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PROSPECTS FOR THE DEVELOPMENT OF MEDİUM-SİZED ENTERPRİSES İN AZERBAİJAN

Summary

Medium-sized enterprises play an important role in the economic diversification of the country and increase employment. However, financing problems, administrative barriers, market competition and limited innovation are hindering the development of this sector. The elimination of all these problems, strengthening government support, attracting investments in this area, increasing preferential credit opportunities, expanding export potential, accelerating digitalization and expanding training programs for entrepreneurs, including the difficulties they face, and exploring ways to solve these problems, as one of the most pressing issues of the day, is analyzed in detail in the article.

Keywords: medium-sized entrepreneurship, economic development, financial accessibility, innovation, export, government support, digitalization.

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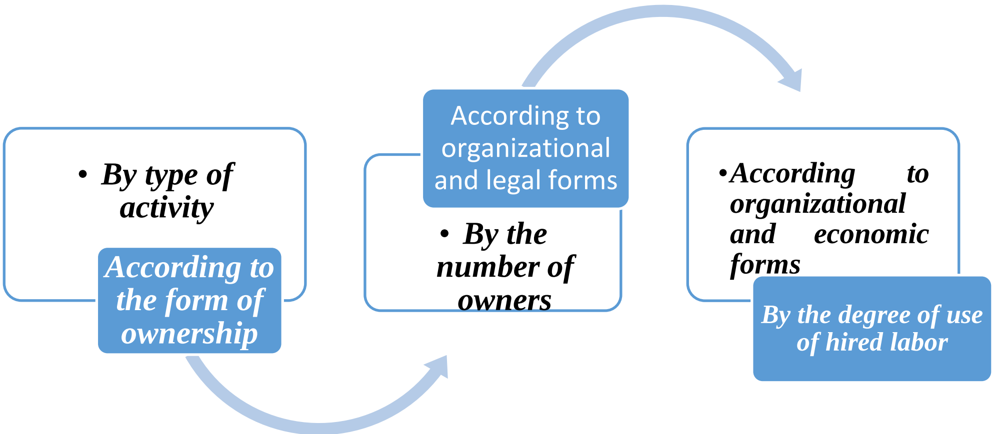
Intradaction

The term entrepreneur was first coined by Richard Cantillon, a French economist of the early 18th century. An entrepreneur is a person who assesses the usefulness of a business and can assume the risk and responsibility of organizing a new business, developing a new idea (product) or service. Entrepreneurship is the ability to assess the profitability of an enterprise and to allocate available resources more profitably. According to the Law of the Republic of Azerbaijan “On Entrepreneurial Activity”, entrepreneurial activity is the independent carrying out of any economic activity not prohibited by law by natural and legal persons, with the responsibility and liability for their own property, with the aim of obtaining profit or personal income. This activity includes the production, sale and provision of services. Entrepreneurial activity is classified according to various characteristics. These characteristics are as follows.

There are various criteria for the classification of enterprises. By Resolution No. 556 of the Cabinet of Ministers of the Republic of Azerbaijan dated December 21, 2018, the division of entrepreneurial enterprises was repeated. In previous decisions, small, medium and large enterprises were added to the classification of enterprises according to the unit of measurement. New criteria were set according to the redistribution. These criteria are given in the table below (7).

Medium-sized entrepreneurship (medium-sized enterprise) is a business model in which two or more individuals engage in entrepreneurial activity. It is located in the middle of small and large enterprises. Medium-sized enterprises are enterprises with a certain number of employees and average turnover. The table above shows the number of employees and annual turnover of medium-sized enterprises. In this model, each partner needs to participate in managing the business, making decisions and sharing risks. Some advantages and disadvantages of the model are listed in the table below



Source: Compiled by the author on the basis of available information (8, p. 21-22)

Table 1

SME classification criteria according to ARNK No. 556 of December 21, 2018

Categories of business entities by size	Average number of employees (persons)	Annual income (ig) (thousand manats)
Micro entrepreneur	1-10	ig ≤ 200
Small entrepreneur	11-50	200 < ig ≤ 3 000
Medium-sized entrepreneur	51-250	3 000 < ig ≤ 30 000
Big entrepreneur	251 and more	30 000 < ig

Source: Compiled by the author based on available information.(7)

Table 2

Advantages and disadvantages of medium-sized businesses

Advantages	Disadvantages
Pooling Resources	Decision making
Sharing risks	Profit sharing
Diverse skills	Responsibility

Source: Compiled by the author based on available information.

