. With this in mind, in December 2017, President Ilham Aliyev approved a new State Program for the Development of Small and Medium Businesses in the Republic of Azerbaijan for the coming years. It is expected that the efforts of the state and the economic community will be focused on six priority areas. [2]

1. Improving state regulation of entrepreneurship. The Ministry of Economic Development and the Ministry of Justice, in particular, periodically analyze the list of activities requiring licensing and prepare proposals on this matter. They are also improving the rules for certifying products and services produced by small businesses, with the participation of the State Standard, with methodological and organizational assistance in the area of SME standardization and product certification. This also includes the preparation of proposals to improve the criteria for defining small businesses and the creation of mechanisms for their functioning. [2]

2. Financial and investment support for the development of small businesses. The Ministry of Finance and the Ministry of Economic Development have been instructed, in particular, to prepare draft laws on "Mutual Insurance Companies" and "Investment Activities," analyze the application of tax and non-tax payments for small businesses under a simplified scheme with the participation of the State Statistical Committee, create microcredit schemes for various social groups of the population wishing to engage in entrepreneurial activity, provide assistance to credit unions, develop a mechanism for investment support for the participation of small and medium-sized enterprises in state investment programs and the modernization of industrial enterprises in this sector, and facilitate the implementation of pilot investment projects in the field of agricultural processing, petrochemical and chemical industries. [2]

3. Structural transformation and technological development of small businesses. The Ministry of Economic Development and the Ministry of Justice have been instructed to prepare a draft resolution of the Government of the Republic of Azerbaijan "On promoting the development of cooperative relations between small, medium and large economic entities" with the participation of public associations of entrepreneurs. The Ministry of Economic Development and the State Oil Company have been instructed to create a database on such cooperative relations. Furthermore, the executive branch, specifically the Baku City Administration and the Ministry of Economic Development, are obligated to establish an exhibition and trade center for the products of small and medium-sized businesses.

4. Technical assistance to small businesses and human resource development. The Ministry of Economic Development has been instructed, in conjunction with public associations of entrepreneurs, to complete the development of a small business information system, publish collections of small business data, and complete the creation of an SME information system with the support of the State Statistical Committee and the Ministry of Communications. Also planned are the establishment of a training center for small businesses, the development of basic educational and methodological programs and manuals, the holding of the "Partnership-CIS" business cooperation forum in Baku, and a number of other projects. [2]

5. Accelerating regional entrepreneurship development. To attract investment to the regions, it is planned to compile maps of investment projects in the country and develop a legal framework for regional economic incentive mechanisms. In addition, to increase employment rates, several ministries and the National Bank have been instructed to prepare and implement proposals for the application of increased coefficients in wage calculations, preferential energy tariffs for small businesses, and tax holidays.

National and local authorities are obligated to participate in the development and implementation of regional industry programs for small businesses, the creation of a technology business incubator in Baku, and the development of local market infrastructure (consulting, educational, informational, advertising, etc.) for entrepreneurial activity. The National Bank is responsible for establishing financial and credit institutions in the regions.

6. Strengthening the protection of entrepreneurs' rights. The Ministry of Economic Development and the Ministry of Justice have been instructed to prepare proposals for amendments and additions to the Civil Code of the Republic of Azerbaijan to increase the responsibility of business registration authorities and submit these proposals with the participation of the relevant executive authority. The National Bank and the Economic Court have been instructed to prepare proposals for improving contract law. A government resolution "On the

implementation of control and inspections in the field of entrepreneurship" is also expected to be adopted, which will legally define the list of bodies conducting inspections and their powers. The solution to this problem will be facilitated by improving the mechanisms for applying the "Control Books," as well as by preparing and publishing books in the "Fundamentals of Entrepreneurial Law" series. [3]

It is expected that by 2025, as a result of the implementation of this set of measures: opportunities for engaging the country's population in entrepreneurial activity will expand; [1]

- Entrepreneurship will improve structurally, regionally, and technologically;
- The role of small businesses in reorganizing the economy, increasing its competitiveness, and adapting to the conditions of economic globalization will increase;
- Small businesses will be more active in addressing the social problems of Azerbaijani society;
- New jobs will be created, and the regional structure of economic activity and employment will be improved;

- The share of SMEs in the country's exports will increase.

The legal framework for regulating and supporting small businesses is not limited to the aforementioned legislative acts and normative legal acts. Tax, labor, and criminal legislation occupy a special place in the small business mechanism. In our opinion, the creation of a developed infrastructure for supporting and regulating small business activities is of great importance, as confirmed by the experience of highly developed countries. For example, in 1953, the Small Business Administration (SBA) was established in the United States. Its functions include all measures to support small businesses (financial assistance, technical and consulting services, assistance in obtaining government contracts, etc.). Despite the relatively short period of reform and business development in our country, a certain infrastructure for the development and support of entrepreneurship in general and small business in particular has been created at the state level. First and foremost, the aforementioned Entrepreneurship Support Fund of the Republic of Azerbaijan serves as an example. This Fund operates under the Ministry of Economic Development of the Republic of Azerbaijan and is a state institution and legal entity. The Fund's goal is to participate in business development activities and strengthen entrepreneurial activity in the Republic of Azerbaijan, as well as to provide financial support. [3]

