

**REPUBLIC OF AZERBAIJAN**

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**ABSTRACT**

of the dissertation for the degree of Doctor of Philosophy

**DIRECTIONS OF FORMATION AND DEVELOPMENT OF  
SMALL AND MEDIUM-SIZED ENTREPRENEURSHIP IN  
THE LIBERATED TERRITORIES**

Speciality: 5312.01 – Field economy

Field of science: Economic sciences

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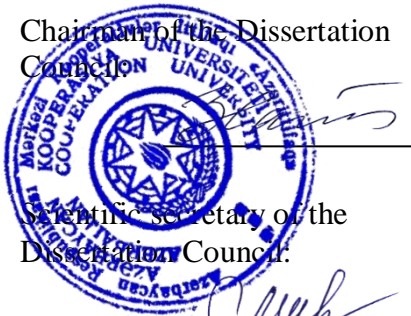
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## GENERAL CHARACTERISTIC OF THE WORK

**The relevance of the topic and degree of development.** The intensification of globalization processes in the system of international relations is forming new challenges and tasks for each country. For almost 30 years, the occupation of Karabakh and surrounding regions by Armenia has created strategically and politically important issues in terms of ensuring the territorial integrity and sovereignty of Azerbaijan. As a result of the Patriotic War, which began on September 2020, 27 and lasted 44 days, the occupied territories of Azerbaijan were liberated, actual control over the internationally recognized borders of the country was ensured. In continuation of this, as a result of local anti-terrorist measures carried out in September 2023, the sovereign rights of the state were fully restored. At the present stage, the process of restoration, reconstruction and peaceful construction in the liberated territories (at the LT) continues intensively.

With high economic potential at the LT, it covers areas that can play an important role in the development of the country's non-oil sector – agriculture, processing industry and tourism. The development of these areas is of strategic importance in terms of export diversification and economic recovery of the regions. From this point of view, the formation and expansion of small and medium-sized enterprises (SMEs) in the LT is of particular relevance. The development of SMEs is of great importance, first of all, in terms of ensuring sustainable employment, increasing the level of income and stimulating economic activity for the population to settle in these areas. At the same time, this process creates conditions for strengthening the socio-economic integration of the population, the formation of the middle class in the region and increasing the level of general well-being. Taking all this into account, it is advisable to establish the policies implemented in the LT in the direction of SME development on the basis of international experience and to use successful models of developed countries.

The process of accelerating economic development in the LT is closely related to the recovery and structural transformation of the country's economy as a whole. In this context, the Government of

Azerbaijan is taking comprehensive measures to ensure the integration of the LT into the national economy. Among these measures, in particular, the creation of East Zangazur and Karabakh economic regions in the “new division of economic regions in the Republic of Azerbaijan” approved by the decree of the president of the Republic of Azerbaijan dated July 07, 2021 serves to improve the economic regions of the country on an institutional basis.<sup>1</sup> This approach also facilitates the allocation of funds from the state budget from a legal and administrative point of view in order to promote economic growth in these regions.

It should be noted that in accordance with the political will of the head of state, large-scale restoration and reconstruction measures are already being carried out in these territories, and within this framework, the process of voluntary mass return of the population has begun. In the “strategy of socio-economic development of the Republic of Azerbaijan in 2022-2026” approved by another order of the president, ensuring a great return to the liberated lands is defined as a special priority.<sup>2</sup> The strategy in question is currently being consistently implemented and yielding real results. In the current conditions, the development of SMEs in the LT is considered as one of the priorities. In this regard, along with institutional and economic initiatives, the formation of scientific support and the development of strategies aimed at the development of this area are of particular relevance.

The effective use of its economic potential in the LT and the achievement of the development of SMEs with less financial resources are of strategic importance. Therefore, economic mechanisms aimed at the development of SMEs are being formed in the Karabakh and East Zangazur economic regions.

It is known that specialization processes in Karabakh and East Zangazur economic regions have a direct impact on the development of product production and service sectors. From this point of view, the

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<sup>1</sup> Decree of the president of the Republic of Azerbaijan dated July 07, 2021 on the “new division of economic regions in the Republic of Azerbaijan”.

<sup>2</sup> Socio-economic development strategy of the Republic of Azerbaijan in 2022-2026” Order of the president of the Republic of Azerbaijan dated July 22, 2022

establishment of the necessary institutional bodies and the development of operating economic entities with state support in accordance with the specialization directions of the LT are of particular relevance.

For the development of SMEs in the LT, it is necessary, first of all, to expand production and service-oriented entrepreneurship, as well as to promote targeted investments in these territories. One of the main conditions for the economic revival of the territories and ensuring the permanent settlement of the population is the complete cleaning of these lands from mines and other dangerous residues and the creation of a safe environment. At the same time, building infrastructure systems and ensuring security are important factors to ensure sustainable development in the region.

In the conditions of continuous settlement of the population, the provision of income and the development of SMEs in accordance with the current requirements in the formation of employment are of particular importance. This requires, first of all, the creation of individual entrepreneurship, production and service cooperatives in agriculture, the rational use of the existing potential in the field of tourism, the creation of favorable conditions for the development of agrarian and rural tourism along with large enterprises.

Business entities have the potential to play an important role both in providing domestic markets with goods and services, and in promoting manufactured products to foreign markets. In this regard, increasing their competitiveness is of strategic importance in terms of ensuring the diversification and sustainability of the country's economy. All these factors necessitate a comprehensive scientific analysis of the formation and development directions of the SMEs in the LT and condition a systematic study of this issue at the dissertation level.