The advantages of the model are pooling of resources, sharing of risk and diversity of skills. Pooling resources means that partners combine their resources (i.e. finance, knowledge, experience) to implement larger projects. Sharing risk means sharing financial and other risks arising from business activities. When we talk about different skills, we see that each partner has different knowledge and experience, which leads to a more successful business model.

The shortcomings of the model are decision-making, profit sharing and responsibility. In the decision-making process, there can be differences of opinion between the partners, which can complicate the decision-making process and lead to conflicts between the parties. As for profit sharing, conflicts may arise during the distribution of profits. When it comes to liability, there may be situations where one partner may be held responsible for the mistakes of the other. To succeed in a business model, relationships between partners need to be based on open and transparent communication and mutual trust. At the same time, objectives need to be clearly defined. Let us examine the main characteristics of medium-sized enterprises in the table below.

Table 3

Main characteristics of medium-sized businesses

The number of workers	It may vary depending on the country, but it usually ranges from 51-250 people.
Current assets	**It is bigger than a small business, but smaller than a large business.**
Market position	They occupy a stable place in the local or international market.
Management	Although usually under the control of the entrepreneur or family members, professional managers are also involved.
Support opportunities	They can receive support from the state and banks, but they have limited opportunities compared to large companies.

Source: Compiled by the author based on available information.

Medium-sized enterprises play an important role in the economic development of every country. This type of entrepreneurship plays a coordinating role between large enterprises and small enterprises, ensures economic diversification and contributes to increasing employment. In developed countries, the medium-sized enterprise sector accounts for a significant share of gross domestic product (GDP) and employment. Azerbaijan's economy has undergone a rapid transformation process since the 1990s, and various reforms have been implemented to expand entrepreneurial activity.

Let us also consider the number of medium-sized enterprises operating, newly established and de-registered between 2018 and 2023.

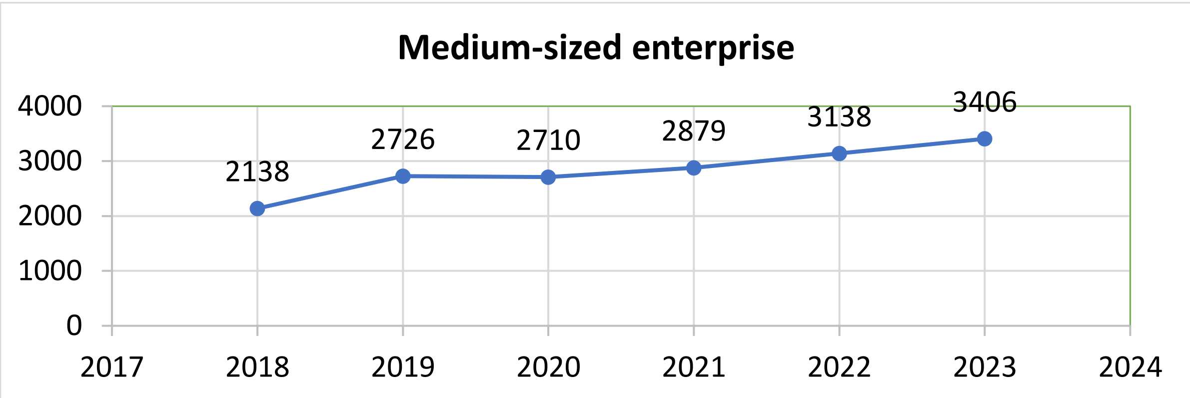
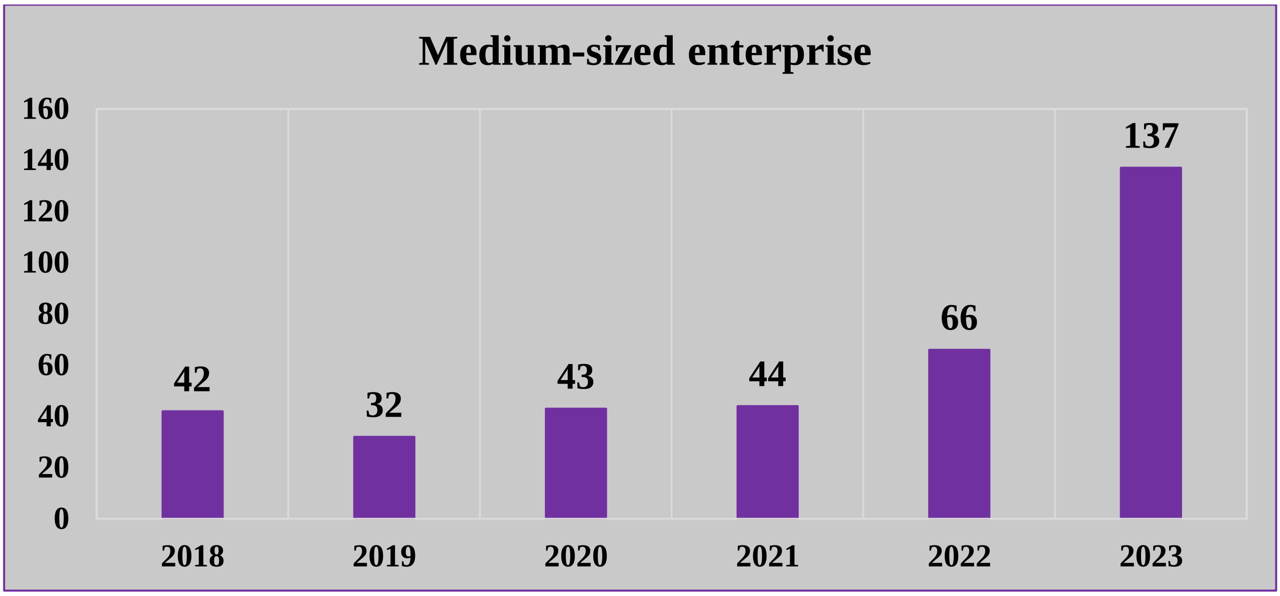


