

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**DIRECTIONS TO ENSURE FINANCIAL SUSTAINABILITY
OF PRIVATE ENTREPRENEURSHIP STRUCTURES IN THE
REPUBLIC OF AZERBAIJAN**

Specialty: 5308.01- General economics

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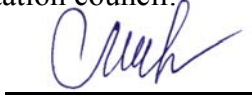
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GENERAL CHARACTERISTICS OF WORK

Relevance and development of the topic: The role of private entrepreneurship in economic development in the context of integration into the international economic system manifests itself in a number of ways. From this point of view, business entities are actively involved in economic processes, have a flexible response to the adoption of new techniques and technologies, and strongly mobilize opportunities to gain a competitive advantage. Private entrepreneurship structures are becoming an effective tool in terms of creating an innovative environment, replacing traditional production structures with new ones, fulfilling the incentive function in the use of financial resources, as well as sustainable economic development.

The development of private entrepreneurship depends on macroeconomic factors, including the formation of effective financial policy. Therefore, private entrepreneurship structures are distinguished by a more effective mechanism of action to ensure their financial sustainability by responding quickly to changes in the internal and external environment.

The formation of a modern innovative economy allows to dramatically increasing the role and efficiency of private entrepreneurship in these processes. The functions performed by private entrepreneurship structures show that the optimal use of production resources in order to increase profits and ensure financial sustainability is one of the main tasks of this form of entrepreneurship. Financial sustainability characterizes the ability of each business entity to fulfill both external and internal obligations in the short and long term. One of the most important features in ensuring financial sustainability is the efficiency of decisions related to the organization of production activities.

In the context of expanding globalization and the pandemic crisis, the prospects for the mobilization of financial resources by economic entities based on various forms of ownership are deteriorating, opportunities for refinancing loans on favorable terms are declining, and strategic investment in enterprise development is declining. In such a situation, to ensure financial stability, businesses are trying to attract more financial resources to production. This is directly related to the implementation of consistent economic policy. It should be

noted that there is a need to attract financial resources for the development of private entrepreneurship in the liberated territories. The Decree of the President of the Republic of Azerbaijan dated July 31, 2018 “On improving the mechanism of state support for the development of entrepreneurship in the Republic of Azerbaijan” embrace *“Improving the mechanism for supporting the development of entrepreneurship, financing export operations, accelerating investment in the real sector and expanding access to financial resources for businesses operating in the private sector.”*¹ One of the most important manifestations of the state's care for the development of entrepreneurship is the words of national leader Heydar Aliyev *“Development of entrepreneurship, free economy, creation of a market economy is our strategic path”*, President Ilham Aliyev *“The future development of our country depends on the development of entrepreneurship.”* “Azerbaijan 2030: National Priorities for Socio-Economic Development” states: *“In order for the private sector, especially small and medium enterprises, to become a major source of economic growth and employment, the business environment must be significantly improved, the judiciary must be more transparent, and unfair competition must be prevented”*². It should be noted that despite the negative impact of the Covid-19 pandemic on all spheres, the liberation of our occupied territories for more than 30 years under the leadership of President Ilham Aliyev also opens important prospects for the development of private entrepreneurship.

Research shows that the high level of financial sustainability of business entities is one of the most important indicators of the need for financial support to expand operational activities to minimize the risk of bankruptcy in various sectors of the economy. Accordingly, indicators of financial sustainability of private entrepreneurship entities and their changing tendencies are among the main factors that encourage a wide range of economic entities, especially potential

¹ Decree of the President of the Republic of Azerbaijan dated July 31, 2018 “On improving the mechanism of state support for the development of entrepreneurship in the Republic of Azerbaijan”

² “Azerbaijan 2030: National Priorities for Socio-Economic Development”. Order of the President of the Republic of Azerbaijan dated February 2, 2021.

strategic investors and creditors, to this area. All this confirms the urgency of the problems of development of private entrepreneurship and ensuring financial sustainability.