It should be noted that since the beginning of 2021, large-scale discussions and various scientific events have been carried out in the LT in the direction of restoring the economy and developing infrastructure in this region, important research work has been carried out by a number of well-known economic scientists of our republic in order to ensure the reintegration of these territories Among these

studies, Z.A.By Samadzade, A.F.Musayev, E.R.Ibragimov, E.A.Guliyev, I.H.Ibragimov, B.X.Atashov, A.F.Abbasov, N.Muzaffarli, S.I.Vəziyyəti, A.H.Valiyev, E.A.Ibragimov, F.F.The valuable scientific research of Fikretzadeh and other scientists on the economic development potential of the LT should be especially noted. The above-mentioned studies covered topical issues such as the rational use of the region's economic resources, infrastructure reconstruction and promotion of overall economic activity.

At the same time, the study of international experience in the field of SMEs development is of particular importance. In this direction Z.N. Bosaeva, B.I. Blinov, A.V. Busiqin, E.I. Kartashova, N.V. The scientific works of Kondrakov and other foreign economists were analyzed. Although the dissertation research is based on the scientific ideas of both domestic and international specialists, there is practically no systematic and complex substantive research on the formation and development of small and medium-sized businesses in the LT. As a result, this dissertation not only covers the actual scientific-theoretical aspects of the topic, but also reveals the importance of conducting comprehensive research in the direction of formation and support of small and medium-sized enterprises in accordance with the socio-economic development priorities of the region from a practical point of view.

**The object and subject of the study.** The object of the study is small and medium-sized businesses in Karabakh and East Zangazur economic regions. The subject of the study is the study of the patterns of formation and development of SMEs in the sectors of agriculture, processing industry and tourism within the framework of the LT.

**The aims and objectives of the study.** The main purpose of the study is to investigate the scientific and theoretical foundations of the formation of SMEs in the IAEE, to analyze the possibilities of creating various economic entities in the region and to develop scientifically sound recommendations for the formation of economic mechanisms that promote the development of SMEs. To achieve this goal, the following tasks have been identified and fulfilled:

- the factors contributing to the development of SMEs in the new economic conditions have been investigated;

- Scientific theoretical foundations of formation and development of SMEs have been developed in LT;
- World experience in the development of SMEs and the possibilities of its use have been studied;
- Economic and organizational mechanisms of SMEs development in Karabakh economic region were analyzed;
- The influence of economic organization mechanisms on specialization and formation of cooperatives in East zangazur economic region has been investigated;
- Directions of formation of production areas in LT have been determined;
- Scientifically substantiated proposals on the formation and development directions of service entrepreneurship in the LT have been developed;
- The directions of scientific support and improvement of human resources potential of SMEs have been determined in the LT.

**The research methods.** In the course of the study, various methods were used, including observation, comparison, analysis, analytical generalization and other economic and statistical methods. Throughout the research, reports of the Cabinet of Ministers of the Republic of Azerbaijan, the Ministry of Economy, The State Statistics Committee and the Ministry of Agriculture, as well as the work done by local and international economists in this area, materials and reports of scientific research institutes were used.

**The main provisions put forward for defence.** The main points on which the defense is based are as follows:

- It is necessary to determine the role of the development of SMEs in the economic system, to substantiate the impact of the development of these economic entities on the formation of the competitiveness of the economy;
- In addition, there is a need to determine which of the advantages of forming more entrepreneurship in agriculture in the LT;
- As one of the necessary conditions for the development of SMEs in the LT, issues related to the implementation of agrarian reforms and land reforms on the basis of world experience and experience in our country should be resolved;

- In order to develop SMEs in the LT, priority aspects of reintegration of the Karabakh and East Zangazur economic regions with the national economy of the country should be identified;
- Particular attention should be paid to the study of the impact of SMEs development on sustainable settlement and employment in the LT;
- In the development of SMEs in the LT, there is a need for the formation of effective and optimal mechanisms of integration relations between agricultural and processing enterprises and the provision of scientific personnel;
- In connection with the development of SMEs in the LT, the development of service entrepreneurship and the formation of integration relations between the mentioned entrepreneurial entities are of great importance.

**Scientific novelty of the research.** The scientific novelty of the study consists of:

- Taking into account the existing socio-economic realities related to the development of SMEs in the LT, priority areas of activity have been determined on a scientific basis;
- In the LT, the prospects for the development of SMEs were assessed, the advantages, existing shortcomings and potential threats of this process were systematically analyzed, the factors that negatively affect the development of entrepreneurship were concretized, and the directions for their neutralization were determined;
- The main factors such as ensuring the security of territories, the formation of socio-economic and transport infrastructure, as well as sustainable settlement of the population were brought to the fore as the prerequisites for the development of SMEs in the LT;
- after analyzing the SMEs support mechanisms applied in international practice, the possibilities of adaptation in the context of natural and economic characteristics of the
- LT were substantiated and scientific and practical proposals were put forward for adaptation in terms of comparative advantages for the region;

- The regulatory role of the state and its support mechanisms (including subsidies, soft loans, tax benefits, etc.) in increasing the competitiveness of SMEs operating in the LT.) were identified and their assessment in terms of functional efficiency was carried out.

**Theoretical and practical significance of the research.** The theoretical significance of the study can be attributed to:

- the current situation of SMEs in the territories liberated after the conflict, determination of the necessary factors for their development;
- expansion of ideas about the restoration of the economy and the level of regional development in these territories;
- Determination of production areas and development directions of service entrepreneurship in LT;
- assessment of the impact of specialization and cooperativization processes on the economic mechanism in Karabakh and East Zangazur economic region.

Practical significance of the study the results obtained at the conclusion of the study, together with the proposed recommendations, can make a significant contribution to the economic recovery in the LT. It can also contribute to the development of SMEs, support sustainable settlement and employment in the region, and serve as a valuable resource for the formation and implementation of future government programs in this area.

**Approbation and application.** The main provisions of the dissertation, conclusions and proposals mentioned at the end of the study were covered in journals recommended by the Higher Attestation Commission under the president of the Republic of Azerbaijan, as well as conference theses and reports. In total, 10 articles and 4 theses were published. 1 article and 1 thesis from it were published abroad.

