

# ECONOMY AND OPERATION OF NATIONAL ECONOMY

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## THE MAIN DIRECTIONS OF STATE SUPPORT AND REGULATION OF SMALL BUSINESS IN AZERBAIJAN

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**Introduction.** World experience shows that with the economic development of the country the support of the state, including local authorities, for the creation and development of small business increases proportionally. Because the correct formation of the market mechanism, its proper functioning, limitation of monopolies in the country, creation of the middle class are the main foundations of a market economy. Also, sustainable development of small business depends on faster and more flexible adaptation of the country's economy to the market, maintaining economic stability, dynamic economic development and other reasons, which is possible only with the support of the state and local authorities. Looking at the problem in a broad sense, the development of entrepreneurial activity is influenced by many factors. State support is one of the most important of them.

**Review of recent research and publications.** The source base for the study of the problems of improving the competitive environment in small business was domestic and foreign literature. It should be noted that the problem of improving the competitiveness of small business in the modern period in Azerbaijan is given great attention. Among local researchers who have monographs, dissertations and scientific articles devoted to the various components of small business can be mentioned Atakishiyev R.B., Bayramov V.I., Akhmedov A.I., Aliyev Sh.T., Gadzhiev N.O., Mamedov F.F., Abbasov A.B., Gafarov N., Gasanly E.O., Abbasov A.B., and others.

Among foreign researchers, a significant contribution to the study of various aspects of small business and competition was made by such scientists as Yu. Schumpeter, N. Nelson, B. Twissin, S.M. Dune, V.Ya. Kellen, D. Bellin, S.Yu. Glazyev, N.D. Kondratiev, A.A. Akdzhmov, G.Yu. Goldstein, Ya.A. Shumbertin, Yu.V. Ovsienko, V.M. Konovalov, V.K. Medinsky, S.V. Ermasov, whose works provide value in this area.

**The purpose of the article** is to study the competitiveness of small business and identify ways of state support to improve it for the economy in Azerbaijan.

**Main material and results.** World experience shows that entrepreneurship is formed with the support of the state. In this direction, the country should pursue a balanced state policy. To achieve this goal, it is necessary to create a system of protective, guiding, controlling, stimulating and restrictive measures within the process of state regulation of entrepreneurship. These measures should be widely disseminated and properly implemented, especially in the small business sector.

Today, such a policy is being implemented, and ways to support small business is one of the most pressing issues. Thus, state and regional business support programs are always implemented within the framework of certain laws and regulations. These assistance programs are determined by the relevant executive authority and organized by the executive authority in accordance with state laws [7]. At the same time, local self-government bodies, regardless of organizational, legal and property relations, departments, enterprises and

organizations, trade unions also independently develop programs to support entrepreneurship. They also have the right to apply to the relevant executive authority with a request to include certain measures and projects in the programs of state bodies and local governments to promote entrepreneurship.

To create, develop and strengthen the business environment, it is important to have a central government body that supports ideas and protects the interests of entrepreneurs. In Azerbaijan, this function is performed by the Ministry of Economy, more specifically, the Department of Entrepreneurship Development Policy [9]. The main task of this agency is to develop and implement projects of state programs for the development of entrepreneurship, providing financial and non-financial support to entrepreneurs. As a result, a legislative framework for small and medium-sized enterprises was developed and significant progress was made in regulating entrepreneurial activity [5].

On August 27, 2002, the National Entrepreneurship Support Fund was established by the Decree of the President of the Republic of Azerbaijan No. 779 to develop and organize programs to assist small businesses and create favorable conditions for small businesses to obtain financial resources.

According to the Regulations, the obligations of the Fund are as follows [10]:

- to organize appropriate measures to create financial support for the development of entrepreneurship in the Republic of Azerbaijan;
- to promote the implementation of the state economic policy based on the attraction and effective use of financial resources for the development of small business;
- to finance entrepreneurship development programs;
- to provide financial assistance for the implementation of investment projects and programs aimed at economic development;
- to participate in the development and implementation of sectoral and regional programs and investment projects that ensure the development of entrepreneurship, commodity markets and free competition, as well as the creation of new jobs.

