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OVERVIEW OF SMALL AND MEDIUM ENTREPRENEURSHIP IN AZERBAIJAN

Review
Article

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O10, O12

Abstract

In recent years, the successful performance of small and medium enterprises has played an important role in terms of economic prosperity, employment and wellbeing of the society. This research paper studies the position of small and medium sized enterprises in the economy of Azerbaijan. The research aims to compare and analyze certain indicators of small and medium sized businesses in the country while contrasting the statistical data with the “Strategic Road Map on Production of Consumer Goods at Small and Medium Entrepreneurship Level in the Republic of Azerbaijan 2016”. Subsequently, the impact and effectiveness of the program is evaluated regarding the results of three years in a row.

INTRODUCTION

Since 2001 Azerbaijan has maintained continuous economic development. Hence, GDP per person has increased from 660 dollars to 4,184 dollars (An overview of the World Bank's work in Azerbaijan, 2018). After the economic crisis the country was able to recover its development pace and in 2019 could achieve 3.9% GDP growth. (The World Bank, 2019). Nevertheless, the economy is highly dependent on the hydrocarbon export, as it comprises 90% of exports (An overview of the World Bank's work in Azerbaijan, 2018).

Azerbaijan has made substantial progress in achieving global competitiveness indicators. Thus, it takes the 35th place in the Global Competitiveness Index of the World Economic Forum (Mundial, 2017). In the World Bank's "Doing Business" Report the country has been ranked 57th in overall ranking because of low results in other *sectors*, but has reformed key business areas such as Protecting Minority Investors (10th) and Starting a Business (18th) (World Bank Group, 2018).

Since Azerbaijan gaining its independence, various incentive mechanisms have been implemented to improve the business environment of Azerbaijan (according to the Decree of the President of the Republic of Azerbaijan № 610 dated June 24, 1997 and № 753 dated August 17, 2002).

During this period, sufficient number of SMEs were established while procedures for taxation and registration were simplified. However, the participation of SMEs in the economy is still unsatisfactory. Therefore, in 2016, the "Strategic Road Map of Production of Consumer Goods at Small and Medium Entrepreneurship Level in the Republic of Azerbaijan" was projected to ensure competitiveness, inclusiveness and sustainable performance of entrepreneurs.

The paper will intent to give an overall view of the entrepreneurship environment, especially, at small and medium level in Azerbaijan. The "Strategic Road Map on Production of Consumer Goods at Small and Medium Entrepreneurship Level in the Republic of Azerbaijan" will be analyzed and compared to previous contexts and the actual situation by using statistical data. As a conclusion, results of comparisons will be discussed and possible recommendations will be suggested.

METHODOLOGY

This research paper uses the quantitative method in order to analyse the situation. Furthermore, other methods such as description, comparison and analysis were also applied. The general dynamics of the SME sector were studied mainly referring to the

statistical data reported by The Statistical State Committee of the Republic of Azerbaijan and The "Strategic Road Map of Production of Consumer Goods at Small and Medium Entrepreneurship Level in the Republic of Azerbaijan". Alongside national databases, various databases from World Bank, World Economic Forum, OECD have also been included.

LITERATURE REVIEW

Small and Medium Enterprises (SMEs) are key factors in national or globalized economy. These companies are the main driver of economic growth, dynamism and resilience in developed as well as in emerging economies. The existence of SMEs are crucial in terms of the escalation of competitiveness and create new products or methods on the market (Robu, 2013).

The improvement of SMEs in Azerbaijan is characterized by diversification, employment, and enhancing demand for domestic consumer goods by utilizing local resources, reducing dependence on imports and reaching sustainable economic progress (Bayramov, et al., 2017).

The country's economy has grown especially at the expense of the rapidly growing oil and gas industry in recent years, which in turn has contributed to the growth in the number of SMEs. However, the increase in the quantity of SMEs does not reflect the contribution of the entrepreneurship sector to GDP. Due to the growth of the oil and gas industry, the development of the non-oil sector was relatively neglected.