The main provisions of the study are” Measurement of competitiveness between small and medium enterprises in the liberated territories “(Baku, 2024),” Directions for ensuring financial access for SMEs operating in the liberated territories” (Moscow, 2024), Theses entitled” formation and development directions of small

and medium-sized enterprises in the liberated territories " (Baku, 2025) are presented in the conference materials. At the same time, the bidder on the subject of the study was informed about "providing a favorable business environment and conceptual foundations of Business Management in Azerbaijan" (Baku, 2020), "economic mechanism of small and medium-sized enterprises and some issues of formation of its constituent elements" (Baku, 2023), "some theoretical and methodological issues of development of small and medium-sized enterprises" " Baku, 2023), "Some issues of forming the competitiveness of small and medium-sized enterprises in modern conditions" (Moscow, 2023), Scientific articles entitled "Application of tax benefits and preferences for the development of small and medium-sized enterprises in the Karabakh economic zone " (Baku, 2024) have been published in prestigious journals.

**The name of the organization in which the dissertation work is performed.** Baku Business University.

**The total volume of the dissertation with signs including a separate volume of the structural units of the dissertation.** The dissertation consists of a work, introduction, three chapters, conclusion, list of used literature. Introduction consists of 14282 sign, chapter one 93800 sign, Chapter Two 68321 sign, Chapter Three 66512 sign, conclusion 7027 sign, used literature list 20150 sign. Dissertation work the dissertation work, excluding tables, schemes, graphs, diagrams and a list of literature, consists of 249998 marks. The dissertation work consists of 249942 signs, excluding tables, schemes, graphs, diagrams and a list of literature.

## **THE MAIN CONTENT OF THE RESEARCH WORK**

In the "**Introduction**" part of the dissertation work, the relevance and degree of elaboration of the topic, the purpose and objectives of the study, the object and subject of the study, the methods of the study, the main provisions for defense, the scientific novelty of the study, the theoretical and practical significance of the study, its approbation, etc. the issues are reflected.

The first chapter of the dissertation is called "**Scientific and**

## **theoretical foundations of the formation of small and medium-sized enterprises (SMEs)”.**

This chapter examines the factors contributing to the development of SMEs in the new economic conditions, the world experience in the development of SMEs and its use, the scientific theoretical and practical foundations of the formation and development of SMEs in the LT. It is noted that the development of SMEs is considered as one of the important tools in the formation and sustainable development of a market economy. The formation and development of SMEs is also closely related to the development of productive forces and production relations in society. This development is born from the manifestations of private property, which is the basis of a market economy. All this is considered one of the most important aspects characterizing the development of SMEs in society and in all sectors of the economy.

It is noted in the dissertation that the practice of developed countries shows that the formation of SMEs directly depends on the specific characteristics of society, as well as on the historical conditions of countries. In developed countries on the basis of a market economy, SMEs are implemented, as a rule, in accordance with historical traditions, people's habits, as well as the direction of specialization of the economy. SMEs play a significant role in solving social problems existing in society and the economy. This is due to the fact that the development of SMEs in various sectors of the economy ultimately leads to ensuring employment of the population and lowering the level of unemployment. One of the most important features for the development of SME is its ability to react quite flexibly to changes taking place in a free competitive environment. In addition, the establishment of SMEs does not require such large-scale investments compared to large-scale entrepreneurial activity. All this characterizes the advantages for the development of SMEs. Analyzing the characteristic features associated with the formation of SMEs, it can be concluded that the tendencies to avoid the center, which took place in the former Union since the end of the 80s of the last century, naturally, had a significant impact on the economy of the Republic. The lack of material and technical supply at the previous level, the weakening of financial security were characteristic of the economy of

the former Union for the late 80s-early 90s of the last century. At that time, the activities of large enterprises were almost noticeably weakening. It was under such conditions that cooperatives began to form, characterizing small and medium-sized businesses for that time. Those cooperatives carried out the offer of products in the domestic market in one way or another. It should be borne in mind that for that period, the intensification of cases of uncontrollability and indiscipline in the economy, in a number of cases, led to the realization of these cooperatives on the market at relatively affordable prices by purchasing products from state-owned enterprises.

Studies have shown that a more complex, systematic approach should be taken to ensure the dynamic development of entrepreneurship, and justified economic mechanisms should be applied for this. The formation and development of SMEs can be justified and provided with access to global markets in world practice, so that SMEs can combine competitive activities. Increasing the competitiveness of SMEs and eliminating harmful tendencies of internal and external environmental factors affecting the competitiveness of SMEs in this regard is considered one of the most important tasks facing the economic policy of the state.

The research work shows that in the context of globalization, the characteristic features of SMEs are manifested through the functions performed by it. As the globalization process deepens in the socio-economic life of society, the functions performed by SMEs also exceed their limits and affect the development of the economy and the activation of the social environment. In our opinion, the functions performed by SMEs are fundamentally social, economic, competitive, resource and institutional functions in the modern globalized world. The economic functions of SMEs are aimed at developing a market economy, imply the privatization of property, the manifestation of private property. The economic functions of SMEs are quite broad. Thus, the deepening of the globalization process makes it an objective necessity to increase security trends in the development of the economy.

Thus, summarizing the processes associated with the activities of SMEs in world practice, it can be considered that the economic entities

of large and small businesses have their own strengths and weaknesses in this regard, the strengths and weaknesses of SMEs and large business entities are reflected in Table 1.

