

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**FINANCIAL PROVISION OF THE SMALL AND
MEDIUM ENTREPRENEURSHIP AND IMPROVEMENT OF
THE TAX MECHANISM IN ITS DEVELOPMENT**

Speciality: **5308.01-” General economics”**

Field of sciences: **Economic Sciences**

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Ganja-2021

The thesis is implemented in the Chair of Economic Theory of the Azerbaijan Cooperation University

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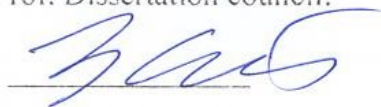
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Joint Dissertation Council ED 2.42 of Supreme Attestation Commission under the President of the Republic of Azerbaijan, operating at the Azerbaijan State Agricultural University

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The general characteristics of the thesis

Currency of the research topic. The political-economic crisis happening in the world in the recent years, significant reduction of the oil price due to the political reasons and the results of the Coronavirus (COVID-19) global pandemia impacted on the national economy of the oil countries.

As in all democratic states determining the market economy as a way of future development in compliance with the international practice, development of the private sector and free entrepreneurship in our republic is deemed as an essential condition of improvement of the political and social-economic system of our country. Simulation of development of the small and medium entrepreneurship by the government may ensure industrial, agricultural, touristic and other economic sectors.

It is noticeable that 2020 was the year of victory in the history of Azerbaijan. Our nation led by Ilham Aliyev, the President of Azerbaijan Republic and Glorious Supreme Commander demonstrated the unity, the valorous army of Azerbaijan released our lands from occupation and our territorial integrity got restored. For the purpose of restoration of these territories, “Great Return to Released Lands” has significant place among the National Priorities directed to the years of 2030. Rehabilitation of the new international and regional transport-logistic corridor in the region will expand the opportunities of our country for getting to the world markets. Participation of the foreign and local business subjects at rehabilitation of the lands released from occupation and, successful activity of the production and service enterprises established in these territories, as result, will positively influence on increase of the gross domestic product with micro and macro economic indicators.

Scientific research of the issues of financial provision of the small and medium business in the existing conditions of market economy and improvement of the tax mechanism in its development as well as precise determination of the directions of development of the small and medium entrepreneurship subjects will promote to expansion of the financial opportunities in the future perspective.

The thesis written in the topic of «Financial provision of the small and medium entrepreneurship and improvement of the tax mechanism in its development» always excels with currency. The main target of writing this thesis determination of the role of small and medium entrepreneurship in development of the national economy in conditions of the modern market economy, the ways of financing of the small and medium entrepreneurship, the role of government and credit institutions in financing of the small and medium entrepreneurship, research of opportunities of public regulation of the level of tax burden, comparative analysis of the features of risk management in the activity of the small and medium entrepreneurship basing upon the international practice as well as determination of the impact of the tax policy on development of the small and medium entrepreneurship and the ways of improvement of the tax mechanism, evaluation of optimization of the tax burden and the directions of development.

The investigation object. The investigation object is improvement of the tax mechanism implemented in the present condition and development of the financing provision of the small and medium entrepreneurship subjects considering the risks.

The investigation predmet is the issues of financing of the small and medium entrepreneurship in the country and improvement of the tax mechanism.

The target and tasks of the investigation. The target of the thesis is submission of new proposals for the purpose of financial provision of the small and medium entrepreneurship and improvement of the tax mechanism in its development as well as analysis of activity of the small and medium entrepreneurship from the point of view tax regulation and discovery of the role of the government and credit institutions in financing of the small and medium entrepreneurship in Azerbaijan.

According to the set targets, the following tasks were observed in the thesis:

- Determination of the economic concept of activity of the small and medium entrepreneurship;

- Determination of the essence and significance of the the small and medium entrepreneurship in the present conditions;
- Determination of application of the methodology of calculation of the tax burden in the small and medium entrepreneurship;
- Determination of necessity of the governmental support to the small and medium business in the existing conditions and period of passing to the market economy;
- Determination of the rationality of financing of the small and medium entrepreneurship and governmental regulation of the tax burden and its development perspectives;
- Determination of the role of the banking sector in financing of the small and medium business;
- Analysis of the impact of tax burden on development of the financial provision of activity of the small and medium entrepreneurship;
- Clarification of the risk essence in the activity of the small and medium entrepreneurship;
- Discovery of the features of the risks upon credits as source of financing of the small and medium entrepreneurship;
- Assessment of the credit risks of the small and medium entrepreneurship and optimization of tax burden and determination of the development perspectives.