The National Fund for Support of Entrepreneurship at its own expense creates various livestock complexes, agricultural processing enterprises, industrial (construction, chemical, machine-building, etc.) enterprises and, most importantly, helps young people, women, disabled and internally displaced persons to start small businesses.

Consider the distribution of loans issued by the Fund by classification of economic entities:

Table 1

**Distribution of loans granted by the Entrepreneurship Development Fund**

Classification of business entity	Loans issued – 2021			
	Number of projects		Amount	
	Number	Special weight (%)	Million manat	Special weight (%)
Micro	1816	95.5	63.7	48.7.
Small	53	2.8	25.3	19.4
Medium	26	1.4	26	20
Large	7	0.4	15.6	11.9
<b>Total</b>	<b>1902</b>	<b>100</b>	<b>130.6</b>	<b>100</b>

Source: Compiled by the author based on the reports of the Entrepreneurship Development Fund, 2022 [10]

If to take into account the Law of the Republic of Azerbaijan "On State Support of Small Entrepreneurship", the following measures are taken to assist small businesses:

- improvement of the regulatory framework for entrepreneurship;
- creation of an infrastructure that stimulates the development of small businesses at the central, regional and local levels;
- formation of the process of stimulating small businesses and providing them with financial assistance;
- involvement in entrepreneurial activities of the unemployed, pensioners, refugees and internally displaced persons, families of the victims, women and youth, in other words, socially vulnerable groups of the population;
- providing state support to small businesses focused on the production of goods, products or services;
- conducting research work on the development of small business structures.

A number of legislative acts have been adopted on the establishment, support and development of entrepreneurial activity. Among them – "On Protection of Foreign Investments", "On Entrepreneurship",

"On Antimonopoly Activity", "On Unfair Competition", "On Investment Funds", "On State Support of Small Entrepreneurship" and other similar laws, as well as "On Prevention of Interference in the Development of Entrepreneurial Activity", "On Streamlining Inspections in the Sphere of Entrepreneurial Activity and Some Measures to Ensure Consumer Rights", "On Additional Measures on State Protection of Entrepreneurship" to minimize state interference in the economy, as well as the Presidential Decree "On Transition to the 'Single Window' System".

The basis of the legal framework for state support of small and medium business in our country is the Law "On State Support of Small Business of the Republic of Azerbaijan". The main purpose of this law is the realization of the right of everyone to engage in free entrepreneurial activity and other types of economic activity not prohibited by law, established by the Constitution of the Republic of Azerbaijan.

The state programs for the socio-economic development of the regions for 2004–2008 and 2009–2013 were successful. In 2014–2018, the re-adoption of the program gave a great impetus to economic development. As a result, the total investment in the country's economy in 2013 amounted to \$ 20 billion, of which \$ 17.5 billion came from domestic and \$ 10.5 billion – from foreign investors.

In continuation of the successfully implemented socio-economic policy in our country, the Cabinet of Ministers of the Republic of Azerbaijan has revised the criteria for defining small and medium enterprises. Table 2 below shows the criteria for defining small enterprises.

Table 2

**Criteria for defining small enterprises**

<b>Business sector</b>	<b>Maximum average number of employees (persons)</b>	<b>Maximum annual working capital (excluding VAT, excise tax)</b>
Industry and construction	50	500 thousand manats
Agriculture	25	250 thousand manats
Wholesale trade	15	1 million manat
Retail trade, services, trade and other economic activities	10	250 thousand manats

*Source: Resolution of the Cabinet of Ministers of the Republic of Azerbaijan dated December 18, 2009 on amendments to Resolution No. 57 dated April 20, 2004 [6]*

It is important that both indicators are within the limits set for the selected sector. For entrepreneurs who start a new business, the number of employees during 1 year determined by these limits, as well as the definition of individuals engaged in entrepreneurial activity without establishing a legal entity as small businesses, is based on annual turnover. The methodology for developing the criteria for classifying small businesses is based on the experience of developed countries and takes into account the recommendations of international organizations.