In Azerbaijan, small and medium-sized businesses are classified as follows: individual entrepreneurs (the sole owner of the entity without a legal entity) and small and medium-sized enterprises (legal entities). Individual entrepreneurs are unequivocally counted as small businesses, and those registered as legal entities are identified based on two criteria: number of employees and annual turnover. (Azərbaycanda Kiçik və Orta Müəssisələr üzrə Araşdırma, 2009)

An enterprise is a legal, independent entity that produces and sells goods, works and serves the product in accordance with the law and is responsible for paying public benefit and earning income regardless of its form of ownership. Any enterprise has a special name, indicating the organizational-legal form. According to the Law of the Republic of Azerbaijan "On Property in the Republic of Azerbaijan" all types of business can be based on state, collective, private and mixed forms of ownership. Enterprises operate in organizational-legal forms such as state-owned enterprises, individual (family), joint ventures, joint-stock companies (limited partnerships), limited liability companies and joint-stock companies.

(Müəssisələr haqqında Azərbaycan Respublikasının Qanunu, 1994) In Azerbaijan, the criteria for SMEs are different, compared to international standards (see Table 1).

After Azerbaijan gained its independence, a profitable situation was created to raise the level of entrepreneurial activity in Azerbaijan. During this period the development of entrepreneurship followed three stages:

1. The first stage or the period up to 1993. The crucial characteristics of the period are as follows: low level of economic development; instability in financial and production areas. At this stage, the basic requirements of economic development were: implementation of systemic reforms based on market economy; the necessity of privatization; the establishment of governmental measures for the acceleration of the entrepreneurship process.

2. The second phase covered the period 1993-2002. The main economic outcomes of the first phase are partial prevention of the reduction of GDP and minimization of inflation, growth of macroeconomic indicators, dynamic growth of entrepreneurship entities, acceleration of foreign investment flow to the country. At this stage, the main requirement of economic development is to accelerate the implementation of reforms on the formed demands in the economic sphere, and to make substantial structural changes in the entrepreneurship sector for the full engagement of the country's potential.

3. The third stage or stage after 2002. The main economic consequences of the third stage are: the formation of production-oriented tendencies of entrepreneurship, revitalization of business activity in the regions and strengthening the position of entrepreneurs in society. The basic economic requirements of the third stage of entrepreneurship development are: ensuring employment, reducing unemployment, promoting regional potential in industry, tourism and agricultural sector, expanding export potential and promoting innovation in entrepreneurship. (Süleymanlı A., 2016)

According to the report of the State Statistical Committee of the Republic of Azerbaijan, in 2017, the added value of SMEs to the economy was 15.4%; number of employees 42.1%; investments directed to fixed capital 55.8% and share in the output 14.6%. The sectors that SMEs operate are classified as: agriculture, forestry and fishing; industry (mining and manufacturing); electricity gas and steam production, distribution and supply; water supply, wastes treatment and disposal; construction; trade-repair of means of transport; transportation and storage; accommodation and food service activities; information and communication; real estate activities; education; human health and social work; provision of services

in other areas. Sectors, such as trade-repair of means of transport (43%), transportation and storage (17%), provision of services in other areas (19%) occupy the greatest share, while water supply, wastes treatment and disposal, electricity gas and steam production, distribution and supply and information and communication contribute with less than 1% (Small and Medium Entrepreneurship in Azerbaijan, 2018).

DISCUSSION

According to the Strategic Road Map, by 2020 the regulatory framework for the development of SMEs in Azerbaijan will be further improved, institutional reforms will continue, the competitive environment will be strengthened, an Agency for SME will be established, measures will be taken to simplify the process for necessary intellectual and technical resources for the activity in this field. As a result, it is expected to increase the contribution of SME in GDP and employment, respectively, more than 15% and 40%, and the share of non-oil exports to 10%, create 34, 240 new jobs in 2020.

The long-term aim is to further reinforce the competitiveness of the SMEs and enhance the daily supply of consumer goods by SMEs (till 2025).

The target for the post-2025 period is to ensure that, at least 60 % of GDP in Azerbaijan is accounted for SMEs and to establish a local SME network that joins global value chains. It is planned to increase the share of SMEs in Azerbaijan, especially in foreign trade, to 40%. At the same time, it is targeted to increase the share of SMEs in GDP and employment by 60 % and 70 % in the post-2025 period.