The methods of the thesis. During the investigation the doctoral candidate has used the scientific observations, comparisons, analysis, sythesis and other methods as well as the works by the Azeri economic scientists regarding financial provision of the small and medium entrepreneurship in the modern conditions and improvement of the tax mechanism in its development, the opportunities of the credit institutions as well as application and usage of the government's regulation mechanism.

The main provisions taken to defence. The thesis has the following provisions:

- The theoretical-methodological bases of financing of the small and medium entrepreneurship;

- The essence of the tax burden of the small and medium entrepreneurship subjects and the methodology of calculation;
- The opportunities for public regulation of financing of the small and medium entrepreneurship and the level of the tax burden;
- The role of the banking sector in financing of the small and medium entrepreneurship;
- The risk concept in activity of the small and medium entrepreneurship and analysis of its essence;
- Assessment of the risks upon bank credits as provision of financing of the small and medium entrepreneurship;
- Impact of the tax mechanism on development of the small and medium entrepreneurship and assessment of optimization of the tax burden.

The scientific novelty of the investigation. The scientific novelty of the investigation consists of the following items:

- Existence of experience of the small and medium entrepreneurship activity in Azerbaijan as well as the legislation in this sector and, determination of the impacting mechanism of the tax policy;
- Clarification of the concept of the small and medium entrepreneurship basing upon the essence of the small and medium entrepreneurship and expensive determination of its classification;
- Implementation of precisions in determination of the sources of financing the small and medium entrepreneurship;
- Determination of the opportunities for public regulation of the level of tax burden at the small and medium entrepreneurship subjects;
- Theoretical substantiation of the public regulation of the small and medium entrepreneurship;
- The role of improvement of the tax mechanism in provision of development of the small and medium entrepreneurship as well as analysis and determination of criteria of the impacting opportunities of the tax policy;

- The role of the tax mechanism while financing the small and medium business as well as determination and assessment of the management risks;
- Substantiation of the banking sector's role in development of the small and medium entrepreneurship;
- Determination of the priorities of the small and medium entrepreneurship in development of the national economy.

The theoretical and practical significance of the investigation. As proposed in the thesis, the financial provision of the small and medium entrepreneurship and substantiation of the impacting criteria of improvement of the tax mechanism in its development, increasing the role of the credit institutions, determination of the risks, optimization of the tax burden, improvement of the existing normative-legal basis and simultaneously, reduction of the banks' accounting degree, disbursement of credits with convenient terms and governmental support of the small and medium entrepreneurship will promote to development of this sector.

Testing and using the results of the investigation. The main provisions of the thesis have been published in the materials of the scientific-practical conferences held in the Azerbaijan Cooperation University, Baku Business University and Gandja State University (2014-2018); in the materials of the international scientific-practical conference of the Auditors' Chamber of Azerbaijan Republic (2016); in the magazine titled "экономика, управление, проблемы, решение" (2018) of the Russian Federation and the magazine titled "Cooperation, Audit, Finance and Accounting" (2018). The results of the investigation was accepted for usage by the Scientific-Researching Institute of Economic Reforms of the Ministry of Economy of Azerbaijan Republic (Reference No. İİEİS-01-5/110 03.07.2018).

The institution of implementation of the thesis. The doctoral candidate has implemented the thesis in the Azerbaijan Cooperation University.

The volume of the thesis. The thesis consists of three (3) chapters, nine (9) paragraphs, one (1) figure and ten (10) tables and

was printed on 140 pages. The introduction of the thesis consists of 17206 symbols; the 1st Chapter has 62997 symbols; the 2nd Chapter has 82715 symbols; the 3rd Chapter has 40829 symbols; and the Conclusion has 8258 symbols. Totally, the thesis has 212161 symbols.