It implements financial support for state policy in the area of state support for entrepreneurship in the Republic of Azerbaijan. The Resolution “On the National Fund for Support of Entrepreneurship of the Republic of Azerbaijan” defines the purpose and main areas of activity of the Fund, sources of formation of the Fund’s property, management of the Fund, etc. In addition, in accordance with the functions and departments established at the state level, the development and support of small entrepreneurship is carried out by such ministries and departments as: the Ministry of Economic Development, the Ministry of Finance, the Ministry of Taxes, the State Customs Committee, etc. [4, p. 21]

The small business infrastructure also includes leasing firms and companies, technology parks, business incubators, production and technology centers, training centers, insurance companies, credit and other organizations that provide support to small businesses in various forms. The Fund's charter, as an entrepreneurship infrastructure organization, allows for its creation under any form of ownership, including the provision of information, legal, and economic consulting services to small businesses and assistance in establishing effective cooperation between entrepreneurs, government agencies, and foreign partners, regardless of the legal form of enterprise or organization. To assist newly established small businesses in organizing their operations and achieving financial independence, regardless of their form of ownership, they may be provided with offices and/or workspaces equipped with appropriate equipment, under certain conditions and for a specified period, as well as the necessary equipment. Conditions for the development of new technologies and other innovations will also be created, enabling them to further develop their activities with the goal of creating small businesses. These structures may provide them, in addition to general assistance to small businesses, with financial and commercial services. In accordance with the law, financial and credit support for small businesses is provided by the Entrepreneurship Support Fund of the Republic of Azerbaijan with the participation of interested organizations. Financial support for entrepreneurship through state support funds is organized annually from the budgets of all states. [2]

Small business support funds at all levels carry out the following activities to finance small businesses: [11, p. 59]

- Provision of preferential loans, interest-free loans, and short-term loans to business entities without a banking license;
- Provision of financial assistance on a paid and gratuitous basis in the implementation of anti-monopoly policy programs in accordance with current legislation to develop competition and saturate the commodity market, and change the production profile;
- Acting as a guarantor and surety for small business obligations;
- Participation in the capital in the creation and operation of information systems, consumer expertise systems, product and service certification systems, as well as specialized consulting organizations for the development of market infrastructure, support for small businesses, and the promotion of competition;
- Financing of activities for the training, retraining, and professional development of small business personnel, support of new economic structures, and consumer protection;
- Financing of scientific research, scientific and practical conferences, symposia, and meetings, including international ones, related to the activities of foundations.

In accordance with the law, lending to small businesses is provided on preferential terms. In global practice, state support for small businesses in the interests of society and the state is considered the norm. Moreover, the state's task is not simply to transfer financial, technical, and other resources to small businesses, supporting them at any cost, but to create legal and economic conditions for their survival, growth, and development. A strong wave of support for small business development is observed worldwide – in Europe, Japan, the United States, Asia, and Latin America. All of Europe, and especially countries with transition economies (Eastern Europe), are focusing on expanding their participation in state support for small businesses.[15, p. 108]

Small businesses are the main economic structure of most countries. In 1993, almost all of the 15.7 million private sector enterprises in the EU were small businesses. The most common type of business in the EU is the microenterprise (1-9 employees), which numbers 14.5 million. Significant growth of such enterprises is observed, primarily due to small and medium-sized enterprises (SMEs). Small and medium-sized enterprises have made a significant contribution to the EU's prosperity, providing 70% of jobs. The growing role of small businesses in the EU has led most developed countries to recognize the need to develop special policies, the main goals of which are: [12, p. 100]

- Developing the international competitiveness of national small enterprises;
- Creating new jobs;
- Economic growth of small businesses;
- Attracting foreign companies and investment;
- Innovative activity;
- Technology transfer.

In most EU member states, policy development for small and medium-sized enterprises falls under the purview of federal authorities, while specific measures are implemented at the regional level. We present a summary of the experience of state support for small and medium-sized enterprises in specific policy areas in EU countries: [13, p. 76]

1. Small business creation
2. Subcontracting
3. Export
4. Financing
5. Employment
6. Training and education for small businesses are firmly rooted in the outdated bankruptcy model.

Small businesses are better able to withstand market changes and, accordingly, adapt more quickly to all innovations. One of the advantages of small businesses is that they do not need to grow on a large scale to achieve maximum efficiency. This is not an absolute condition for success. In other words, the "ace in the hole" always lies in the ability to provide customers with the best goods and services in the shortest possible time. [19, p. 34]

The strength of small businesses lies not in the "kindness of their hearts," but in their desire to survive. These are often more responsive workers who earn higher incomes in marketing and production. According to global statistics, at least half of the gross domestic product (GDP) in most countries is accounted for by small businesses. In Azerbaijan, the share of small and medium-sized businesses in GDP is less than 25%; according to official data, it was 33.5% in 2018. In Uzbekistan, this figure is approximately 54%, and in Kyrgyzstan, 40%. In the context of Azerbaijan's non-oil GDP, the share of small and medium-sized businesses already corresponds to 41-42%. In other words, in the Azerbaijani economy, small and medium-sized enterprises create goods and services worth 37-38 million manat daily. However, this share is far from the fundamental quality reflecting the role of small businesses in the economy. [11, p. 12]