**Table 1.**  
**Strengths and weaknesses of SMEs and large business entities**

<b>Subjects</b>	<b>Strong sides</b>	<b>Weak sides</b>
Large business entities	<ul style="list-style-type: none"> <li>- Ability to react flexibly to changing conditions in the internal and external environment</li> <li>- Wide scope of application of scientific and technical achievements (ASTA)</li> <li>- Opportunities to optimize costs for production</li> </ul>	<ul style="list-style-type: none"> <li>- Weak internal incentives to increase economic efficiency</li> <li>- Bureaucratic restrictions on social marketing and flexible interaction with consumers</li> <li>- The influence of management on increasing the volume of economic activity may be limited</li> </ul>
SMEs	<ul style="list-style-type: none"> <li>- Opportunities for flexible action in unstable and crisis situations</li> <li>- High profitability with the use of traditional and cheap resources</li> <li>- Employment opportunities for vulnerable population groups and Prevention of unemployment</li> <li>- Role in enriching the domestic market with products and services</li> <li>- Expansion of export opportunities as a result of integration with large transnational companies</li> <li>- Influence on the formation of the middle class in society</li> </ul>	<ul style="list-style-type: none"> <li>- Limited access to capital resources</li> <li>- Lack of structural and systemic flexibility of Management in some cases</li> <li>- Limited access to competitive resources</li> <li>- Limitation of the possibilities of applying scientific and technical achievements.</li> </ul>

*Source: the table was prepared by the author.*

In the countries of the European Union, as well as in the countries of the Organization for Economic Cooperation and development, SMEs has a wider share in the processing industry.

The Charter of the Organization for Economic Cooperation and Development states that the number of employees in microenterprise Enterprises is 19 people, the number of employees in small businesses

is 20-90 people, the number of employees in Medium Enterprises is 100-499 people, and the number of employees in large enterprises is expected to be higher than 500 people.

It is noted that the sizes of business entities in the Republic of Azerbaijan were determined by the resolution of the Cabinet of Ministers of the Republic of Azerbaijan dated December 21, 2018 “on approval of the criteria for the distribution of Micro, Small, Medium and large business entities”. The dimensions of SMEs in the Republic of Azerbaijan are shown in Table 2.

**Table 2.**

**The sizes of SMEs in the Republic of Azerbaijan<sup>3</sup>**

	<b>Number of employees</b>	<b>General product production</b>
Micro enterprises	1-10	Less than or equal to 200 thousand manats
Small businesses	11-50	More than 200 thousand Manats, less than or equal to 3 million Manats
Medium-sized businesses	51-250	More than 3 million Manats, less than or equal to 30 million Manats

The number of employees in Micro, Small and medium-sized businesses in the Republic of Azerbaijan and the incomes of these economic entities are low compared to European countries.

According to Prof. I.H.Ibrahimov, the process of formation of entrepreneurship in the LT is closely related to settlement, and the support of persons returning to their native lands in the field of plant growing, animal husbandry and services is of particular importance. In this regard, the return of those who are already engaged in livestock and beekeeping is an impetus for the restoration of agrarian activity in the region. The author rightly notes that the state centers of Agrarian Development should carry out complex measures in this direction. He also considers the creation of production and service cooperatives, the provision of soft loans, the development of infrastructure and the

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<sup>3</sup> Resolution of the Cabinet of Ministers of the Republic of Azerbaijan dated December 21, 2018 №556 on awarding “Criteria for the distribution of Micro, Small, Medium and large business entities”

formation of agro-parks important for the sustainable development of entrepreneurship in the region.<sup>4</sup>

The development of SMEs in the LT is of critical strategic importance. The strategic importance of the development of SMEs in the LT is primarily due to the creation of favorable conditions for sustainable settlement of the population, but at the same time it can open up wide opportunities for accelerating economic growth in those areas, as well as for ensuring the employment of vulnerable segments of the population by working in this sector. The development of SMEs in the LT is also significantly dependent on the creation of transport infrastructures, in which rapid work is underway. Thus, there are already 8 international airports in our country, two of which operate in the liberated territories. In 2021, Fizuli International Airport and Zangilan International Airport, which are considered the air gate of Karabakh, were put into operation.

The conditions created at these airports, in turn, allow flights to be carried out in accordance with international standards. Lachin International Airport is currently under construction as the third airport. One of the characteristic features of the processes carried out in the LT in connection with the development of SMEs is that in parallel with the demining of the territories, necessary measures are taken to return the population to these territories, as well as to develop entrepreneurship in these territories. In 2022, the territories were involved in crop rotation in parallel with the work on clearing mines and unexploded ordnance. In the summer of last year, wheat and barley were sown on an area of about 5,550 hectares, about 330 thousand small-Horned, about 24 thousand large-horned animals, 61 thousand bee families were moved to these areas.

The second chapter of the dissertation is called “**Analysis of the possibilities of formation of SMEs in LT**”. In this chapter, the economic organizational mechanisms of development of SMEs in Karabakh economic region, the influence of specialization and cooperativization on economic economic mechanism in East

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<sup>4</sup> I. Ibrahimov, I.H. Directions of development of Regions and liberated territories, / I.H. Ibrahimov, monograph, Baku, publishing house “cooperation ” - 2022. 240 P.

Zangezur economic region are studied and the directions of formation and development of SMEs are statistically analyzed. It is noted that the decree on the division of new economic zones in terms of accelerating the integration of the LT into the country's economy, signed by the head of the country on June 2021, 7, has socio-economic significance. In accordance with this decree, a revised classification of economic zones in the country was established. The decree states that *“at present, important work is being done to restore the liberated lands, ensure their further development, create basic infrastructure and facilitate the return of the population to their native lands. The need to implement all measures aimed at achieving sustainable development by effectively taking advantage of the existing potential of these lands, mineral resources and opportunities related to tourism within the framework of one program requires a reassessment of the division of these lands into economic zones”*.<sup>5</sup> According to this order, 14 Economic Zones have been created in our Republic, one of which is the Karabakh economic region. Khankendi, which is considered the central city of the region, includes Agjabadi, which is one of the important agricultural regions, Aghdam, known for its cultural heritage, Barda and Fuzuli, Khojaly, Khojavand, rich in natural resources, Shusha, which is the cradle of culture, as well as tartar.