The study of the problems of ensuring the financial sustainability of private entrepreneurship has always been in the focus of economists. These issues are widely covered in the researches of Azerbaijani economists Z.A. Samadzade, E.R. Ibrahimov, E.A. Guliyev, I.H. Aliyev, I.H. Ibrahimov, B.H. Atashov, S.V. Salahov, M.J. Huseynov, A.N. Hasanov, A.F. Abbasov, A.M. Maharramov, V. H. Abbasov, G.A. Ganjiyev, V.M. Niftullayev, Q.N. Manafov, Sh.T. Aliyeva, A.S. Imanov and others. Theoretical aspects of ensuring the financial stability of business entities were studied in the scientific works of foreign economists - A. Smith, M. Porter, F. Kotler, P. Samuelson, T. Kantilon, A. V. Busigin, N. V. Alekseev, V. I. Makarova, G. V. Savitskaya, I. V. Yeshova, E.M. Kozakov and others. However, these studies draw attention to the study of the problems of ensuring the financial sustainability of private entrepreneurship in different areas. To be more precise, there is no complex approach to the problem in the scientific researches of the mentioned authors.

Object and subject of research. The object of research of the dissertation is private entrepreneurship structures operating in various sectors of the economy. The subject of the study is the issues of ensuring financial sustainability, which is one of the most important areas of activity of private entrepreneurship.

Aims and objectives of the research: The purpose of the research is to identify the theoretical and methodological aspects of the formation of financial sustainability of private entrepreneurship, the dynamics of development of business entities and the level of financial sustainability, to develop proposals and recommendations. The following tasks have been identified in this direction:

- research of conceptual aspects of financial sustainability in private entrepreneurship;
- formation of private entrepreneurship structures and identification of development features;
- substantiation of the importance of financial sustainability in the economic development of private entrepreneurship entities;

- Analysis of the main economic indicators of various business entities;
- study of the financial stability of business entities, trends in this area;
- assessment of the competitiveness and financial sustainability potential of private entrepreneurship entities;
- development of private entrepreneurship structures. Identify prospects and directions for improving financial sustainability

Research methods: The following methods were used in the dissertation: analysis, synthesis, economic-mathematical, economic-statistical, analytical analysis, comparative analysis.

The main provisions to be defended: The main provisions to be defended are as follows:

- generalization of scientific-theoretical views on the formation of financial sustainability of private entrepreneurship structures and development features of entrepreneurship structures;
- substantiation of the relationship between ensuring financial stability and economic development of private entrepreneurship entities;
- determining the impact of key economic indicators of business entities on financial sustainability;
- assessment of the relationship between the competitive potential and financial sustainability of private entrepreneurship entities;
- identification of areas to stimulate the development of private entrepreneurship;
- identification of areas for improving the financial sustainability management mechanism of business structures;
- identification of areas to increase the competitive potential of private entrepreneurship.

Scientific novelty of the research: The scientific novelty of the research is characterized by the following:

- development features of business entities in the development of the scientific basis for the formation of financial sustainability of private entrepreneurship structures - high intensity and optimization of the use of all types of resources, ensuring a rational ratio of resource use, etc. the need for consideration is substantiated;
- the role of financial sustainability and integration relations in the economic development of private entrepreneurship has been identified;
- the relationship between the main economic indicators of business

entities and financial sustainability is identified, the need to take into account this dependence and the factors affecting the dependence is justified;

- stimulus measures and the main directions of state support for the development of private entrepreneurship - subsidies, access to credit, risk insurance, preferential sale of fixed and working capital, etc. has been identified;

- the impact of management on the development of entrepreneurial activity was identified by identifying areas for improving the mechanism of financial sustainability management of private entrepreneurship structures;

- areas of increasing the financial sustainability potential of private entrepreneurship in a competitive environment - entrepreneurship support mechanisms, subsidies, soft loans, financial subsidies, tax incentives, export support measures, etc. identified.

Theoretical and practical significance of the research: The theoretical significance of the research is the scientific substantiation of the scientific-theoretical provisions of the formation of financial sustainability of private entrepreneurship structures. Conceptual approaches in this area are closely related to the economic conditions and theoretical aspects of research related to the financial sustainability of business structures in a competitive environment. In this regard, the identified scientific and theoretical provisions can be considered as an important strategy in strengthening the financial sustainability of business structures. The main scientific provisions and results of the dissertation research, as well as the theoretical and methodological role for research on ensuring financial sustainability can play a key role.