To implement this decision, the following new priorities for assistance to small and medium-sized enterprises were identified [4]:

- simplification of state registration of business entities;
- issuance of soft loans;
- approval of new regulations on inspections by law;
- providing subsidies to entrepreneurs working in the agricultural sector, and increasing its volume;
- provision of seeds, mineral fertilizers, machinery on agricultural leasing terms;
- abolition of other taxes, except for the land tax.

One of the important steps taken in the same year to facilitate the activities of individual entrepreneurs is the "Simplified Accounting Rules for Small Enterprises" adopted by the Ministry of Finance and the Ministry of Justice of the Republic of Azerbaijan. These rules are based on general accounting principles. At the same time, the peculiarities of accounting for small businesses that are and are not taxpayers of the simplified taxation system were noted. Azerbaijan, pursuing a regulatory policy to form a new economic system based on market principles, organizes many targeted and systematic measures for the establishment and development of small business in different regions. However, there are still a number of problems in this area. To overcome the problems, the strategic policy of the state should be sustainable, the strategy should be properly defined and applied, market monopolistic tendencies among entrepreneurs should be prevented, and measures to eliminate unfair competition should be in the foreground.

It should be noted that in order to minimize the consequences of the coronavirus pandemic (COVID-19), a wide package of tax benefits has been introduced for the country's business entities since the beginning of 2020. These are a number of tax benefits and tax holidays for the period until January 1, 2021 for taxpayers in the areas of activity directly affected by the pandemic, full exemption from property tax and land tax, tax benefits in the amount of 75 percent of the profit received, income, a 50 percent reduction in the tax levied at the source of payment for the lease of real estate from individuals, a 50 percent discount on the amount of the simplified tax for business entities operating in the field of catering and domestic passenger transportation. In addition, micro-entrepreneurs are granted a 50 percent tax discount on the payment of the simplified tax until January 1, 2021, as well as tax holidays for the calculation and payment of taxes and current tax payments.

Undoubtedly, the victory of Azerbaijan in the Karabakh war has made the approach to entrepreneurship and small and medium business and its importance even more important. To date, the Small and Medium Enterprises Development Agency has received 1,152 applications from entrepreneurs to conduct business activities in the territories liberated from occupation. 747 applications belong to local companies and 405 – to foreign ones. Undoubtedly, the state provides a wide range of benefits for doing business and entrepreneurial activity in the liberated regions.

In conclusion, I would like to note that due to a certain complexity of these laws and constant changes in legislation, lack of means of disseminating information about the law, legal knowledge of entrepreneurs is generally considered weak [5, p. 78]. No organization is formally responsible for the wide and effective dissemination of information about new laws, decrees and other regulations. Therefore, in order to monitor the development of legislation, small businesses need to subscribe to official newspapers and publications, as well as regularly review publications in order not to miss the issue in which the relevant document will be published. According to the author, in addition to the adopted laws, decrees, state aid programs, any small business owner must have a certain level of legal and economic literacy to use state aid, participate in economic development and protect their rights.

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**Konul Aghayeva**, Ph.D, Associate Professor, Azerbaijan University of Architecture and Construction. **The main directions of state support and regulation of small business in Azerbaijan.**