The dissertation analyzes the state of newly registered micro, small and medium-sized businesses by economic districts, administrative units and types of economic activity. The number of business entities is presented in Table 3.

In 2022, the number of enterprises increased from 121737 to 2023 in 125159. This growth was mainly due to microenterprises – their number increased from 121308 to 124247, maintaining a dominant position in the structure of entrepreneurship. The number of small enterprises increased from 363 to 775, and the number of medium-sized enterprises-from 66 to 137, which reflects the expansion of forms of economic activity and gradual diversification in the

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<sup>5</sup> Decree of the president of the Republic of Azerbaijan on” New division of economic regions in the Republic of Azerbaijan ” dated July 07, 2021

organizational structure of SMEs.

**Table 3.**

**Number of newly registered micro-small and medium-sized enterprises by economic regions, administrative territorial units and types of economic in English**

	2022				2023			
	Total	As well as			Total	As well as		
		Micro	Small	Medium		Micro	Small	Medium
Total by country	121737	121308	363	66	125159	124247	775	137
Karabakh economic region, total	6399	6386	7	6	6857	6848	7	2
Khankendi city	-	-	-	-	2	2	-	-
Agjabadi	1308	1305	1	2	1548	1548	-	-
Agdam	786	785	1	-	1007	1006	1	-
Barda	2603	2602	1	-	2593	2590	2	1
Fuzuli	635	634	-	1	608	606	2	-
Khojali	8	8	-	-	29	29	-	-
Khojavand	76	76	-	-	57	57	-	-
Shusha	37	36	1	-	66	64	1	1
Tartar	946	940	3	3	647	649	1	-

Source: [https://www.stat.gov.az/menu/6/statistical\\_yearbooks/source/entrepreneurs\\_hip\\_2024.Pd](https://www.stat.gov.az/menu/6/statistical_yearbooks/source/entrepreneurs_hip_2024.Pd)

In general, positive trends have been observed in the development of SMEs throughout the country in 2022-2023, but it seems that the growth in the Karabakh economic region is formed mainly due to micro-level enterprises. The weak share of small and medium-sized enterprises indicates that the organizational and institutional foundations of entrepreneurship in the region have not yet been fully formed. In this regard, strengthening state support, application of cluster and cooperation models, as well as the creation of business infrastructures to stimulate the development of SMEs in the Karabakh economic region can be considered as necessary directions.

The volume of product launches in Micro, Small and medium-sized

businesses by types of economic activity in the Republic of Azerbaijan and in the Karabakh economic region is presented in Table 4.

**Table 4.**

**Production of Micro, Small and medium-sized businesses on types of economic activity in the Republic of Azerbaijan and Karabakh economic region (mln Manats).**

	2022				2023			
	Total	As well as			Total	As well as		
		Micro	Small	Medium		Micro	Small	Medium
Total volume by country	29003,3	11072,1	4714,9	13216,3	34743,1	12366,2	5778,4	16598,4
Karabakh economic region-total	510,1	252,0	79,7	178,4	685,3	316,5	83,3	285,5
Khankendi city	-	-	-	-				
Agjabadi	140,0	65,4	28,1	46,4	166,7	79,6	11,6	75,6
Agdam	61,5	31,2	5,4	25,0	96,0	50,8	21,1	24,1
Barda	155,6	94,0	23,8	37,8	186,6	117,5	19,4	49,6
Fuzuli	69,3	30,2	12,5	26,5	73,6	26,5	15,7	31,4
Khojali	-	0,48	-	-	-	0,45	-	29,6
Khojavand	3,1	2,4	0,65	-	-	1,4	0,88	
Shusha	-	2,3	0,68	-	30,2	2,2	4,3	23,7
Tartar	56,1	25,8	8,4	21,9	99,1	38,1	10,1	50,9

Source: [https://www.stat.gov.az/menu/6/statistical\\_yearbooks/source/entrepreneurs\\_hip\\_2024.Pd](https://www.stat.gov.az/menu/6/statistical_yearbooks/source/entrepreneurs_hip_2024.Pd)

Analysis of the data shows that in 2022-2023, the output of business entities in Azerbaijan, including in the Karabakh economic region, showed an upward trend.

In general, the analysis shows that in 2022-2023 there was a dynamic increase in product output both throughout the country and in the Karabakh economic region, especially the role of medium-sized businesses intensified. This reflects the positive transformation processes in the economic structure and strengthening of sustainable development trends of entrepreneurship. In the Karabakh economic region of crop production, there are wide opportunities for the

development of the agricultural sector in SMEs entities and the production of agricultural products is carried out in those areas. However, despite all this, low profitability in the production of agricultural products, i.e. low profitability of the industry, low prices for agricultural products compared to the prices of industrial products and other similar reasons led to the fact that the total volume of agricultural output in SMEs subjects was lower than in other industries, including industrial and commercial sectors. Implementation of necessary measures for the development of SMEs in East Zangezur economic region should be primarily aimed at promotion. According to the State Statistics Committee, the number of SMEs operating in the East Zangezur economic region decreased from 2022 in 1845 to 2023 in 1754.<sup>6</sup> The territorial distribution of Micro, Small and medium-sized businesses in operation by economic districts and administrative units is reflected in Table 5.

Structural analysis conducted in East Zangezur economic region shows that the vast majority of newly registered business entities are micro enterprises (in 2022 620, in 2023 924), which is 98-99 percent of the total. Although growth in small and medium-sized businesses is relatively weak, this trend shows that professional and institutional businesses are emerging in the region.