The practical significance of the research is characterized by the proposals prepared to improve the financial sustainability of business structures, the possibility of using these proposals in determining the development strategy of business structures. The results obtained and the proposals put forward can also be used in the formulation and improvement of policies to ensure the financial sustainability of business entities.

Approbation and application of the research: The main provisions of the study were presented at national and international

scientific and scientific-practical conferences. Thus, (“Ensuring healthy competition in entrepreneurial activity and state measures against the threats posed by competition.” Actual problems of modern natural sciences, Ganja 2021, “Social responsibility in entrepreneurial activity”. Sustainable development strategy: global trends, national experiences and new goals, Mingachevir 2021, "Advantages, shortcomings and factors of success of entrepreneurship". Actual scientific research in the modern world, Pereyaslav Issue 10 (78) 2021, “State support and incentives for the development of private entrepreneurial structures”. Actual scientific research in the modern world, Pereyaslav Issue 7 (75) Part 3, 2021; “Directions for encouraging and stimulating exports from private businesses”. Thesis entitled “Food Security: Problems and Ways of Solutions, Makhachkala, 2021”) was published in the materials of relevant scientific conferences.

10 scientific articles and theses on the main provisions of the research were published.

Name of the organization where the dissertation work was carried out: The dissertation work was done at Ganja State University.

Volume and structure of the dissertation. The dissertation consists of an introduction, three chapters, a conclusion, a list of references and 218914 characters. Introduction 7 pages 11180 characters, Chapter I 37 pages 60250 characters, Chapter II 39 pages 63063 characters, Chapter III 36 pages 58273 characters, result 4 pages 8389 characters, list of used literature 12 pages 15918 characters. 8 tables, 2 pictures are given in the research work, 142 sources are indicated in the list of used literature.

SUMMARY OF THE RESEARCH WORK

In the introductory part of the dissertation the relevance of the topic is substantiated, the goals and objectives, methods of the research are characterized, the main provisions are defended, the scientific innovations, theoretical and practical significance and approbation of the work are reflected.

The first chapter of the dissertation "Theoretical issues of financial sustainability of private entrepreneurship" explains the conceptual aspects of financial sustainability in private entrepreneurship, the

formation and development of private entrepreneurship and the role of financial sustainability in economic development of private entrepreneurship.

The development of private entrepreneurship in the context of transformation into the process of globalization requires the formation of effective development mechanisms in this area, subject to qualitative changes in the components that ensure the sustainability of the economy. Private entrepreneurship is a necessary part of the modern model of a market economy. Private entrepreneurship greatly contributes to the maintenance of competition between different economic entities, affects the structure of production, creates the basis for the formation of the entrepreneurial class. At the same time, the role of private entrepreneurship in the development of the economic system, including sustainable growth, is still not fully understood. Therefore, the need to study the scientific-theoretical and institutional aspects of private entrepreneurship, its sustainable development remains relevant. From this point of view, conceptual approaches to the problem emphasize the importance of determining the effectiveness of economic instruments of private entrepreneurship, the development of budget, tax, credit mechanisms and mechanisms for the implementation of financial instruments of state regulation.

The development of private entrepreneurship requires, first of all, the formation of a satisfactory level of its financial sustainability, the dynamics of the financial capacity development period, the creation of necessary conditions for attracting bank loans on favorable terms, reducing the turnover of creditors and ensuring sufficient interest of strategic investors in entrepreneurship development projects.

Private entrepreneurship is a key condition for the formation of a sustainable economy, and the traditional tendency to entrepreneurship plays a significant role in its development. Both external and internal factors and the business environment play a decisive role in the formation and development of private entrepreneurship: high level of economic integration with foreign countries; attraction of foreign loans; foreign direct investment; level of development of market relations; condition of infrastructure; production and economic potential and the state of its use; provision

of labor and natural resources and opportunities for their use, etc. All this characterizes the elements of a comprehensive policy aimed at creating a favorable environment for the development of private entrepreneurship.

Based on the research, it can be noted that the issues of business development sustainability and financial sustainability are components of complementary concepts. Thus, from the point of view of theories of economic stability, sustainability is considered as a feature that reflects the optimality of the internal structure of systems or objects, the functions performed, certain behaviors and the mechanism of interaction with environmental factors.