Chart 1: Number of active medium-sized enterprises
Source: Compiled by the author based on ADSK data.(1)

As seen in the graph, the number of medium-sized enterprises (enterprises) increased from 2,138 in 2018 to 3,406 in 2023. This increase shows that the medium-sized enterprise sector is growing steadily. Between 2019 (2726) and 2020 (2710), there was a slight decrease in numbers. This decline may have been due to pandemic-related economic difficulties. Starting from 2021 (2879), the number of entrepreneurial organizations started to increase again and reached its highest level in 2023 (3406). This increase can be explained by various economic factors. For example, government support, an improved business environment, tax cuts or economic recovery after the pandemic.



Graph 2: Number of newly registered medium-sized enterprises
Source: Compiled by the author from ADSK data (1)

The research showed that the registration of medium-sized enterprises remained stable and low in 2018-2021. The lowest number was in 2019 (32) and the highest in 2021 (44). In 2022, the figure rose sharply to 66. The indicator for 2023 saw a record increase: 137 new enterprises were registered. This trend shows that medium-sized business activity has shown significant growth, especially in the last two years (2022-2023). This increase could be due to economic reforms, government support, post-pandemic recovery measures or an improvement in the business environment.

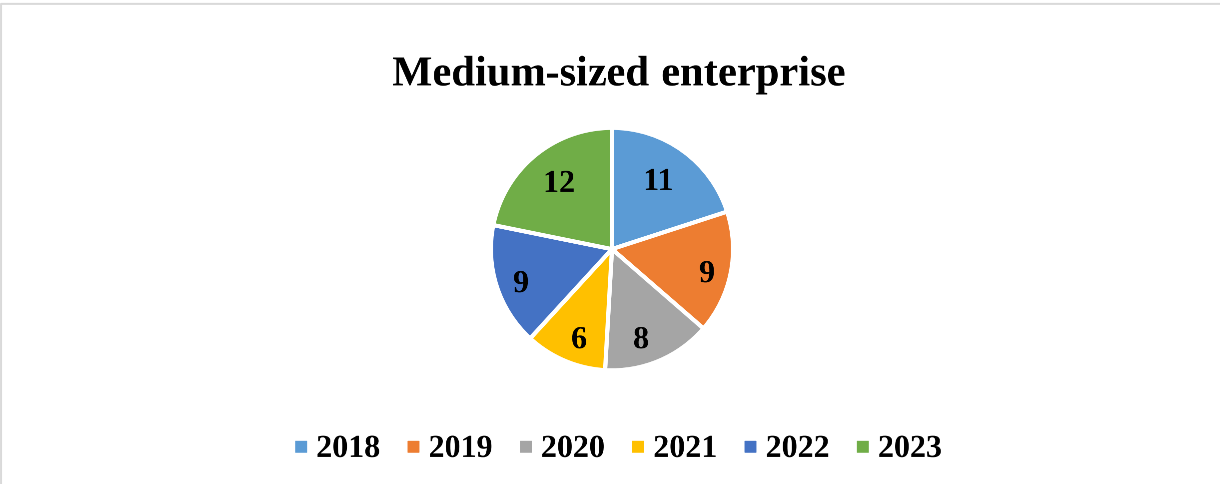


Chart 3: Number of medium-sized enterprises whose registration was canceled
Source: Compiled by the author from ADSK data (1)

According to the data obtained, the lowest number of liquidated enterprises in 2018-2023 was in 2021 (6). In 2018 (9), 2019 (9) and 2020 (8) businesses were liquidated. In 2022, this number increased slightly to 11 and in 2023 to 12. As can be seen from the graphs above, the number of entrepreneurial enterprises established has increased in recent years, while the number of dissolved enterprises has remained stable. In particular, a record number of new enterprises (137) were established in 2023, while the number of dissolutions was only (12). This means that the entrepreneurial environment is improving overall. Because the number of new registrations is much higher than the number of revocations.

In particular, steps have been taken to strengthen the legal framework for the development of medium-sized enterprises, introduce financial support mechanisms and liberalize the business environment. However, there are also some challenges to the further development of the sector. The aim here is to investigate the development trends of medium-sized entrepreneurship in the Republic of Azerbaijan, analyze the existing problems and identify the prospects for development in this area. In the study, the regulatory legal acts, economic statistical indicators and practical experience of entrepreneurs were taken into account and objective conclusions were tried to be reached.