The thesis was written using 144 literatures.

The author has 18 articles in the topic of the thesis.

The co-authors: Tabriz Abdulla Yadigarov, Daghbayi Isa Allahverdiyev, Merhiban Mirgasim Iskandarova.

Assessment of factors determining development of small business.

The world of science and innovation. Proceeding of 9th International scientific and practical conference, April 7-9, 2021. United Kingdom, London. Is being printed.

THE MAIN CONTENT OF THE THESIS

The introduction of the thesis comments the currency and working degree of the topic, the object and subject of the investigation, its tasks and targets, the main provisions submitted to defence, scientific novelty, theoretical and practical significance as well as testing and using the results of the investigation.

The 1st Chapter of the thesis devoted to the theoretical-methodological bases of the small and medium enterprises comments the economic essence of small and medium entrepreneurship, the theoretical-economic bases of financing of small and medium entrepreneurship and tax burden of the small and medium entrepreneurship subjects, its essence and calculation methodology.

The state support to development of entrepreneurship was always demonstrated during the last 28 years of our independence. As result of the State Progmats successfully implemented during last years, the agrarian sector was developed for providing the food security in the country and the enterprises, organizations and private entrepreneurs functioning in 2020 produced gross domestic product in amount of AZN 72,4 bln. Determination of the financial sources is

always deemed as priority for achievement of the results planned for the years of 2021-2025 and further.

The experience shows that one of the different features between the small and medium business and large one is their financing method. The small and medium business is financed, first of all, in the expense of the international sources including the enterprise's incomes, the entrepreneur's personal funds and other financial sources not contradicting to the legislation. Another source for financing the small and medium business subjects in conditions of market economy is bank credits. Disbursement of bank credits is possible basing upon their socialized programs and the governmental support.

Researching the features of financing of the small and medium entrepreneurship on the theoretical-economic grounds, it is necessary to remember that financing in the expenses of the international sources causes damage to the small entrepreneurship sector as separately for the economic subjects. It increases the assumption of bankruptcy risk, the challenges occurring in expansion of production and at last, the barrier for the most successful small enterprises to the row of medium and large ones.

Planning of important measurements like financing of small and medium enterprises upon various sectors of the national economy basing upon the ramification principle may cause expansion of this sector in the next years. Simultaneously, production of local products and raw materials substituting import will increase. As result, meeting of the local population's need in consumption goods in the expense of local products and initiating of export abroad will be implemented. In its turn, it will prove itself by means of turning into main targets of development of small and medium entrepreneurship in the country. In general, development of small and medium entrepreneurship in the national economy causes necessity of determination of its financial provision.

The researches show that reduction and removal of the financing challenge for small enterprises without public interference is impossible. It should not be understood as direction of the budget funds to usage of any entrepreneur. From other hand, each micro

company is not obliged to turn into small, medium and large enterprise. However, the experience of the developed countries shows that the initial financial capital is one of the best conditions for expansion of the dimensions of small enterprise. Involvement of internal investment to perspective business provides efficient ration of the optimal structure of national economy and the small, medium and large enterprises. Besides the direct public financial support, this issue finds its solution in the public level by means of development of mechanism of directing the free capital to the small and medium entrepreneurship.

Table. Investment amount required upon the measurements to be taken within the frames of the Strategic Road Map and analysis of indicators regarding the expected results

No.	Taken measurements	Impact on GDP (AZN mln, 2020)	Employment (full staff personnel, 2020)	Investment amount (AZN mln)
1.1	Establishment of the centralized small and medium entrepreneurship agency	200	240	10
1.6	Establishment of special industrial zones and clusters upon small and medium entrepreneurship	475	23300	630
2.1	Implementation of reforms in field of termination of activity and settlement of the bankruptcy issues	450	900	-
3.1	Expansion of the financial services for international commercial operations of small and medium entrepreneurship subjects and propagandizing of direct foreign investments	55	9800	3
3.2	Establishment of export associations upon various sectors	45	-	-
4.1	Development of start-up projects and business incubators, establishment of model enterprises	35	-	50

The Table is developed by the author basing upon the statistical indicators included to the Road Map.