Research shows that private entrepreneurship plays a crucial role in creating an economic base for solving important problems of economic and social development. Entrepreneurial structures have the ability to flexibly adapt to market demands, playing an important role in meeting the needs of the country and consumers. Private businesses are trying to make the most of new advances in science and technology as the most important factor in increasing labor productivity to achieve economic growth. All this ultimately leads to sustainable economic growth and improved quality of life in the country.

Entrepreneurial structures are constantly trying to implement an innovation policy to provide the market with products that meet its needs. Innovative policies that serve the successful operation of entities in modern conditions are based on innovative mechanisms that allow them to take the initiative in the formation of market demand, especially to create needs for more consumers. It is clear that the source of income for private businesses is not only the growth of production, but also the diversification and constant renewal of the range of products. In this regard, the entities try to react more quickly to changes in consumer demand, to change the direction of their activities in a short period of time in accordance with changes in the economic situation. As a result, the efficiency of their activities and the economy increases significantly.

In the context of market transformation of the economy, the activities of private businesses are affected by complex external and internal factors. In this regard, the identification, analysis and forecasting of

indicators of the financial condition of each business structure is quite relevant. Financial sustainability is defined as the ability of business entities to operate and develop in a changing internal and external environment, maintaining the balance of assets and liabilities, which guarantees their solvency and investment attractiveness.

Thus, identifying the need for coordinated measures to strengthen the financial sustainability of private businesses, it remains important to reconsider the boundaries for the implementation of existing measures. This, in turn, allows for timely elimination of deviations in the level of financial sustainability.

The second chapter – “Development dynamics and level of financial sustainability of private entrepreneurship” - analyzes the dynamics of indicators characterizing the economic activity of private entrepreneurship and the financial sustainability of private entrepreneurship, assesses the competitive potential of private entrepreneurship.

The activity of economic entities on the production, distribution, exchange and consumption of material goods in the sphere of entrepreneurship determines the general direction of economic activity, characterized as a process of reproduction. Economic activity focuses on the creation of specific goods and services by combining resources (equipment, labor, technology, raw materials and supplies) and production processes. Sustainable economic development of business entities promotes their more efficient use in the context of limited resources in terms of assessing its economic components. In this case, taking into account changes in the external and internal environment, a flexible response to fluctuations are considered to be the main criteria for sustainable economic development.

It is known that innovative initiatives significantly strengthen the competitive position of private entities and allow them to achieve high efficiency in their economic activities. The sufficient level of raw materials and energy resources in our country creates the basis for the development of private entrepreneurship in the necessary business environment. Research shows that as a result of stimulus measures implemented in recent years, including the "Strategic Roadmap for the production of consumer goods at the level of small and medium

enterprises in the Republic of Azerbaijan", there has been a dynamic growth in key macroeconomic indicators. Compared to 2016, the value added created in 2020 increased by 3.1 times, the average monthly nominal wage by 80.8%, and output by 3.4 times. The positive results achieved are also due to the growing tendency to entrepreneurship in recent years. It is not accidental that for this reason the number of employees increased by 24.1% in the comparable period. Only the volume of investments in fixed assets decreased in 2020 compared to 2016 - 5.5% (Table 1).

Table 1

The main macroeconomic indicators of business entities

Indicators	YEARS					In 2020, in% compared to 2016
	2016	2017	2018	2019	2020	
Created value added, million manat	3587,2	3807,6	9836,6	11071,7	10 941	3.1 times
Number of employees, thousand people	281,0	290,1	283,4	332,2	348,7	124,1
Average monthly nominal salary, manat	338,6	352,8	445,3	531,0	612,3	180,8
Fixed capital investments, million manat	2830,2	3298,6	6953,0	3422,2	2674,1	94,5
Product release, million manat	5831,2	6269,6	17401,6	19579,4	19725,7	3,4 times

The table was compiled by the author on the basis of the data of the State Statistics Committee .³

Looking at the cost of goods, work performed, services provided by micro, small and medium enterprises by type of economic activity and property, it is clear that in the years of the study, the indicator by type of economic activity was 3.4 times, including agriculture, forestry and fisheries 7.8 times, 8 times in industry, 17.8 times in mining

³ Micro, small and medium business in Azerbaijan. State Statistics Committee of the Republic of Azerbaijan. Baku: 2021, p.23

industry, 5.7 times in processing industry, 28.1 times in the system of production, distribution and supply of electricity, gas and steam, water supply; waste treatment and processing 8.7 times, construction 13.4 times, trade; 74.5% in the repair of vehicles, 73.9% in transport and warehousing, 9.3 times in the provision of health and social services to the population (Table 2).