Small businesses operate in constant competition. They constantly develop new technologies, seek innovative solutions to common problems, welcome new talent, and trust their ideas. The history of Microsoft, Harley Davidson, Facebook, and many other brands exemplifies this, and it's no coincidence that large companies often provide financial support to small businesses. Because everything big was once small, and its growth period depends on the effectiveness of ideas. The second indispensable quality of small business is its contribution to the formation of the middle class. It stabilizes its position in society and prevents its polarization, smoothing out contrasts. According to research by international financial institutions, approximately 70% of the economically active population in Azerbaijan's regions is currently engaged in private entrepreneurship or small business. The average start-up capital for starting a business in our country is approximately 20,000 manat. According to the World Bank's annual Doing Business report, Azerbaijan moved up one place in the 2013 ease of doing business ranking. [10, p. 32]

The report states that out of 189 countries worldwide, Azerbaijan currently ranks 70th in the region, behind Turkey. Most impressive is the increase in the "starting a business" indicator—Azerbaijan ranks 10th globally in World Bank reports for this indicator. Not only did the country break into the top 10 for this indicator, but it was also, along with Singapore and Hong Kong, for the first time ever characterized as a national economy with the best business registration practices globally. Compared to most countries in the region, Azerbaijan has the fewest number of procedures for opening a company. Company registration takes just one week, and entrepreneurs' costs for "starting a business," which consists of three mandatory procedures, are estimated at 54-80 AZN. [17, p. 26]

Improvements in business registration procedures and low start-up costs have not yet impacted the quantitative indicators of small and medium-sized businesses. Thus, the turnover of small and medium-sized enterprises in the country as a whole in 2018 is estimated at US$17 billion. Moreover, the number of individual entrepreneurs who did not establish a legal entity during this period amounted to approximately 455,000 people. This is 27.8 thousand people, or 6.44%, more than in 2017. It should be noted that only 34 percent of individual entrepreneurs in Baku and the capital's settlements are engaged in entrepreneurial activity. The important social role of small and medium-sized enterprises in the formation of the middle class is also confirmed by statistics on entrepreneurial incomes. This figure is approximately $400 per month on average for an individual entrepreneur, demonstrating the success of the fight against poverty in the country. [14, p. 77]

Thus, small businesses rightfully occupy a key role in social development. It should be noted that in Azerbaijan, small enterprises and private businesses often operate in trade or service rather than manufacturing. However, their owners are the most economically active citizens. At the very least, they are self-sufficient, not relying on state assistance. Furthermore, small businesses are one of the main sources of tax revenue in Azerbaijan. Their owners regularly fulfill all their tax obligations. Moreover, in recent years, small and medium-sized businesses have become the driving force behind employment growth in the national economy. From the perspective of risk diversification, the ability of small businesses to adapt to changing economic realities is also important. The flexibility of small businesses makes them a kind of "safety cushion" in crisis scenarios. Therefore, experts believe that the contribution of small and medium-sized businesses to the economy should be at least 40-50 percent of GDP. Clearly, such a figure is only possible in a sufficiently developed and economically competent country striving to wean itself off the "oil and gas needle" not just in words, but in practice. It's no coincidence that, against the backdrop of the global economic crisis, small and medium-sized business support programs in Azerbaijan have expanded both financially and qualitatively. They are updated almost annually.

The economic strategy defined by the national leader of the Azerbaijani people, Heydar Aliyev, and successfully continued by the President of the Republic of Azerbaijan, Ilham Aliyev, focuses on fundamental reforms aimed at developing entrepreneurship and creating a favorable business environment. The priority objective of the current stage of the country's socio-economic development is to ensure long-term and balanced economic development, which is being successfully implemented within the framework of adopted state programs. By creating a favorable business environment through targeted policies, the private sector continues to play a vital role in achieving success. The most important factors influencing the improvement of conditions for small businesses in recent years have been the reduction of taxes and a significant reduction in social security contributions. [3]

Since 2008, the government has begun gradually reducing tax rates. The transition of enterprises and organizations from a progressive to a proportional tax system and the reduction of the tax rate on this type of tax from 35% to 22%, the reduction of VAT to 18%, the abolition of several types of taxes, the reduction of the maximum personal income tax rates from 55% to 35%, the reduction of social security contributions from 40% to 22%, the reduction of the total number of taxes from 15 to 9, the exemption of entrepreneurs engaged in agricultural production from all taxes except land tax until 2009, as well as a number of related measures taken in this direction, have led to the creation of a favorable environment for doing business. Fundamental changes have been made to the existing licensing system in the country: the number of activities subject to licensing has been reduced from 240 to 54, and the license validity period has been increased from 2 to 5 years. Furthermore, export duties have been abolished in the country, and the maximum limit for import duties has been set at 15%. At the same time, the Tariff Council of the Republic of Azerbaijan was established to develop a fair competitive environment in the domestic market and systematically regulate tariffs of natural monopoly entities, including prices set directly by the state. Currently, policy in this area is aimed at ensuring systematic state support for entrepreneurship and increasing its efficiency. Measures are being consistently taken to implement this strategic direction. A mechanism for state financial support has been created, which is the most important real source for meeting the financial needs of small and medium-sized businesses. Measures are being taken to create a network of primary enterprises, business incubators, and business centers in the country in the area of developing the entrepreneurial infrastructure of an industrial city. [6, p. 21]