From other hand, financing of the small and medium business by banks is also considered as one of the financial sources. Presently the small and medium business subjects are credited by means of the

National Fund of Support to Entrepreneurship under the Ministry of Economy of Azerbaijan Republic with participation of the commercial banks functioning in our country.

The term of “taxation” has been a topic for discussion for the period of over 200 years.

The most authors identify the concepts of “tax burden” və “tax obligation”. But a small group of researchers distinguish the “tax burden” and “tax obligation” concepts of the economic subject. These authors are famous economic scientists of Azerbaijan like Z.A. Samadzade, A.F.Musayev, E.A. Quliyev, Y.A.Kalbiyev, M.J.Ata-kishiev, J.B.Namazova, I.M.Abbasov, M.J.Huseynov, E.R.Ibrahimov, B.Kh.Atashov, E.M. Hajizade, P.A.Hasanova, G.A.Ganjiyev, N.A. Hajiyeva, I.N.Ibrahimov, R.N.Balayev, F.P.Rahmanov, R.T.Hasanov, Z.M.Mammadov as well as foreign scientists like A.V.Bobrova, D.V.Lazutina and N.A.Solovyova.

In the vocabularies of researching scientists like A.B.Borisov, B.A.Riseberg and A.G.Gryaznova the analysis of explanation of the “tax burden” concept of the economic subject allows make the following conclusions: “tax burden of an entrepreneurship subject” as a synonym of “tax obligation” i.e. they are the same concepts; the term of “tax burden” expresses both qualitative and quantitative features of this economic category. The economic essence of the tax burden of the economic subject is that, as already noted, it is assessed as a result of the state and economic subject basing upon redistribution of a part of the newly created value by means of transfer of the state’s functions including the economic subject to the state for implementation of the social functions. Hereby, the entrepreneurship and investment activity of the institution is systematically provided within the frames of a qualitative economic state policy.

Explanation of the tax burden’s essence is completed also by the thesis that the tax burden is a part of an entrepreneur’s income and the state takes this part for the benefit of budgets of various levels by means of the tax and duties system. In other words, it expresses the level of impact of the taxation system to the results of the activity of the economic subjects.

Hence it follows that the tax burden of an economic subject is a quantity specifying the impact of the regular mandatory payments of tax essence for the public benefit on the enterprise's financial state and determined by means of separate indicators or their totality.

The "tax burden" and "tax obligation" concepts are the same in the national legislation of Azerbaijan.

In our opinion, while choosing the method of calculation of tax burden it is necessary to consider that the initial indicators have to disclose integrity of the target information. It is noticeable that the most researchers recommend to avoid ascribing the tax amount to the individuals' incomes during calculation of the tax burden of an economic subject because in this case the economic subject acts as not a taxpayer but a tax agent. On the contrary, the amount of the indirect taxes participate at calculation of tax burden in the most methodologies.

The precise investigation of the essence and methodology of calculation of tax burden has important significance in determination of the sources of financing of the small and medium entrepreneurship. In general, financing of the small and medium entrepreneurship and public regulation of the tax burden directly depends on the social-political conditions existing in each country, the convenient tax and investment environment and the specific features of establishment of the national economy. From this point of view, the convenient economic condition existing in each country has significant role in development of real sector.

The second Chapter of the thesis devoted to financing of the small and medium entrepreneurship and the level of the tax burden investigates the features of state regulation of financing of the small and medium entrepreneurship and the role of the banking sector in financing of the small and medium entrepreneurship.

The global processes happening in the world geography stipulate taking appropriate measurements for the purpose of increasing the competitiveness of the national economy, removing the dependence of imported goods and stimulating export.

The state programs approved for the purpose of development of the small and medium entrepreneurship contain some directions of the public support:

- Establishment of the normative-legal basis of development and surveillance of the small and medium entrepreneurship;
- Financial-credit and investment support;
- Production and innovation support. Establishment of new workplaces;
- Establishment of the infrastructure of development and support of the small and medium entrepreneurship;
- Informational provision;
- Scientific-methodological and personnel provision;
- Social protection and safety in the small and medium entrepreneurship;
- Establishment of the public and social surveillance system.