The comparison by regions shows that the highest growth was recorded in Lachin region (64.1%) and Jabrayil (79%), in Kalbajar the figure more than doubled, and in Zangilan the growth was 96.7%. In Gubadli district, a decrease of 11.4 percent was observed. This dynamics is closely related to the speed of settlement and the restoration of economic activity.

Entrepreneurial activity is mainly concentrated in trade, vehicle repair and agriculture, which confirms the agricultural orientation of the economic structure of the region.

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<sup>6</sup>[https://www.stat.gov.az/menu/6/statistical\\_yearbooks/source/entrepreneurship\\_2024.pdf](https://www.stat.gov.az/menu/6/statistical_yearbooks/source/entrepreneurship_2024.pdf)

**Table 5**

**Distribution of Micro, Small and medium-sized businesses by economic regions and administrative-territorial units.**

	2022				2023			
	Total	As well as			Total	As well as		
		Micro	Small	Medium		Micro	Small	Medium
Total by country	121737	121308	363	66	125159	124247	775	137
East Zangezur economic region-total	625	620	4	1	933	924	6	3
Jabrayil district	108	107	1	-	193	192	1	-
Kalbajar district	76	76	-	-	154	154	-	-
Qubadli district	210	207	2	1	186	187	1	-
Laçhin district	170	169	1	-	279	273	4	2
Zangilan district	61	61	-	-	120	119	-	1

*Source: [https://www.stat.gov.az/menu/6/statistical\\_yearbooks/source/entrepreneurship\\_2024](https://www.stat.gov.az/menu/6/statistical_yearbooks/source/entrepreneurship_2024). Pd*

In general, the sharp growth of business entities in 2022-2023 indicates the strengthening of economic activity in the post-conflict period. The main task in the face of the leading role of microenterprise and the weak share of small and medium-sized enterprises is the formation of a more sustainable model of entrepreneurship by expanding this base.

From the analysis it can be concluded that the large number of business entities in Lachin, Gubadli and Kalbajar districts is primarily due to the fact that the process of transporting bee families to the above-mentioned regions, especially in the summer months, as well as transporting small and large-horned cattle to pastures is taking place.

This chapter notes that the formation of SMEs in the LT, especially

in the Karabakh and East Zangezur economic regions, plays an important role in the development and economic diversification of the non-oil sector of Azerbaijan. Statistical analysis shows that the creation of SMEs in these areas is of importance both from an economic, social and institutional point of view. It is concluded that from an economic point of view, the emergence of new industries of production and services, from a social point of view, the growth of employment and ensuring the permanent settlement of the population, and from an institutional point of view, state support and promotion of digitalization are the main directions.

According to the research results, digital technologies account for the highest share (31%) of investments in areas such as infrastructure, education, digital technologies, financial services and logistics for the development of SMEs in these regions. The survey results show that 61% of respondents consider the state's support for the development of SMEs to be fully appropriate, and 76% confirm the presence of problems with access to business loans.

84% of respondents noted that soft loans and financial programs directly affect the rate of development of SMEs, and 84% noted that foreign investment increases access to new markets. The majority of respondents confirm that such non-bank financial instruments as leasing and factoring are conducive to improving the production equipment of SMEs.

The restoration of infrastructure, especially the road and transport system, as well as the stabilization of energy supply, increase the opportunities for entrepreneurs to market their products and services. Empirical analysis shows that at present, micro and small businesses operate mainly in the fields of Agriculture and services, but in the coming years, the development of medium-sized businesses in the processing and tourism directions is expected.

Thus, the development of SMEs in the LT can be an important guarantor of economic diversification, social welfare and sustainable development of Regions. The results of the surveys prove that state support, financial accessibility and infrastructure restoration play a decisive role in the formation of the SMEs sector.

The third chapter of the dissertation work is called “**Directions and**

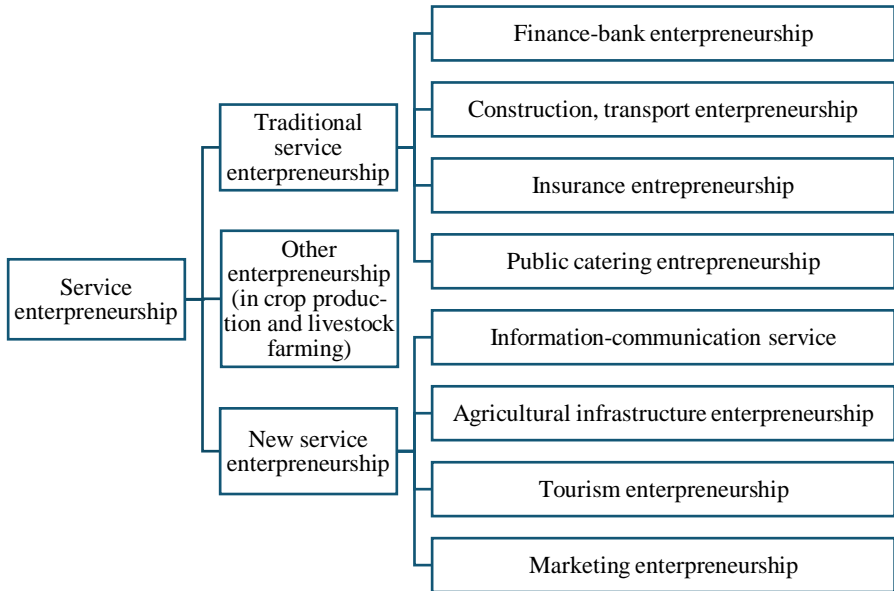
**development prospects for the formation of the economic mechanism of SMEs in the LT”**. In this chapter, the directions of formation and development of production and service entrepreneurship, scientific support of SMEs and improvement of Personnel potential are studied. The study notes that measures to support SMEs in the LT can play an important role in the development of production areas and the formation of their economic mechanisms. Subsidies to SMEs from the state budget, as well as the provision of soft loans through the Entrepreneurship Development Fund, can create favorable conditions for rapid progress in their development, and all this can open up wide opportunities for ensuring sustainable settlement in the LT and maintaining effective employment of the population. In our opinion, soft loans and government subsidies can create favorable conditions for the development of SMEs, allowing the effective use of the economic potential of the LT.