It should be noted that the Export and Investment Promotion Fund has been established in Azerbaijan, whose main activities are aimed at increasing the country's export potential and attracting foreign investment. Relations between the state and entrepreneurs are developing, and serious steps are being taken to improve the system of state regulation of entrepreneurship. Effective mechanisms for protecting entrepreneurs' rights have been created, reducing the number of artificial barriers. Regular measures are taken to strengthen advisory and informational support and develop business connections for small businesses. The indicators reflected in the 2016 Doing Business report, published in 2016, were analyzed and taken into account. To improve these indicators, a draft Decree of the President of the Republic of Azerbaijan "On Certain Measures for the Development of Entrepreneurship in the Republic of Azerbaijan" was signed in 2017. The decree incorporated recommendations to simplify several procedures and regulations for starting a business. The results were immediate. Azerbaijan's rise from 96th to 33rd place in the Doing Business 2019 report is a clear demonstration of the reforms implemented in our country to improve the conditions for small businesses. According to a report prepared by the World Bank and the International Finance Corporation (IFC), covering 178 countries, the growth rate has never been higher.[8, p. 43]

The Single State Registration Authority was established by Decree No. 2458 of the President of the Republic of Azerbaijan dated October 25, 2007, "On Measures to Ensure the Organization of the Activities of Economic Entities Based on the 'Single Window' Principle." Following the transition to the single window system in Azerbaijan, the number of business opening procedures decreased from 15 to 1, and the time spent on these procedures decreased from 30 to 3 days. The transition to this system was accompanied by significant growth. One of the main goals of the Presidential Decree was to identify construction sites. To implement paragraph 1.2 of the Presidential Decree, a working group of government representatives was created, and meetings were held. The working group prepared a draft of the "Rules for issuing permits for the allocation of land plots for construction, construction work (reconstruction and restoration), and the commissioning of completed facilities and structures" and submitted it to the Cabinet of Ministers for approval.

Following the document's approval, the number of procedures for issuing permits for the allocation of land for construction, construction work (reconstruction and restoration), and the commissioning of completed facilities and structures is expected to be reduced from 28 to 12. As a result of targeted measures, the private sector's share of the gross domestic product has reached 84 percent. Currently, the share of the non-state sector in agriculture, industry, trade, the hotel business, consumer services, construction, and communications ranges from 70 to 99 percent. The private sector accounts for the lion's share of employment. More than half of budget revenues are generated by the private sector.[9, p. 22]

Various organizational and technical conditions for doing business, the ability to obtain and collect information, and the skills of developers have contributed to the emergence of various methods for improving organizational management structures. Let us consider the essence of the most well-known and widespread of these methods:[1, p. 73]

1. Expert method. To conduct a diagnostic audit of the management system, it is necessary to study its condition by comparing the actual values of indicators with their standard values. Additional analysis of these indicators allows us to identify deficiencies or determine strengths in the functioning of the management system, thereby establishing an accurate diagnosis. The expert method for improving organizational management structures is quite frequently used in practice. This is due to the underdevelopment of erroneous methods for analyzing the regulatory framework and other factors. The advantage of the expert method is the relative speed of obtaining analysis results and developing proposals for addressing deficiencies in the organizational management structure.

2. Comparative Method. This method utilizes components of the management mechanism, organizational forms, and effective solutions that have proven effective in practice at enterprises with similar conditions (i.e., similar size and type) to improve the management organization. Comparative and analogical methods rely on the application and use of formulas to determine the standards of standard organizational management structures, management patterns, the composition of management functions, various performance indicators, and the number of management personnel. It should be noted that this method is currently most widely used by industrial design institutes, associations, and enterprises. The widespread use of the comparison and analogy method leads to the standardization of organizational management structures in industrial enterprises, the adjustment of staffing schedules, and the simplification of administrative and managerial activities. The comparison and analogy method was progressive and brought positive results to management systems characterized by various organizational structures, a shortage of highly qualified specialists in management organization, and the lack of methods for determining their numbers. Today, this method imposes significant restrictions on the choice of organizational structures and focuses on the average composition of management functions. The main idea of comparisons and analogies is to identify groups of similar enterprises, defined based on their complexity. For each specific group of enterprises, a standard organizational structure is developed, and standard solutions for constructing the management apparatus are developed.

3. Objective Structuring Method. This method presents the production and economic organization as a multi-purpose system. It aims to formulate the enterprise's goals and objectives in accordance with specific criteria that underlie the definition of the activities and content of management work. Classifying management work according to specific indicators allows us to identify structural units and direct their activities toward achieving specific production and economic goals.

4. Organizational modeling methods. These methods utilize specific formalized descriptions, i.e., object models and management systems. Among the organizational modeling methods, a very popular one is the method based on the dissemination of information about the process of performing management work.