Establishment of the normative-legal basis of the small and medium entrepreneurship is deemed as important and essential condition providing the economic freedom, supplement and right of the small and medium entrepreneurship subjects and determining their tasks and responsibilities before the economic subjects, partners, consumers and budget institutions.

The economic scientists of our country implementing scientific investigations upon the tax policy started using the concept of tax potential in the middle of 1990s since establishment of the modern tax system in Azerbaijan.

Application of optimal methodologies for forecasting the tax potential in the small and medium entrepreneurship subjects allows taking more objective decision for any measurement or determination of the direction of activity of an economic subject. By this way, the possible impacts of the foreign and internal factors on the tax potential of the economic subject is deeply considered.

The experience shows that the practical implementation of the tax policy is implemented via the tax mechanism. Namely the tax mechanism is considered as regulator of economy in some countries. The tax mechanism is the totality of the organizational and legal norms and methods of management of the tax system. Tax burden is

regulated by means of tax rates, tax exemptions, tax sanctions, establishment tax basis, etc. According to the world tendencies, regulation of tax by means of tax benefits is specific for the innovation activity and, the tax discounts remain one of the principal tools of stimulation of the investments. In the both foreign and our country's experience the mostly expanded methods of regulation of the tax burden of an economic subject are the following ones:

- deferment of tax payment;
- tax credit of investment destination;
- tax vacations;
- tax amnesty;
- tax deductions;
- selection, modification and differentiation of the tax rates;
- international agreements regarding prevention of double taxation;
- change of the content and structure of the tax system;
- substitution of any tax deduction method or form with another one;
- change of the tax benefits and rates, directing them towards destinations and objects;
- full or partial discharge from taxes;
- tax discounts of investment destination;
- deterioration awards.

It is noticeable that the acceptable range of tax burden may be determined basing upon the econometric model of the dependance of tax burden on the generalized indicator of rationality.

The result of activity of a small and medium entrepreneurship subject is its earned benefit. Reviewing the issues of the taxation theory they act proceeding from rational behaviour of the market participants. A higher level of tax burden in another equal condition leads to reduction of the circulating assets providing durable work of an economic subject and exhaustion of the financial reserves necessary for expanded repeated production process. Thus, in case of fulfillment of the following condition while monitoring the tax burden:

$$\xi_r < \xi_f < \xi_{max} \quad (1)$$

whereby ξ_{max} is the upper border of the acceptable level of the total taxation and ξ_f is the factual value of the tax burden, it is possible to speak about irrational work of the institution within the existing taxation system, unreasonable usage or inefficient ratio of the resources under the economic subject's disposal. ξ_r provides the maximum of the generalized rationality indicator.

In case of fulfillment of the following condition:

$$\xi_{min} < \xi_f \leq \xi_r \quad (2)$$

whereby ξ_{min} is the upper border of the acceptable level of the total taxation the entrepreneurship subject works rationally.

If the factual value of tax burden complies with the acceptable level of the total taxation:

$$\xi_{min} < \xi_f < \xi_{max}, \quad (3)$$

and, according to the data of statistic reports, the entrepreneurship subject incurs losses, it shows occurrence of violations and requires thorough analysis of the financial and tax reports.

The aforesaid methodology may be used for development of models within the frames of the process of propositions regarding regulation of tax burden of the small and medium entrepreneurship subjects in the level of sectors, regions and generally economy equally with the tax burden indicator grounded by means of economic-mathematic modelling. Besides, risk management in financing of the small and medium entrepreneurship for the purpose of development, impact of improvement of the tax mechanism on the economic activity and assessment of optimization of tax burden stipulates development of the entrepreneurship activity from the point of view of the national legislation.

It is noticeable that the basis of economic development is the private sector and, subsequently to the economic reforms held in the last 16 years the number of the entrepreneurship subjects increased for 2,5 times. The public support to the private sector is expressed in the known Decree signed by President Ilham Aliyev declaring this sector as the prior activity.