The development of medium-sized enterprises depends on various economic, social and legal factors. When these factors are properly managed, they lead to the strengthening of entrepreneurship, sustainable economic development and the creation of new jobs. The main aspects of these factors are analyzed below.

Legal and Regulatory Framework - A sound legal framework plays an important role in the development of medium-sized businesses. The main legislative acts on entrepreneurial activity in the Republic of Azerbaijan consist of the Law of the Republic of Azerbaijan “On Entrepreneurial Activity”, the Tax Code, the Competition Code, the Customs Code and other regulatory documents. The state has implemented various reforms to protect the rights of entrepreneurs and simplify licensing and permitting procedures. However, entrepreneurs still face regulatory issues. In particular, the complexity of permitting and licensing processes in some regions and the frequent changes in the regulatory framework make it difficult to plan entrepreneurial activities.

Infrastructure and Financing Opportunities - Access to financial resources and the state of infrastructure are important factors in the development of medium-sized enterprises. The state is implementing various programs in this area, for example through the Entrepreneurship Development Fund of the Republic of Azerbaijan, which provides concessional loans to entrepreneurs. However, high interest rates and collateral requirements of commercial banks pose problems for some entrepreneurs. In terms of infrastructure, the establishment of industrial parks and agricultural parks creates conditions that allow entrepreneurs to expand their production capacity. However, road, logistics and communication problems in the regions pose challenges for some entrepreneurs.

Tax and customs policy is one of the main regulatory mechanisms for entrepreneurs. The Tax Code provides for some tax breaks for small and medium-sized enterprises. At the same time, a Simplified Tax System is applied to some types of enterprises. However, some entrepreneurs report that the tax burden is still high and in some cases there are informal conditions. Despite increased transparency in customs procedures, entrepreneurs face additional payments in some import-export transactions, indicating that problems remain in this area.{4}

The Competition Code is a legal document that guarantees fair and healthy competition. The Code has a significant impact on the development of medium-sized enterprises. It regulates issues such as preventing monopolization, protecting market competition and consumer interests, and allowing new entrepreneurs to enter the market. {3}