This method identifies locations and points in the production process where control measures are required. The nature and frequency of these actions, the structure and volume of information, the necessary technological resources, and other elements of the management process are then determined. Management processes are implemented in accordance with the regulatory requirements for their respective enterprises. Based on the characteristics of the management processes being implemented, such as their frequency, labor intensity, etc., the number of personnel, their interrelationships during management work, and the number of departments in the management apparatus are determined. Organizational modeling methods also include those utilizing the parametric subordination of the object and subject of management. The essence of such methods lies in establishing relationships between management system indicators and production and technical factors, determining the areas of activity and the density of these relationships. The advantage of the parametric method lies in the study of quantitative characteristics for describing the management system and its organizational structure. In recent years, thanks to the more widespread and sophisticated use of personal computers, the possibilities for organizational modeling for improving business management systems have significantly expanded. Computers and economic-mathematical models have made it possible to simulate a wide range of management situations, expanding the scope of systems analysis and enabling a comprehensive study and forecasting of organizational changes in management systems. The most important of these include the selection of an effective organizational structure for an enterprise, the scope of activities, the determination of a reasonable level of centralization and decentralization of management based on specific production conditions, and the distribution of rights and responsibilities among employees. [4, p. 82]

The choice of a particular method for improving organizational management structures depends on the nature of the problems in this area, the availability of resources, the availability of qualified performers, the validity of the regulatory and methodological framework, and many other factors. In practice, a combination of the methods discussed above is typically used, complementing each other. For example, the use of a goal-setting method in most cases involves the involvement of specialists and the use of analytical data. On the other hand, the use of an expert method in improving the management system presupposes the use of standard analogs and solutions that have proven themselves in practice. The process of managing economic activity at an enterprise is linked to the existing organizational management structure, which determines the entire management cycle. The fundamental actions associated with organizational structures—namely, the creation of departments and services, the formation of a management unit, and the assignment of rights, duties, and responsibilities—are based on the particular management theory within which the enterprise is viewed.

The primary characteristic of an enterprise, therefore, is its formal organizational management structure, which represents a consciously adopted and defined composition of departments, a hierarchy of positions, a set of internal organizational norms and rules, job descriptions, instructions, etc.

Although the organizational management structure of a small business is a static, immobile part of the management system, it must also change, develop, and adapt due to the dynamics of the management system itself. This process should not occur spontaneously, but rather be purposeful. We believe that through pre-planned changes in the combinations of individual elements of the organizational structure, in their internal structures, and in the interactions of individual elements of management technology, it is possible to obtain all the necessary information and improve its usefulness and effectiveness. Experience from other countries suggests that the successful development of small businesses is largely determined by the combination of large and small enterprises, which are considered the main economic actors. Large companies bring stability and sustainability to this system, while small businesses create a competitive environment, ensuring individualization and flexibility in the management process.

To establish franchising companies in Azerbaijan, it is first necessary to determine the effectiveness of the services they provide. In the domestic market, franchise companies act as dealers and distributors for well-known companies, but currently there is no structure regulating their activities. According to Elshan Musayev, Chairman of the Franchising Association, "The portfolio of franchise companies in Turkey exceeds $5 billion, while in Azerbaijan this amount is zero." The most well-known franchises in Azerbaijan are restaurant chains: McDonald's, Sbarro, and KFC. In 2012, the world's largest KFC restaurant opened in Azerbaijan, and in 2015, the first Starbucks coffee shop opened in Baku. The list of franchises continues and includes such well-known brands as Gloria Gean's, Etam, Collins, Zara, LC Waikiki, Mango, Nike, Sisley, Accessorize, Adidas, Nine West, Pablosky, ALDO, Bershka, Tommy Hilfiger, United Colors of Benetton, and others. All this suggests that Azerbaijani entrepreneurs, mostly small business owners, are increasingly evaluating the advantages of franchising over the prospects of starting their own business from scratch. Owning a business, especially at the start-up stage, involves unexpected and time-consuming costs, but it is not a business for inexperienced entrepreneurs. Franchising is also attractive because it allows individuals to receive professional advice and marketing support from a well-known name.

The main challenges of the franchising market in the country include: [8, p. 92]

- An unclear regulatory framework for franchising, the presence of legal obstacles (most likely, the lack of a law regulating this area);
- Financial and credit problems;
- History of failure to fulfill obligations under the franchise agreement between partners;
- Lack of necessary information base and information support;
- Low awareness of franchising, opportunities, and specific features of this business method among entrepreneurs;

- Psychological factors (local entrepreneurs are generally conservative, uninnovative, and reluctant to try new schemes);

- Lack of knowledge, particularly in the area of international law, necessary for conducting business as both a franchisor and a franchisee;

- Lack of appropriate advisory structures.

Unfortunately, franchising in Azerbaijan is currently developing beyond the reach of small and medium-sized businesses. The largest beneficiaries of franchising schemes are large companies such as Retail Group Azerbaijan, Qarant Holding, and Novco Group. Their turnover is impressive, but it cannot compare to a figure that could potentially account for 10-15% of the country's import and consumer sector. This means that businessmen with any financial resources are still afraid to invest and become part of a franchise network. Meanwhile, the development of franchising in the country could nip the problem of developing the non-oil sector of the national economy in the bud. Another, equally effective, way to develop Azerbaijani businesses is to build a portfolio of 89 franchise companies. This applies to all products and brands traditionally known abroad, such as national cuisine, sauces, beverages, silk products, and carpets. In order to enhance the effectiveness of measures to improve the conditions for doing small business, in 2018, with the participation of relevant government agencies, public organizations, and the private sector, the "State Program for the Development of Entrepreneurship in the Republic of Azerbaijan (2018-2025)" was developed in Azerbaijan, reflecting a set of measures. The Ministry of Economic Development, together with authorized government agencies, prepared a draft Law of the Republic of Azerbaijan "On Special Economic Zones" and submitted it to the Cabinet of Ministers of the Republic of Azerbaijan. After the adoption of the law, work will begin on the creation of the FEZ. Currently, policy in this area is aimed at implementing a systematic approach to state support for entrepreneurship, as well as improving the effectiveness of state support measures for small businesses. Measures are being consistently taken to implement this strategic direction, and as a result of targeted actions, the share of the private sector in the gross domestic product has reached 84 percent. Currently, the share of the non-state sector in areas such as agriculture, industry, trade, hospitality, consumer services, construction, and communications ranges from 70 to 99 percent. The private sector accounts for the bulk of the budget. More than half of budget revenues are generated from private sector income.