Existence and discovery of the financing sources of the small and medium entrepreneurship is one of the main conditions for

development and expansion of activity of the small and medium entrepreneurship in the content of the formed army of entrepreneurs.

The commercial banks in the modern period are one of the mediators of creation source of the generally accepted funds demonstrate their value in practice. For this purpose a bank shall be interested in contact with people launching new entrepreneurship activity, and have sufficient financial reserves and simultaneously, be able to disburse these funds in form of long-term credits. In this case, the small and medium entrepreneurship subjects have to submit to the bank the projects certifying possibility of earning higher profits. From this point of view, the business subjects use banking credits upon free choice after learning the banks' conditions.

Non-banking institutions also have significant role in financing of the small and medium entrepreneurship. "The Fund supporting small business", "leasing operations", "The Fund of Propagandizing Export and Investments" may be shown as samples.

According to the scientific researches, besides the banking operations, the factor significantly promoting application and expansion of the leasing operations is the tax benefit system determined for its users. In the international practice, a participant of leasing operation is not deemed as payer of the profit tax acquired basing upon agreements with maturity not exceeding three years upon financial leasing as the principal type of leasing service. Over 30 leasing companies have been established in modern Azerbaijan. Determination of the taxation factors is deemed as one of the essential conditions in financing of the small and medium entrepreneurship by means of the leasing companies. Development of the small and medium entrepreneurship mostly depends on application of the tax benefits determined in the legislation. Such stimulating measurements motivates the small and medium entrepreneurship to manufacture competitive products and render qualitative services. The tax potential of the entrepreneurship subjects and public regulation of the level of tax burden is larger. *nün səviyyəsinin dövlət tərəfindən tənzimlənməsi imkanları daha genişdir.* First of all, it is necessary to determine during the investigation the importance of fulfillment of the obligation of

opportune repayment of the taxes to the state budget by the small and medium entrepreneurship upon clarifying the tax potential and, discover the opportunities for public regulation of the tax burden level.

The 3rd Chapter devoted to risk management in financing of small and medium entrepreneurship and priorities of improvement of tax mechanism investigates the meaning and essence of risk in activity of small and medium entrepreneurship, risk assessment upon bank loans as financing source of small and medium entrepreneurship, influence of the tax mechanism on development of small and medium entrepreneurship, evaluation of optimization of the tax burden and development directions.

Organization of the modern entrepreneurship activity is impossible without a risk because success of business depend not only on precision and influence of the selected strategy of the business activity but also on consideration of the critic situations. Continuation of the business activity in conditions of market relations requires application of the technical novelties as well as brave and resolute steps and, this fact increases risk. Consequently, an entrepreneur's principal task is not avoiding risks but ability of assessing the risk degree and managing it.

There are many ideas regarding the definition, essence and nature of risk. It proceeds from versatility of risk, its insufficient usage in real activity and failure of its consideration in the existing legislation. Let's review two mutually complementary definitions of risk covering its general content.

The first definition: risk is defined as assumption (danger) of an economic subject's deprivation of a part of own reserves or benefit subsequently to any production or financial activity or, occurrence of additional risks. Thus, risk is connected to assumption of any undesirable event, failure or danger.

Entrepreneurship as an important integral part of market economy is expressed, first of all, in the small and medium business significantly causing a competitive environment in the consumer market.

The development dynamics depends on numerous risk factors including the level of entrepreneurs' readiness for dealing with business activity and financial opportunities.

The specificity of successful entrepreneurship in the small and medium entrepreneurship activity consists of versatile activity of the businessmen running risk of dealing with business activity and ready to bear responsibility for the results of own activity.

Preference to the small and medium entrepreneurship subjects is connected to some economic and social results. The samples here may be usage of rapid forms during decentralization of large enterprises, production and organization of labor, expansion of the product range and improvement of its quality, strengthening the competition between the manufacturers, etc. Simultaneously, according to the researches, the economic improvement and increase of the number of the new workplaces during the last years were provided not owing to large enterprises but mainly the small and medium production enterprises.

Subsequently to establishment and development of the small and medium production enterprises, application of the economic novelties accelerates, the inhabitants' employment level increases, the environment of free competition is established and entrepreneurs try to manufacture high-quality products.