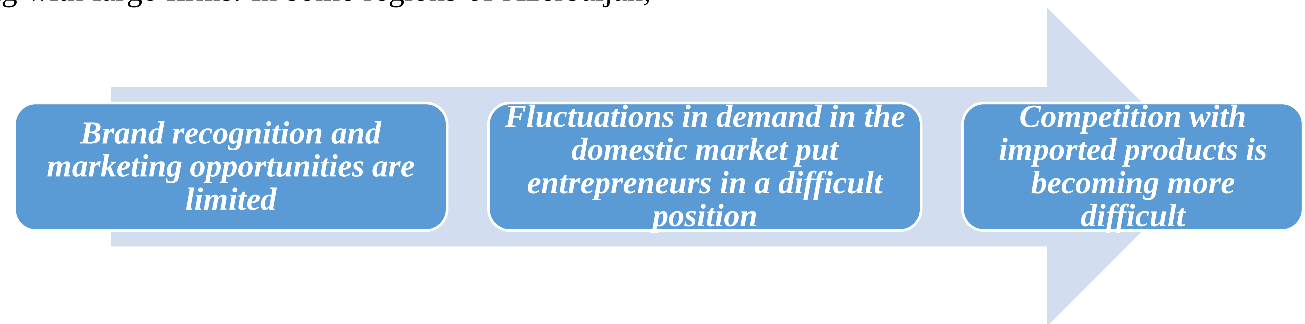
The state implements various programs to promote the development of medium-sized businesses. Entrepreneurs are supported by the Entrepreneurship Development Fund of the Republic of Azerbaijan, the SME Development Agency (KOBİA), the Economic Regions Development Agency and other institutions. Several venture and innovation funds have been established to promote entrepreneurial activities. However, some entrepreneurs do not take full advantage of these support programs due to lack of awareness and complex application processes.

Despite the development of medium-sized enterprises, there are also a number of challenges in this area. If these problems are not addressed, the growth of the sector remains limited and it is difficult for entrepreneurs to contribute more to the economy. The main problems are analyzed below. Access to financial resources is crucial for the development of medium-sized enterprises. In Azerbaijan, entrepreneurs are offered loans through the Entrepreneurship Development Fund, SMEs and commercial banks. However, entrepreneurs mainly face the following challenges:

Source: Compiled by the author based on available information {19}

These problems limit entrepreneurs' ability to expand their activities and make it difficult for them to access capital.

One of the most important problems faced by medium-sized entrepreneurs is the difficulty of competing with large firms. In some regions of Azerbaijan, large enterprises completely control the market, making it difficult for medium-sized entrepreneurs to enter or maintain their market position. In addition:



Source: Compiled by the author based on available information

Some medium-sized entrepreneurs reportedly have limited access to foreign markets. There are several main reasons for this. Government support, export incentives, cooperation with international trade organizations, awareness raising for entrepreneurs and integration of local entrepreneurs into the global market are essential to overcome the following factors:

➢ Weak competitive advantage - It is difficult for medium-sized entrepreneurs to compete with large international companies.

➢ Limited financial resources - High investment is required to enter foreign markets.

➢ Logistics and infrastructure issues - Limited transportation and warehousing facilities suitable for exports can be a barrier for medium-sized entrepreneurs.

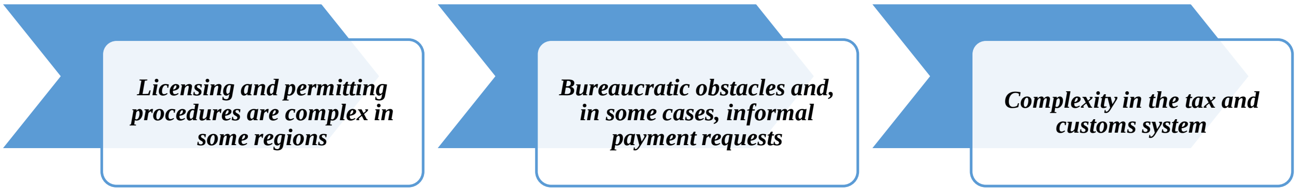
➢ Regulatory requirements and customs barriers - Foreign countries' trade regulations and customs duties can pose challenges for medium-sized entrepreneurs.

➢ Lack of international market knowledge - Lack of knowledge about foreign market demands, consumer behavior and trade rules creates problems for entrepreneurs.

Innovation and the use of new technologies are essential for the development of medium-sized entrepreneurs. More training and technical support is needed to support innovative entrepreneurship. However, there are some limitations in this area:

Source: Compiled by the author based on available information

Legal and administrative issues also play an important role in the development of medium-sized enterprises. Some of the main challenges include the following: To overcome these challenges, it is important to continue legal reforms and strengthen support mechanisms for entrepreneurs.