Table 2

Cost of goods loaded, work performed, services provided by micro, small and medium business entities, mln manat

Types of economic activity	YEARS					In 2020, in % compared to 2016
	2016	2017	2018	2019	2020	
Total by types of economic activity	5831,2	6269,7	17401,6	19579,4	19725,7	3,4 times
Agriculture, forestry and fishing	96,6	108,7	503,1	577,6	749,8	7,8 times
Industry total	499,7	603	3 120,4	3 844	4 007,5	8,0 times
Mining industry	24,6	24,9	182,6	382,3	437,3	17,8 times
Processing industry	409,6	466,7	1 996,6	2 510,9	2 334,1	5,7 times
Production and supply of electricity, gas and steam	34,4	75,5	726,8	699,9	966,4	28,1 times
Water supply; waste treatment and processing	31,1	35,8	214,5	250,8	269,6	8,7 times
Construction	273,9	377,5	2 724,5	3 011,8	3 664,1	13,4 times
Trade, repair of vehicles	2861,8	2848,9	3 748,8	4 092,0	4 993,0	174,5
Transport and warehousing	690,5	719,9	1 456,4	1 544,8	1 201,0	173,9
Provision of social services to the population	38,4	45,5	472,4	588,6	358,8	9,3 times

The table was compiled by the author on the basis of the data of the State Statistics Committee .⁴

The sharp increase in the cost of goods, works and services in the comparable period can be directly attributed to the measures to

⁴ Micro, small and medium business in Azerbaijan. State Statistics Committee of the Republic of Azerbaijan. Baku: 2021, p.48

“further increase the business and investment climate for local and foreign investors, to create a more attractive business and investment environment in line with international best practices.”⁵

The analysis shows that the largest share in the distribution of micro, small and medium enterprises by economic sectors belongs to retail trade. Thus, 33% of small entrepreneurs are concentrated in this area of activity. One of the main reasons for this is the weak monopolistic tendencies in the retail trade and the weak demand for initial capital, which is directly related to the greater competitiveness of economic entities engaged in entrepreneurial activities in the trade sector. After retail, micro, small and medium enterprises operate in 4% of the industrial sector, 4% of the construction sector, 4% of the processing industry and 54% of other sectors. Agriculture has only a 1% share in this structure (Figure 1).

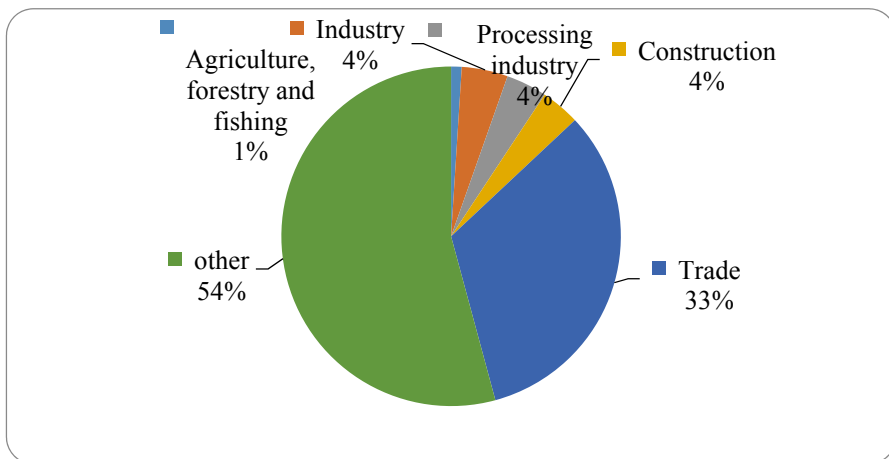


Figure 1. Distribution of micro, small and medium enterprises by economic sectors in 2020. ⁶

⁵ Order of the President of the Republic of Azerbaijan dated July 13, 2016 “On additional measures to increase the business environment in the Republic of Azerbaijan and further improve the position of our country in international rankings.”