The economic mechanisms for the development of SMEs in the LT should be based on the development and implementation of regional programs of the state for preferential lending, as well as budget subsidies related to the development of one or another area. In addition, in order to support the development of medium-sized businesses, the necessary support should be provided for the creation of an association of family farms, including the creation of agricultural and processing cooperatives. In our opinion, the size of subsidies from individual entrepreneurial entities voluntarily entering into cooperation should be more adequately indexed in comparison with individual entrepreneurs, which can create favorable conditions for stimulating economic entities that are subjects of cooperation. In this regard, it is proposed to form mechanisms for the development of entrepreneurship in the LT and the specialization of Regions, the implementation of special economic stimulation measures in accordance with the processes of specialization, state support for the integration of the agrarian sector with the processing industry. In this regard, priorities are determined on the specialization directions of Agriculture and processing industry in the IAE and targeted programs are proposed to be adopted. It is believed that this may be significant in terms of employment, settlement and income growth of the

population, as well as the “First State Program On The Great Return”.

An analysis of the economic potential of the LT shows that it is possible to achieve a fairly wide range of service entrepreneurship in these regions. The geographical and natural climatic features of these areas can be considered as characterizing the diverse and wide range of the service sector in the LT. In addition to traditional service entrepreneurship in the LT, it is possible to achieve the formation of a new progressive service entrepreneurship, which can lead to an increase in the volume of inputs from the services sector, as well as an increase in the share of LT in the alternative export sector.

The dissertation examines the important role of the formation of traditional and new service entrepreneurship of service entrepreneurship in the LT in the use of resources and meeting the needs of people. Forms of service entrepreneurship are given in the following scheme.



**Scheme. Forms of service entrepreneurship**

*Source: scheme compiled by the author*

It is noted that thanks to foreign currency revenues from tourism, it

contributes positively to the balance of payments and, with the development of tourism, becomes a very important source of income for the national economy of the country. In our opinion, the costs incurred in the tourism sector can actually be characterized as fixed costs, and they are able to play a long-term role in the structure of the cost of services provided. From this point of view, the development of Rural Tourism and agrarian tourism, especially in the LTS, can act as an important component of alternative sources of income for the population living in that area.

As mentioned above, Karabakh and East Zangazur economic regions come to the fore as one of the leading areas of tourism in the socio-economic development of the country. However, for the full use of this potential, it is considered appropriate to take into account the following factors:

- ensuring safety and stability;
- raising the level of repopulation of the population;
- creation of appropriate infrastructure.

A classified assessment of the tourism potential of the Karabakh and Eastern Zangazur economic regions shows that this region may become a major development center in the tourism sector of Azerbaijan in the near future.

There is also a need to implement certain regulatory and incentive measures to stimulate the development of service entrepreneurship in the IAE in order to take advantage of the existing advantages of SME in this area. From this point of view, the use of various concessions in order to stimulate the activities of the LT in the natural monopolies of Azerbaijan opened up wide opportunities for the development of the sphere.

Necessary measures are being taken by the state in order to increase the scientific potential of the LT, as well as to form the necessary scientific potential and qualified personnel in accordance with the specialization direction of the region. These measures are carried out primarily in accordance with the "first State program on the Great Return to the liberated territories of the Republic of Azerbaijan" within the framework of the reconstruction of the LT and large-scale restoration and construction work to ensure sustainable development

and a high standard of living in those territories. Within the framework of these events, Kharabakh University was established in the liberated city of Khankendi in accordance with the Order of the president of the Republic of Azerbaijan “on the establishment of Kharabakh University” dated November 28, 2023.<sup>7</sup>

As is known, the public catering system, cafes and restaurants are one of the most important elements of service entrepreneurship. Cafes and restaurants operating in the public catering sector, along with traditional areas of service entrepreneurship, play an important role in the development of tourism, as well as in accelerating the socio-economic development of the regions, and additional income to the region.

In this regard, it is important to use the potential of the LT. We believe that the expansion of service entrepreneurship, including the network of cafes and restaurants in the LT, along with increasing competition, can create favorable conditions for the availability of quality and price levels.

**Thus, summarizing the study, the following conclusions and suggestions can be identified.**

1. SMEs is an economic activity based on free competition and ensuring economic freedoms, forming an important component of entrepreneurship. The development of SMEs primarily serves to ensure population employment and increase population income.

2. Since September 2020, 27, as a result of the 44-day war, and in September 2022, in less than 24 hours, as a result of anti-terrorist operations, the ancient lands of the Republic of Azerbaijan, which had been under the occupation of Armenian invaders for almost 30 years, were returned, and the political sovereignty of the Republic of Azerbaijan was restored. In accordance with the decree of the president of the Republic of Azerbaijan on the redistribution of economic regions of the Republic of Azerbaijan dated June 07, 2021,

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<sup>7</sup> Order of the president of the Republic of Azerbaijan dated November 28, 2023 on the establishment of the garabagh University, <https://president.az/az/articles/view/62346>

the Karabakh and East Zangezur economic regions were established. For objective reasons, land reforms and agrarian reforms were not carried out in these economic regions. Therefore, one of the most important conditions for the development of SMEs is considered to be the implementation of land reforms based on experience.

3. When approaching the development of SMEs, it is necessary to take into account the shortcomings of the existing practice of land reforms and agrarian reforms in the LT. In other words, during the agrarian reforms and land reforms carried out in the Republic of Azerbaijan since 1995, a significant part of the land was distributed in small volumes to small commodity producers, which limits the application of a shift planting system in agriculture.