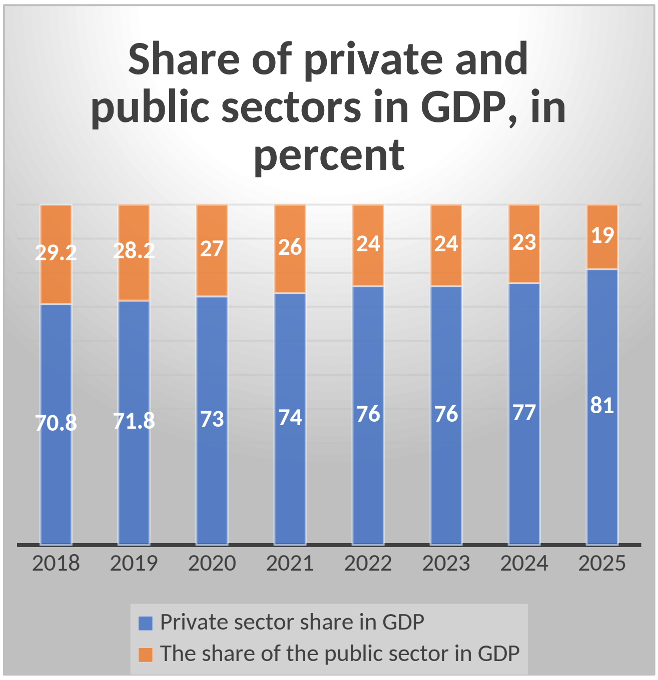

Chart 1. Share of private and public sectors in GDP, in percent. [1]

In 2015, the number of legal entities engaged in small business activities increased by 6.2% to 79,147. As of January 1, 2016, 9,521 enterprises operated in Azerbaijan in agriculture, 6,148 in processing industry, and 7,438 in construction. In addition, 4,500 enterprises with foreign capital were registered. Over the same period, the number of individuals engaged in entrepreneurial activity without establishing a legal entity increased by 6.7% to 260,000.[1]

Entrepreneurship development is one of the key areas of state policy aimed at implementing a long-term state strategy. This policy is aimed at increasing the level of legal, organizational, and financial support for entrepreneurship in all sectors of the economy, particularly in priority areas. To improve the effectiveness of measures to improve the small business environment, the "State Program for the Development of Entrepreneurship in the Republic of Azerbaijan (2010-2016)" was developed in 2014 with the participation of relevant government agencies, public organizations, and the private sector. It includes a set of measures.

To develop a small business, entrepreneurs must constantly seek innovation, drawing on the experience of successful companies. It is the application of innovation and change that accelerates its development. An example of innovative changes in the field of entrepreneurship is the e-commerce portal created as a result of government support. E-commerce means carrying out the buying and selling process using electronic means. The main feature of e-commerce is the conduct of trade transactions online and the transportation of goods via the Internet, which distinguishes it from traditional trade. When using e-commerce, certain principles must be observed: [6, p. 81]

- Consumer rights must be protected;
- Taxes must be paid in full and on time;
- Public regulations must be observed;
- Sanitary and safety standards for the population, as well as moral principles, must be observed.

Our first e-commerce portal was based on the B2B (Business to Business) model. The goal of the portal was to provide potential consumers with comprehensive and accurate information about local businesses, their products, and services, support the expansion of external and internal business relationships, and ensure their free access to markets. An e-commerce portal, based on modern electronic information exchange technologies, allows entrepreneurs to: [12, p. 99]

• Providing interested parties with information about products and services in the shortest possible time;
• Obtaining comprehensive information about customer needs for the products and services offered;
• Despite the electronic form of sales, users are also provided with informational sales support;
• Thanks to the electronic form, the conditions for establishing foreign trade relations are created, etc.

This process is intensifying in developed countries. Thus, the use of e-commerce is a key component of the globalization process taking place worldwide. This is due to the rapid development of information technology in the late 20th and early 21st centuries and the use of new electronic tools in business organization. The role of the Internet in implementing such innovative changes in modern business is undeniable. The emergence of a global e-commerce system has necessitated the regulation of emerging business relations, including the harmonization of technical, economic, financial, tax, and legal norms. According to experts, the need to address these issues stems from two factors: [14, p. 55]