The strategic objectives for SMEs aim at the formation of a more favourable business environment for SME development; increasing the competitiveness of the SMEs and its role in the economy; meeting the country's needs related to work and services especially the intellectual area through the development of SMEs and, ultimately, innovations; increasing the role of SMEs in employment provision; achievement of basic consumer goods by SMEs; increasing the share of goods exported by SMEs in the country's total exports.

The Strategic Road Map also has five targets that focus mainly on improving the business environment and the regulatory framework for SMEs activities; ensuring efficient and effective access of SMEs to financial resources, internationalization of SMEs and easing the entrance process to external markets; increasing the knowledge and skills of workforce of SMEs; accelerating the application of advanced practices; promoting innovation, expanding research and development activities for SMEs.

Since 2016, entrepreneurship inspections were suspended for 2 years, the permit granting processes, including the registration in e-portal in this area were simplified, Appeal Councils were established and "Single Window" principle was applied to the transportation of cargoes through the country in order to encourage investments in the country tax; electronic customs services were simplified during import-export operations for the transportation of goods and vehicles through customs border; the "Green Corridor" exit system was created; immediate response to entrepreneurs' appeals to state bodies was provided; call centers for information and consulting services were established (The Office of the President of Azerbaijan Republic, 2016). Furthermore, the National Fund for Entrepreneurship Support and the ASAN service have collaborated and established "ABAD" Centre and Support Services to support disputes related to high interest rates in credit attaining processes, deficiency of skilled and competent staff etc. The ABAD service focuses on problems connected with finance, infrastructure and skilled workforce (Bayramov, et al., 2017).

LIMITATIONS OF THE STUDY

The key factor that prevented the accuracy of the study was the unavailable and inadequate nature of the databases that were provided by national governmental institutions. Furthermore, the reports submitted by the State Statistical Committee did not comply with the decisions taken by the Cabinet of Ministers of the Republic of Azerbaijan to make comparisons accordingly.

RESULTS

The data that is compared and analyzed covers 3 years, before, during and one year after the application of the Strategic Road Map. Table 2 and Table 3 use five criteria: Value added, Number of employees, Average monthly nominal wages, Investments directed to fixed capital, Output which were compared. In all categories, except output, there is a positive pattern, with increasing numbers. Thus, the most significant change is observed from 2015 to 2016, rather than 2017. However, in 2016 there was a minor decrease in the output of SMEs in the economy, comprising 15.6 % of the share. The most drastic growth was noted in the number of employees in SMEs, increasing approximately by 3.3 times constituting 42.3 %. Nevertheless, the rate of added value, investments directed to fixed capital was reduced in 2017. Table 4 depicts the data regarding the total number of the SMEs in Azerbaijan. In three years the

numbers decreased gradually for small enterprises, and increased for medium enterprises. The same tendency was recorded in Table 5 too. Small enterprises were set up more densely in the regions than the medium sized ones. Despite this, small enterprises were less sustainable and resistant.

Table 6 shows the contrast between the total number of newly created enterprises and the total number of liquidated enterprises. Due to the deficiency in the statistical data, the numbers were not available for year 2015. There was a noteworthy figure for the establishment of SMEs in both 2016 and 2017, thus 139, 185 enterprises were set up in year 2016 and 145, 985 enterprises are founded in 2017; more than 90% of these enterprises were small sized. Similar characteristics belong to the liquidated enterprises too. The great majority of the liquidated businesses fell into the category of small sized.

Taking into account all of these indicators, it appears that there is still need for further focus, more precise measurement systems and more intensive application of articles of the Strategic Road Map.

CONCLUSION

The purpose of this paper was to present the current situation of SME in Azerbaijan and compare it to the objectives of the measurements by government. There is a need for a detailed analysis of legislation in Azerbaijan. In practice, the government demonstrates its intentions to solve related issues in the long run and often uses specific steps and tools, but business should move from general strategies and concepts to concrete steps; special targets and indicators should be identified for the promotion of small and medium-sized enterprises.

Biographical sketch

Leyla Mahmudova is a Ph.D. student at Department of Enterprise Development, University of Debrecen. As a second year Ph.D. student, Leyla focuses on SMEs, conducts a research on the impact of human capital factors on more prosperous performance of the enterprises.