In our opinion, the main feature determining the essence of the small and medium entrepreneurship subjects is that they do not need big amount of capital investment, operatively respond to change of the market conjuncture and brings high mobility and rapidity to the market economy. Besides, the small and medium entrepreneurship subjects provide high profitability in manufacture of products unprofitable for large enterprises and promotes to more rational production-economic cooperation.

Assessment of risks in financing of the small and medium entrepreneurship may impact on productivity of this type of activity and provide its development.

The general provisions of measurement of the banking credits directed to development of the small and medium entrepreneurship are basing upon the normative acts regarding the risk management

standards of the Central Bank of Azerbaijan Republic. The target of this standard is supporting organization of management in banks and implementation of the appropriate procedures in compliance with the existing legislation and perfect international practice. Each bank has to apply the provisions of this standard in compliance with the types, features and amount of the risks it exposed to as well as the healthy control environment.

According to the international practice, the acting Risk Management Committee has to be interested in assessment of reliance of the client and counterparty through a separate Credit Committee and determination of separate credit limits. Achievement of rational management of the credit risks requires, first of all, development of methodology.

In our opinion, risk management may be specified as totality of the methods and measurements helping to forecast the risky events in certain level and exclude or eliminate their negative results. It is noticeable that risk management is a specific sector of the economic activity requiring analysis of economic activity and rationality of the economic activity as well as deep knowledge in insurance, psychology and other fields. Hereby, the entrepreneur's main task is finding the option providing the most optimal ratio of risk and benefit from the point of view of project where it is necessary to consider that realization of more profitable projects is connected to higher risks.

The main principles of risk management are below:

- never run risks over the existing capital;
- always think about the results of risk;
- never run risks with higher for lower.

Basing upon these principles, the main methods of risk management may be noted like avoidance of risk, reduction of risk rate, acceptance of risk.

Avoidance of risk means rejection of an arrangement (project) connected to risk. The appropriate decision is taken in case of violation of the aforesaid principles i.e. when the possible losses exceed the expected income. Although this principle helps to fully prevent from uncertainty and possible losses, it excludes income.

Reduction of risk rate reduces assumption and amount of losses. From other hand, acceptance of risk means the risk's remaining fully or partially (if a part of the risk is undertaken by another person) on the entrepreneur i.e. under the entrepreneur's responsibility. In this case the small and medium entrepreneurship subjects take decision to reimburse the possible losses at own expenses.

Another way of reduction of risk is acquisition of complete information. If the information is acquired easily, the consumers may submit better forecast and reduce risk. It is noticeable that information is sold for money as valuable goods.

The experience shows that the most rational result may be gained in practice only while complexly using various methods of reduction of risk. In our opinion, connecting them to each other by various ways it is possible to achieve optimal relation between the level of reduction of risk and additional expenses necessary for it.

As we see, precise determination of the risk criteria of credits acceleration of development of the small and medium entrepreneurship may allow determine more rational directions providing optimization of tax burden impacting of development of the small and medium entrepreneurship.

Provision of development of the small and medium entrepreneurship in Azerbaijan is one of the most important tasks of the social-economic policy implemented by the state. As noted before, establishment of convenient institutional environment for development of the small and medium entrepreneurship creates good condition for diversification of economy, expansion of the non-oil sector on the basis of ramification principle, establishment of new workplaces and simultaneously, its modernization.

The solid reforms implemented in Azerbaijan within the last 18 years brought to formation of economic environment for the entrepreneurship activity. For the purpose of providing durability of development of entrepreneurship, improvement of the legislative environment and the tax mechanism in stimulation of the small and medium business as well as application of the modern methods of management and supervision are expressed in the economic development strategy determined in the country. Disbursement of

preferential credits for development of entrepreneurship as well as development of the banking sector and the financial-credit relations stipulated establishment of a convenient environment for expansion of activity range of the small and medium entrepreneurship.