1. Changes in technology;
2. Dependence on the high level of globalization of economic relations.

It should be noted that the primary goal of establishing a legal framework for e-commerce is to create the most effective mechanism for organizing and conducting business activities, ensuring special initiative and freedom within the single market. Legislation regulating this area of business has been adopted in the United States, Canada, Australia, and some developed European countries. The process of creating a regulatory framework for e-commerce in the European Union began in 1996. Back in 2000, a directive on certain legal aspects of e-commerce in the internal market was adopted. This directive defines the general principles of the internal market of the European Union, the free organization and provision of services, and compliance with national legislation. Recently, the European Union implemented the e-Europe program to ensure a unified approach to the legal regulation of e-commerce. From a legal perspective, this program envisaged the creation of a unified legal framework within the European Union. The main principles of the program were the organization of innovative development of small and medium-sized businesses and the establishment of legal norms aimed at protecting consumer rights. In the Republic of Azerbaijan, a number of legislative acts have been adopted regulating legal and economic relations in conducting business activities electronically, which is also considered an innovative change. Some of these laws are listed below: [6, p. 25]

- The Law "On Electronic Documents and Electronic Signatures";
- The Law "On Electronic Commerce";
- Provisions on electronic commerce have been introduced into the Civil Code of the Republic of Azerbaijan and the Code of Administrative Offenses of the Republic of Azerbaijan;
- The "State Program for the Development of the National Payment System of the Republic of Azerbaijan for 2005-2007," approved by the Decree of the President of the Republic of Azerbaijan.

The introduction of the "Single Window" system in our country is also considered one of the changes taking place in the field of entrepreneurship. The "Single Window" system has been operational since January 2008, and all powers have been transferred to the Ministry of Taxes. With the introduction of this system, online registration of business entities began. Thus, the number of necessary procedures was reduced to 6, the registration period to 3 days, and costs halved. Furthermore, the creation of a single registration authority in Azerbaijan has simplified the process of creating new jobs and starting small businesses. Consequently, the number of newly created enterprises in our country has begun to grow. In today's world, business incubation is an important organizational form for the development of small industrial enterprises in both developed and developing countries. The creation of business incubators aligns the interests of small businesses, industry, scientific and educational institutions, and the state as a whole. Analysis of statistical studies shows that the business incubation process itself accelerates the creation and launch of small businesses by approximately 7-22 times. Moreover, the likelihood of a business created through business incubation continuing to operate is 85-95%. In general, the business incubation process can and should simultaneously address the following two issues: [3, p. 91]

1. Creating appropriate conditions for the creation and development of new small business entities;

2. Rehabilitation of small businesses with inefficient structures.

As a result of the measures taken, our country's economic development is positively reflected in the reports of a number of international organizations. According to the Global Competitiveness Index, in 2019, Azerbaijan's economy ranked 58th out of 141 countries in terms of competitiveness. In the 2016 report, the country was included in the list of 24 countries that had implemented three or more reforms. In terms of "starting a business," Azerbaijan is among the top ten countries in the world for simplifying business registration and is considered a country with best practices, along with Germany, Sweden, Estonia, and Slovakia. One of the main reasons for our country's high ranking in the report is the directive of the President of the Republic of Azerbaijan dated March 3, 2014, "On additional measures for the development of entrepreneurship." These measures include the organization of foreign trade operations, electronic registration of business entities, registration of real estate rights, improvement of corporate governance, protection of investor interests, and the introduction of appropriate amendments to legislation.

In 2020, the number of legal entities engaged in entrepreneurial activity increased by 6.2% and amounted to 79,147. As of January 1, 2018, 9,521 enterprises operated in agriculture, 6,148 in the processing industry, and 7,438 in construction. Moreover, 4,500 enterprises with foreign capital were registered. Over the same period, the number of individuals engaged in entrepreneurial activity without establishing a legal entity increased by 6.7% and amounted to 260,000. Entrepreneurship development is a key area of public policy aimed at implementing a long-term state strategy. This policy is aimed at increasing the level of legal, organizational, and financial support for entrepreneurial activity in all sectors of the economy, particularly in priority areas. An enterprise's performance and competitiveness depend on its ability to effectively utilize labor and financial potential, scientific and technological progress, as well as the cultural, political, technological, and environmental characteristics of a particular country's market, which determines the relevance of the research topic. The issue of competitiveness arises in market conditions when several manufacturers of similar products enter the market, and a company must improve the competitiveness of its products to gain a foothold and profit. In today's environment, the issue of enterprise competitiveness is becoming increasingly pressing.[2, p. 72]

Among the key characteristics of small businesses is their high mobility, which allows for the quick and easy redistribution of labor, financial, and material resources to areas of growing demand. Ultimately, this significantly impacts company revenues, increases employment, and reduces social tension. Therefore, in the context of a deep economic crisis in our country, it is the organizational forms of small and medium-sized businesses that are elements of economic development and anti-crisis tools supporting the domestic economy.[8, p. 61]

Hazırda dövlət və regionallar tərəfindən kiçik Much attention is paid to issues related to providing support to small and medium-sized businesses. Small and medium-sized businesses' interest in their performance increases the need to improve the competitiveness of their products, which requires mandatory improvements across all departments and divisions of the business entity. It's worth emphasizing that competitiveness is one of the key factors in ensuring the safety of facilities, meaning their survival in the economic climate and subsequent effective development.