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APPENDICES

Table 1.
Criterion for SMEs

	Category of business entities by size	Average number of employees	Annual income
Azerbaijan	Small enterprise	up to 25 employees	up to AZN 200000/ EUR 104215
	Medium enterprise	25 - 125 employees	AZN 200 - 1.250 000/ EUR 104215 -651342
International	Small enterprise	10 - 49 employees	up to EUR 10 million
	Medium enterprise	up to 250 employees	up to EUR 50 million

Source: European Commission, 2009; OECD, 2017; Cabinet of Ministers of the Republic of Azerbaijan, 2015
Note: Currency conversion date: 28.03.2019/ rate: 1.00 manat=0.52 euro

Table 2.
Main macro-economic indicators of small and medium entrepreneurship subjects

Indicators	2015	2016		2017			
	Small	Total	Small	Medium	Total	Small	Medium
Value added, million manat/euros	1987.8/ 1036.07	3587.2/ 1869.70	2928/ 1526.11	659.2/ 343.58	3807.6/ 1984.57	3051.9/ 1590.69	755.7/ 393.88
Number of employees, thsd. person	87.6	281	100.9	180.1	290.1	101.9	188.2
Average monthly nominal wages, manat/euros	302.1/ 157.46	338.6/ 176.48	322.2/ 167.94	349.1/ 181.96	352.8/ 183.88	331.5/ 172.78	365.9/ 190.71
Investments directed to fixed capital, million manat/euros	807.2/ 420.72	2830.2/ 1475.14	1828.6/ 953.09	1001.6/ 522.05	3298.6/ 1719.28	2064.8/ 1076.20	1233.8/ 643.07
Output, million manat/euros	5986.3/ 3120.14	5831.2/ 3039.30	4666.1/ 2432.04	1165.1/ 607.27	6269.6/ 3267.80	4884.7/ 2545.97	1384.9/ 721.83

Source: The State Statistical Committee of the Republic of Azerbaijan, 2016; The State Statistical Committee of the Republic of Azerbaijan, 2018.
Note: Currency conversion date: 28.03.2019/ rate: 1.00 manat=0.52 euro

Table 3.

Share of small and medium entrepreneurship subjects in the economy of the country, at percentage

Indicators	2015	2016			2017		
	Small	Total	Small	Medium	Total	Small	Medium
Value added	9.8	16.3	13.3	3	15.4	12.3	3.1
Number of employees	12.8	41.3	14.8	26.5	42.3	14.8	27.3
Investments directed to fixed capital	14.3	57.8	37.3	20.5	55.8	34.9	20.9
Share in the output	24.5	15.6	12.5	3.1	14.6	11.4	3.2

*Source:*The State Statistical Committee of the Republic of Azerbaijan, 2016; The State Statistical Committee of the Republic of Azerbaijan, 2018.

Table 4.

The number of acting small and medium entrepreneurship subjects

Indicators	2015	2016	2017
Total number of entrepreneurs	196327	191695	169603
The number of small entrepreneurs	196327	187598	165386
The number of medium entrepreneurs	n/a	4097	4217

Source: The State Statistical Committee of the Republic of Azerbaijan, 2016; The State Statistical Committee of the Republic of Azerbaijan, 2018.

Table 5.

Breakdown of small and medium entrepreneurship subjects according to economic and administrative regions

Economic and administrative regions	2015	2016			2017		
	Small	Total	Small	Medium	Total	Small	Medium
Total by country	196327	191695	187598	4097	169603	165386	4217
Baku city	76702	75149	72815	2334	70222	67798	2424
Other regions in total	119625	116546	114873	1763	99381	97588	1793

*Source:*The State Statistical Committee of the Republic of Azerbaijan, 2016; The State Statistical Committee of the Republic of Azerbaijan, 2018.

Table 6.
Number of newly created and liquidated entrepreneurship subjects

Indicators	2015	2016			2017		
	Small	Total	Small	Medium	Total	Small	Medium
Total number of newly created entrepreneurs	n/a	139185	139012	173	145985	145747	238
Total number of liquidated entrepreneurs	n/a	30643	30611	32	31436	31397	39

Source: The State Statistical Committee of the Republic of Azerbaijan, 2016; The State Statistical Committee of the Republic of Azerbaijan, 2018.