Source: Compiled by the author based on available information.{5}

An entrepreneurship ecosystem is a system of elements such as infrastructure, regulatory framework, financial resources and innovation environment that support entrepreneurs' activities and help them develop successfully. This ecosystem creates a complex environment that brings together government, the private sector and civil society. The sustainable development of medium-sized enterprises requires a strong entrepreneurial ecosystem. For this:

➢ Increased government-entrepreneur cooperation - Closer dialog mechanisms should be established between the government and the business world, and entrepreneurs' problems should be solved faster.

➢ Training and mentoring programs for entrepreneurs might be organized - Training on new business models, marketing strategies and management technologies should be increased.

➢ Support can be given to the development of startups and innovative entrepreneurship - Investment opportunities for young entrepreneurs and new business ideas should be increased.

➢ Facilitatation can be provided for access to financial resources for medium-sized enterprises and ensure sustainable development:

➢ Soft loans and alternative financing sources might be increased, which create opportunities for entrepreneurs to access low-interest financing.

➢ Developing the venture capital and angel investing system, involving investment funds and individual investors in innovative business projects,

➢ Improving digitalization and financial services, improving entrepreneurs' business strategies, expanding digital skills and services, especially to make financial management more efficient.

To strengthen the integration of medium-sized entrepreneurs into the global market:

➢ Export support programs might be expanded - Organizing exhibitions, business forums and trade missions to promote entrepreneurs' products in foreign markets can be effective;

➢ Simplification of customs and logistics procedures, flexible and simple export procedures and transparent organization can encourage entrepreneurs to reach wider markets;

➢ Government tax reductions for exporting entrepreneurs, special tax and fee reductions for exporting enterprises to increase their competitiveness in foreign markets can contribute to the development of entrepreneurship.

In the modern economy, digitalization and access to technology play an important role in the success of entrepreneurs. Therefore:

➢ Digital transformation might be supported - Encourage the implementation of online sales platforms, e-commerce and ERP systems for medium-sized enterprises.

➢ The application of innovations in industry and agriculture can be promoted- Entrepreneurs should be introduced to new production technologies and agricultural technical innovations.

➢ Startups in the IT and software sector can be supported- by creating more opportunities for companies operating in digital services and software.

As a result of the analysis, it can be concluded that the economic power of the state in a market economy is formed by a powerful army of entrepreneurs. In other words, the state's participation in economic processes ends with regulatory functions, and the market is shaped by private economic entities and the competitive environment between them. In all countries where market relations prevail, entrepreneurship is the foundation of national economic development.

Especially in our country, entrepreneurial activity forms the basis of economic development and plays an important role in the dynamic progress of the country's economy and in providing employment. In particular, small and medium-sized enterprises are more attractive in terms of flexibility and the ability to adapt faster to changes in the market and contribute more to economic development.

As experts emphasize, this sector both increases employment and strengthens the non-oil sector, which is a priority of our state's economic policy. In this context, it is always important to increase the financial accessibility of entrepreneurs, especially medium-sized enterprises, and to encourage their activities in this field from a legal and technological point of view.

As a result of the research conducted, it is considered necessary to consider the following issues for the development of medium-sized enterprises in our country:

- ➢ Ensuring that entrepreneurs are informed in a timely and flexible manner about innovations and changes adopted in relation to entrepreneurial activity, legal-administrative-fiscal-economic-social, etc. The creation of a mobile application called "Mobile Entrepreneurship" reflecting these issues can be considered;
- ➢ Improving the regulatory and legal framework in the field of entrepreneurship, making incentive proposals on a sustainable basis, protecting the rights of entrepreneurs, preventing external interference in this field, implementing reforms to improve the competition and investment environment can be considered as the main challenges of the modern era.

Research also confirms that one of the necessary conditions for sustained and successful entrepreneurial activity is financial security and access to the necessary financial resources. In this sense, increasing financing and investment opportunities for medium-sized enterprises in our country should always be prioritized. For this purpose, the following points can be taken into consideration:

- ➢ Supporting entrepreneurs' access to wider markets by facilitating access to the necessary financing through concessional loans;
- ➢ Encouraging innovative approaches in the entrepreneurship ecosystem through the development of alternative sources of financing (venture capital, angel investors);
- ➢ Expanding cooperation opportunities between the public and private sectors and issuing decrees for entrepreneurs to promote entrepreneurship in specific areas and encouraging the purchase and sale of local products.