4. Within the framework of the necessary measures for the development of SMEs, first of all, it is necessary to ensure the security of territories and implement delimitation and demarcation processes, form infrastructure systems, and ensure sustainable employment of the population. It is after the implementation of these measures that the processes of primary state assistance related to the development of SMEs should begin.

5. The development of SMEs in the LT can be carried out primarily in the field of Agriculture and tourism. Within the framework of measures aimed at the development of SMEs in agriculture, it is necessary to ensure the allocation of relevant land plots by the state to commodity producers and provide commodity producers with large-horned and small-horned cattle in accordance with the directions of specialization and in accordance with the conditions.

6. There is a need to implement investment projects from the state budget within the framework of necessary support measures for the formation of SMEs in accordance with the directions of specialization in the LT.

7. One of the most important priorities in the development of SMEs in the LT is the tourism sector. In particular, the tourism potential of the East Zangezur and Karabakh economic regions is considered more favorable, and from this point of view, it is advisable to develop and implement special projects aimed at the development of agritourism and rural tourism. Such an approach can stimulate settlement in the

region, making a significant contribution to the employment of the population, increasing the level of employment and improving social well-being. At the same time, special preference should be given to rural tourism in order to support the development of SMEs in the field of tourism. At the same time, it is of particular importance to create opportunities for people living in rural areas to receive foreign and domestic tourists, to provide them with the knowledge, skills and resources necessary to provide tourism services.

8. In order to ensure the activity of alternative employment and alternative agricultural sectors in the LT, it is possible to develop beekeeping and provide access of these products to foreign markets under the name of Karabakh and East Zangezur brands, which will be possible with the necessary state support to small and medium-sized businesses.

The following proposals are reflected in the conclusion of the study:

- The use of differential subsidization system for stimulating individual entrepreneurs in the LT in order to implement their activities by combining them on a cooperative basis, unlike other regions of the Republic of Azerbaijan that have not been subjected to occupation, can give positive results. In other words, it would be appropriate for commodity producers included in the cooperation to provide new higher subsidies for different productivity, sales and specialization.

- The classic basis of all forms of entrepreneurship in the LT should be the implementation of activities aimed at developing it in accordance with current demand. From this point of view, large business entities should be stimulated by implementing the production and provision of services more oriented to foreign markets. In SMEs, first of all, the provision of local products to the domestic market should be brought to the fore, taking into account the activities aimed at ensuring population employment, as well as increasing population incomes.

- It would be advisable to implement the development of SMEs in the LT primarily in accordance with the economic potential and specialization direction of the Karabakh and East Zangezur economic regions in those regions. In this regard, as one of the development

requirements, the development and implementation of a targeted program can be considered necessary.

- Taking into account the agricultural potential of the LT, using the available resources in these areas, stimulating the implementation of the production process, as well as increasing the level of employment, as well as expanding the practice of establishing agroemal enterprises as one of the important measures for the further development of entrepreneurship in these areas can give positive results.

- One of the main priorities of the development of SMEs in the LT is the expansion of entrepreneurship in the field of services. The analysis shows that in the current conditions, the service area is rather limited, especially in the Lachin region, since the processes of rapid settlement of the population are not fully realized; for example, only 4 cafes and several recreation complexes operate on the territory of the region. In these establishments, the prices for the services provided to customers are not at an accessible level, and the food products offered are sold at a relatively high price. As a result, these conditions do not fully meet the requirements of domestic and foreign tourists. Therefore, when implementing sustainable settlement measures, increasing the number of business entities in the service sector and creating SMEs entities based on the principles of free competition should be in the focus of special attention. This can create favorable opportunities for the organization of services in accordance with the requirements of domestic and foreign tourists and ensuring customer satisfaction.

- It would be advisable to provide information and communication technologies for the development of SMEs in the LT and to create high-speed internet services in these regions, to expand the possibilities of social networks and other similar social services.

- In order to expand the personnel training processes in the LT, the establishment of Independent Colleges and vocational education institutions under Kharabakh State University and at the same time, it is important to provide information advisory services to agricultural and commodity producers, as well as entrepreneurial organizations operating in the field of Tourism. In this regard, special attention should be paid to the training of personnel who know foreign

languages and are able to use the opportunities of information and communication technologies in order to attract foreign tourists.

**The main provisions of the dissertation work are reflected in the following works of the author:**

1. Osmanov, E.F The importance of increasing the economic efficiency of innovation projects in strategic business management. // - Baku: international scientific journal “Scientific work”, 2020 №1. – pp. 54-58.

2. Osmanov, E.F Provision of a favorable business environment in Azerbaijan and conceptual foundations of business management // – Baku: international scientific journal “Scientific work”, 2020, № 8. – pp. 105-108.

3. Osmanov, E.F. Formation and development of small and medium enterprises in the liberated territories // – Baku: international scientific journal “Scientific work”, 2021. №15. – pp. 69-73.

4. Osmanov, E.F Entrepreneurship development in the occupied areas, // - Baku: scientific research, international scientific journal – VI international scientific research 2021, – pp. 38-40.

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8. Osmanov, E.F Management Mechanisms Of Small And Medium Enterprises. // - Baku: Scientific News, Social and Technical sciences series 2023 № 4 – pp. 262-267.

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12. Osmanov, E.F Measurement of competitiveness between small and medium-sized businesses in the liberated territories // - Baku: International Scientific – practical conference on “Green economy as a model of sustainable development” 2024, – pp. 406-408.

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14. Osmanov, E.F formation and development directions of small and medium-sized enterprises in the liberated territories // – Baku: scientific resources XX Republican scientific conference, 2025. – pp. 29-32.



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