Application of the tax policy in development of the small and medium entrepreneurship in Azerbaijan requires determination of some principal directions:

- analysis of the small and medium entrepreneurship profile in international experience in conditions of economic globalization and research of the mechanisms of its impact on economic development;
- identification and determination of the small and medium entrepreneurship;
- establishment of the tax policy stimulating development of the small and medium entrepreneurship and analysis of the impact of improvement of the tax mechanism on the structure of tax proceeds;
- treatment to the tax policy stimulating development of the small and medium entrepreneurship as an integral part of the social-economic policy implemented in the country;
- the directions determined upon tax policy like improvement of the public entrepreneurship relations and the mechanisms of protection of the entrepreneurs' rights may significantly impact on development of the small and medium entrepreneurship.

It is noticeable that the small and medium business structures differently treat to the tax system and taxation principles.

According to the valid tax legislation of Azerbaijan, the most of the the small and medium business subjects are legal entities and individuals functioning in the simplified tax mode. However, it is noticeable that many countries apply the hypothetic tax in development of the small and medium business regardless of the turnover. This type of tax has some preferences:

- reduces tax administration;
- eliminates tax avoidance;
- facilitates forecasting the tax proceeds;
- stimulates the the small and medium business activity owing to independence of the paid tax from the turnover and, increases its profitability;

- strengthens the partnership relations between the tax authorities and taxpayers.

The analysis of the statistical indicators repeatedly allows saying that the small entrepreneurship segment dynamically develops in Azerbaijan.

The small and medium entrepreneurship subjects functioning in various market segments in conditions of market economy establish additional workplaces and in its turn, it brings to social development and simultaneously, reduction of the state's social burden. The small and medium business subjects act in the national economic sectors unable to be covered by large entrepreneurship subjects. Thus, the state supports development of the small and medium entrepreneurship and establishes convenient tax environment for its expansion.

The results and proposals forthcoming from the content of the investigation are shown at the end of the thesis:

1. The main target of the state policy in provision of development of the small and medium entrepreneurship is disbursement of subsidies and preferential loans and establishment of appropriate legal and institutional tax environment.

2. Improvement of the tax mechanism in development of the small and medium entrepreneurship should be implemented in mutual connection with other tools of economic policy applied by state.

3. The profitability degrees of the small and medium business subjects differ from each other. The differences in the simplified tax rates in the tax legislation are envisaged only for the space of activity. However, differentiated attitude to those tax rates would promote to expansion and diversification of the sectors which economic and social development is more important.

4. Transfer from the simplified tax mode playing significant role in involvement of the small and medium business subjects to tax to the standard tax system causes serious change of the tax burden and subsequently, increase of case of tax avoidance and expansion of

non-observed economy. From this point of view, the criteria of the small and medium entrepreneurship should be reviewed differently from the general tax criteria for the tax purposes.

5. Supporting the small and medium entrepreneurship and provision of preferences in compliance with the legislative acts this sector of activity will be motivated and promote to acquire more successful results.

The main provisions of the thesis as well as the gained conclusions and proposals are expressed in the author's following published articles and theses

1. İsgəndərova M.M. Kiçik biznesin maliyyələşdirilməsinin nəzəri əsasları və inkişaf problemləri. Audit jurnalı № 3. 2014. s. 30-36.

2. İsgəndərova M.M. Kiçik biznesin maliyyələşdirilməsinin formalaşmasında kreditləşmənin təkmilləşdirilməsi. Kooperasiya elmi-praktiki jurnal. № 2, 2015. s. 136-141.

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A handwritten signature in blue ink, appearing to be 'Mirqasim', is centered on the page. The signature is written in a cursive style with a prominent loop at the end.

The defense will be held on 21 may 2021, at 16⁰⁰ at the meeting of the Joint Dissertation Council ED 2.42 of Supreme Attestation Commission under the President of the Republic of Azerbaijan, operating at the Azerbaijan State Agrarian University.

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The dissertation is accessible at the Library of Azerbaijan State Agrarian University.

Electronic versions of the dissertation and its abstract are available on the official website of the Azerbaijan State Agrarian University.

Abstract was sent to the required addresses on 21 *april* 2021.

Signed for printing: 20.04.2021
Paper format: (210x297) 1\4
Volume: 47153 characters
Number of hard copies: 30