In addition, strengthening the export and digitalization potential is an important factor in the development of medium-sized enterprises. For this, the following points can be considered.

- ➢ Creating easy and flexible access mechanisms to export markets, creating promotion and marketing opportunities for entrepreneurs in foreign markets;
- ➢ Offering preferential tax and duty rates to entrepreneurs producing export-oriented products or services;
- ➢ Creating opportunities for entrepreneurs to integrate into e-commerce platforms and sell online by encouraging the wide-scale implementation of digital technologies.

To realize all of the above, first and foremost, an environment conducive to entrepreneurship needs to be created. Each of the above is complementary to each other and is an important element in creating a positive entrepreneurship ecosystem. However, in order to further develop the entrepreneurship ecosystem in Turkey, it is recommended that the following issues might be taken into consideration:

- ➢ Providing special support programs to encourage innovation and the application of new technologies in production and service sectors and to facilitate small and medium-sized entrepreneurs' access to new technological equipment;
- ➢ Creating marketing opportunities in target markets by organizing business training and mentoring programs for entrepreneurs;

➢ Encouraging public-private sector cooperation in necessary areas of the economy and in regions deemed relevant;

➢ Intensifying relations with relevant institutions and establishing effective communication mechanisms with relevant institutions in order to solve entrepreneurs' problems faster with the widespread implementation of digitalization.

Result

As it is clear from the research conducted, the medium-sized business sector in Azerbaijan has great potential and the development of this sector can contribute to the sustainable growth of the country's economy. The article analyzes the main problems and solutions for the development of medium-sized businesses and aims to prepare justified proposals and recommendations for the maximization and realization of existing potential opportunities. It is believed that strengthening elements such as government support, financial accessibility, innovation, digitalization in the field of entrepreneurship will enable this sector to develop further and contribute more to national economic development.

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Səma Dopbuyeva

Azərbaycanda orta sahibkarlığın inkişaf prespektivləti

Azərbaycan Dövlət Neft və Sənaye Universiteti
"Sənayenin iqtisadiyyatı" kafedrasının magistri

Xülasə

Orta sahibkarlıq ölkənin iqtisadi diversifikasiyasında və məşğulluğun artırılmasında mühüm rol oynayır. Lakin maliyyələşmə problemləri, inzibati maneələr, bazar rəqabəti və innovasiyaların məhdud tətbiqi bu sektorun inkişafına mane olur.Bütün bu problemlərin ortadan qaldırılması dövlət dəstəyinin gücləndirilməsi, bu sahəyə investisiyaların cəlb olunması, güzəştli kredit imkanlarının artırılması, ixrac potensialının genişləndirilməsi, rəqəmsallaşmanın sürətləndirilməsi və sahibkarlar üçün təlim proqramlarının genişləndirilməsi, o cümlədən qarşılaşdığı çətinliklər və bu problemlərin həlli yollarının araşdırılması günün ən aktual məsələlərindən biri olaraq məqalədə geniş təhlil edilmişdir.

Açar sözlər: Orta sahibkarlıq, iqtisadi inkişaf, maliyyə əlçatanlığı, innovasiya, ixrac, dövlət dəstəyi, rəqəmsallaşma.

Сема ДОПБУЕВА

Перспективы развития среднего предпринимательства в Азербайджане

Азербайджанский Государственный Университет Нефти и Промышленности
Магистр кафедры "Экономика промышленности"

Резюме

Среднее предпринимательство играет важную роль в экономической диверсификации страны и увеличении занятости. Но проблемы с финансированием, административные барьеры, рыночная конкуренция и ограниченное внедрение инноваций препятствуют развитию этого сектора. Устранение всех этих проблем усиление государственной поддержки, привлечение инвестиций в эту сферу, увеличение льготных кредитных возможностей, расширение экспортного потенциала, ускорение цифровизации и расширение программ обучения предпринимателей, в том числе и стоящих перед ними трудностей, и исследование путей решения этих проблем, как одного из наиболее актуальных вопросов дня, подробно проанализировано в статье.

Ключевые слова: среднее предпринимательство, экономическое развитие, финансовая доступность, инновации, экспорт, государственная поддержка, цифровизация.