The competitiveness of small businesses can be explained by the inherent potential of this type of activity and can be characterized by flexibility, mobility, efficiency in making and implementing management decisions, etc. These characteristics of small and medium-sized businesses allow us to identify and formulate the factors determining the competitiveness of enterprises operating in this segment of the economy: [17, p. 104]

1. Sociopolitical factors, characterized by the growing importance of small and medium-sized businesses in the process of social restructuring of society and the formation of the middle class, as well as their active role;
2. Adaptive factors. This factor can be characterized as the ability of small and medium-sized enterprises to adapt to harsh, frequently changing environmental conditions, as well as to quickly recover, taking into account the needs of specific target groups of enterprises, and promptly develop new markets;
3. Regional development potential – the contribution of small and medium-sized enterprises to the restructuring of the regional economy and determining the level of economic development of territories, ensuring the growth of incomes of the employed population at an appropriate level;
4. The innovation factor, characterized by the ability to independently produce and master scientific, technical, technological, and other innovations, as well as to focus on their commercial use with relatively low initial costs;
5. The integration factor, which enables small and medium-sized enterprises to overcome political, administrative, and economic barriers, restore lost cooperative ties, and create new ones by integrating them into a unified system of production and technological cooperation with larger economic entities;
6. Multiplier potential – the ability of small and medium-sized enterprises to ensure the development of demand for products from other sectors of the economy, stimulate the reproduction process, increase the utilization of production capacities, and introduce progressive changes to the corresponding products;
7. Any industrial or commercial enterprise, from the moment of its establishment and throughout its operation, faces the problem of ensuring competitiveness in the domestic and international markets. The international competitiveness of any economic entity in the Republic of Azerbaijan is formed by a number of advantages determined by comparing it with the corresponding indicators of foreign companies competing in the international market.

Numerous studies have shown that among domestic companies, only those operating in the export-oriented raw materials sector, as well as in the production of military equipment and weapons, the manufacture of unique modern technological equipment, and so on, are internationally competitive. However, their position in the international market is not always as stable as that of leading transnational organizations.

In competing in international commodity markets, small and medium-sized enterprises of all countries can only exploit price factors. Companies often sell goods at discounted prices to secure a place in the international market. However, in the long term, this policy has the opposite effect, leading not to market expansion and maintaining competitiveness, but to a significant reduction in market share or its complete suppression. Therefore, in the modern struggle for a place in the international market, relying solely on price factors is insufficient. It is important to actively realize the advantages of the scientific and technological revolution and the international division of labor, which are often available only to large transnational organizations. [16, p. 35]

Small and medium-sized enterprises (SMEs) have undeniable advantages over large organizations, including flexibility, long-term planning capabilities, and the relatively rapid adoption of new technologies, which is a lengthy and resource-intensive process for larger companies.

Targeted incentives for SMEs ensure the development of innovations with guaranteed contracts for their implementation by larger economic entities, which increases the efficiency of existing SMEs and facilitates the emergence of numerous small businesses. The main forms of contractual cooperation are subcontracting, which involves the presence of a parent company and multiple SMEs, facilitating the expansion of the subcontractor network and the emergence of new SMEs and start-ups.

CONCLUSION

Entrepreneurship, considered a type of economic activity, requires increased attention in the development of market relations. Generating significant income through entrepreneurship, as well as increasing production, once again demonstrates its great importance. Based on international experience, small businesses are considered the most effective, and various measures are currently being taken in this direction. Particular attention is paid to opening small businesses with small capital, simple management, flexibility in both internal and external environments, and low risk. At the same time, small businesses contribute to economic recovery. These include creating a healthy competitive environment, increasing exports, increasing the number of consumers, increasing employment, reducing poverty, creating new jobs, expanding interregional ties, etc. In a number of countries, small businesses are considered most effective in research and development. The reason for this is their low cost. Looking at small businesses in international experience, they vary in the number of employees, the amount of invested capital, sales volume, and authorized capital. In some countries, even the name for a small business varies. Despite these differences, it can be said that the principles of their creation, strategies, areas of activity, and development directions are virtually identical. Based on the experience of foreign countries, many measures related to small business are being implemented, including tax reductions, state support, certain legislative benefits, the creation of financial funds, the provision of loans, the organization of business databases, and other relevant tools. After Azerbaijan gained independence, the objectives of the formation and development of entrepreneurship were defined and incorporated into the main directions of state policy. In particular, small business development programs were organized and legislative acts were adopted, such as the Law of the Republic of Azerbaijan "On State Support for Small Entrepreneurship" and the State Program for the Development of Small and Medium-Sized Entrepreneurship. You can familiarize yourself with the state programs for the socio-economic development of regions for 2014-2018. It is especially worth noting that laws and legislation related to entrepreneurial activity are generally regulated in accordance with state policy on entrepreneurship. Therefore, it can be assumed that the main factor in the development of entrepreneurship is the correct definition of state policy in this area and its implementation in legal acts. Another point is that state policy on entrepreneurship development should be developed and implemented not in isolation, but holistically, that is, within the framework of state economic policy. Furthermore, our country has established the National Fund for Entrepreneurship Support and implemented numerous innovative changes (the creation of e-commerce, the introduction of a one-stop shop system, and the establishment of incubators). With the establishment of the National Fund, the volume of loans issued increases annually, and the number of new companies and employees grows. Therefore, given the importance of small business for economic growth and social stability, the state provides comprehensive support for its development in all countries, and in our country, we take into account global experience in organizing, improving, and regulating small businesses.

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