Strengthening the role of small and medium-sized enterprises (SMEs) in the economy of Azerbaijan, increasing its competitiveness, expanding access to financial resources, improving mechanisms for its support, creating favorable conditions for the development of entrepreneurship in the regions, attracting local and foreign investment in this area, diversifying the country's economy and ensuring its sustainability are strategic goals of the state policy. Small business entities occupy a significant place among market participants. In terms of their organizational structures, management systems, marketing strategies, and rules of legal organization, small businesses differ sharply from other participants. This difference is manifested in their market share, action plans, as well as in the fact that they bring more benefits to society and higher returns for the state and gross domestic product. The article analyzes the ways and methods of state support of small business enterprises in Azerbaijan. It is noted that the country has established the Council of Entrepreneurs, which plays the role of an instrument for active participation of the private sector

in public investment projects related to infrastructure, as well as the introduction of various forms of cooperation between the state and business. Indeed, in recent years, significant amounts of funds have been allocated from the state budget for investment projects, while preferential loans are provided to finance various investment projects through the National Fund for Entrepreneurship Support. It is important to note the growing role of entrepreneurship in the restoration and economic development of the territories liberated from occupation. Therefore, the participation of local investors in the development of the region is important. Entrepreneurs and businessmen should create business here, use the opportunities created for them by the state and contribute to the development of the region. Entrepreneurs have the opportunity to create and conduct business in the territories liberated from occupation in the areas of construction, tourism, production, supply of agricultural products and their processing, as well as trade and various types of services. In addition, there is no competition in these areas yet, so the first investments will bring more profit. As for the expectation of additional benefits for doing business and entrepreneurial activity in the liberated regions, according to the decree of December 10, 2021 on accelerating economic development in the territories freed from occupation, great benefits are provided for entrepreneurs.

**Key words:** Azerbaijan, small business, regulation, state-business cooperation, businessmen's education, competition, benefits for entrepreneurs.

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**Конул Агаєва**, кандидат технічних наук, доцент, Азербайджанський університет архітектури та будівництва. **Основні напрями державної підтримки та регулювання малого бізнесу в Азербайджані.**

Посилення ролі малого та середнього бізнесу (МСП) в економіці Азербайджану, підвищення їх конкурентоспроможності, розширення доступу до фінансових ресурсів, вдосконалення механізмів їх підтримки, створення сприятливих умов для розвитку підприємництва в регіонах, залучення місцевих та іноземних інвестицій в цю сферу, диверсифікація економіки країни та сталість є стратегічними цілями державної політики. Суб'єкти малого підприємництва займають значне місце серед учасників ринку. Своїми організаційними структурами, системами управління, маркетинговими стратегіями, правилами правової організації малі підприємства різко відрізняються від інших учасників. Ця різниця проявляється в їхній частці ринку, планах дій і тому факті, що вони більш корисні для суспільства та вищі для держави та загального внутрішнього продукту. У статті проаналізовано шляхи та методи державної підтримки підприємств малого бізнесу в Азербайджані. Зазначається, що створено Раду підприємців, яка відіграє роль інструменту активної участі приватного сектору в державних інвестиційних проектах, пов'язаних з інфраструктурою, та запровадження різних форм співпраці держави та бізнесу. Щоправда, за останні роки з державного бюджету на інвестиційні проекти виділяються значні кошти, водночас надаються пільгові кредити для фінансування різноманітних інвестиційних проектів через Національний фонд підтримки підприємництва. Важливо відзначити підвищення ролі підприємництва для відновлення та економічного розвитку звільнених від окупації земель, тому важлива участь місцевих інвесторів у розвитку регіону. Підприємці та бізнесмени повинні створювати бізнес, використовувати можливості, які створює для них держава, сприяти розвитку регіону. На звільнених від окупації територіях підприємці мають можливість створювати та вести бізнес у сферах будівництва, туризму, виробництва, постачання сільськогосподарської продукції, переробки, а також торгівлі та надання різноманітних видів послуг. Крім того, в перерахованих сферах досі немає конкуренції, тому перші інвестиції принесуть більше прибутку. Що стосується очікування додаткових пільг для ведення бізнесу та підприємницької діяльності у звільнених регіонах, то згідно з наказом від 10 грудня 2021 року про прискорення економічного розвитку на звільнених від окупації територіях передбачено великі пільги для підприємців.

**Ключові слова:** Азербайджан, малий бізнес, регулювання, державно-бізнес співпраця, освіта бізнесменів, конкуренція, пільги для підприємців.