⁶ Micro, small and medium business in Azerbaijan. State Statistics Committee of the Republic of Azerbaijan. Baku: 2021, p.79

The above shows that the successful operation of private entrepreneurship depends mainly on the level of its financial sustainability. The more stable the financial stability of the business structure, the more it is insured against changes in market conditions, and the lower the risks associated with different levels of fluctuations. In this regard, the strategic goal of entrepreneurship is primarily to achieve financial sustainability.

Taking into account the current state of reserves and assets, which is one of the most important indicators characterizing the financial sustainability of business entities, it is clear that over the past 2 years, reserves of micro, small and medium enterprises by economic activities increased by 30% and assets by 7.5%. The increase in these indicators in agriculture, forestry and fisheries was 68.4% and 48.5%, respectively, water supply; 3.9 times and 2 times in waste treatment and processing, 78.3% and 87.1% in construction, trade; 22.3% and 29.9% in the repair of vehicles. Compared to 2019, the industry saw a 0.5% and 1.7% decrease in reserves and assets in 2020, and a 6.6% and 9.9% decrease in the processing industry, respectively. The situation is different in some economic activities. Thus, while reserves in the mining industry increased 2.3 times, assets decreased by 3.5%, reserves in the production, distribution and supply of electricity, gas and steam decreased by 6.7%, assets increased by 17.4%, reserves in transport and warehousing 82, Increased by 1%, assets decreased by 1.5%, provision of social services to the population decreased by 2.4%, assets increased by 47.7% (Table 3).

Reserves and assets of micro, small and medium enterprises by types of economic activity characterize their financial condition in general. Therefore, the correct choice of criteria for assessing the financial situation is one of the most important issues. From the above, it is important to obtain reliable information that will allow you to respond quickly and effectively to the symptoms of a possible crisis.

In the context of globalization and integration into the system of international economic relations, the main criterion for the efficiency of production and the realization of demand is the competitiveness of products. It is known that the growth of production is one of the main sources of improving competitiveness. In general, competitive

potential is the ability of businesses to provide a unique and greater value in the form of quality of products, consumer characteristics or after-sales service.

Table 3

**Reserves and assets of micro, small and medium enterprises
by types of economic activity, mln**

Types of economic activity	Years				In 2020, in % compared to 2019	
	2019		2020		Reser- ves	assets
	Reser- ves	assets	Reser- ves	assets		
Total by types of economic activity	3 223,2	54 274,0	4 191,2	58 363,3	130,0	107,5
Also:						
Agriculture, forestry and fishing	125,3	1 577,9	211,0	2 343,0	168,4	148,5
Industry	833,6	21 893,4	829,2	21526,7	99,5	98,3
Mining industry	26,8	15 867,7	62,1	15 315,5	2,3 times	96,5
Processing industry	800,7	5 022,3	747,7	4 525,9	93,4	90,1
Production, distribution and supply of electricity, gas and steam	1,5	407,3	1,4	478,3	93,3	117,4
Water supply; waste treatment and processing	4,6	596,1	18,1	1 207,0	3,9 times	2,0 times
Construction	528,4	5 504,6	942,3	10 298,8	178,3	187,1
Trade, repair of vehicles	1 366,9	3 468,0	1 672,3	4 505,0	122,3	129,9
Transport and warehousing	115,4	2 651,9	210,2	2 611,8	182,1	98,5
Provision of social services to the population	14,5	283,2	12,7	418,2	87,6	147,7

The table was compiled by the author on the basis of the data of the State Statistics Committee .⁷

⁷ Micro, small and medium business in Azerbaijan. State Statistics Committee of the Republic of Azerbaijan. Baku: 2021, p.205-209

Research shows that entrepreneurship in any sector of the economy, along with products, also causes competition between industries. It is impossible for businesses and their industries to avoid competition in local markets or in a particular geographical segment. In such conditions, the formation and development of modern business structures with competitive products is considered a priority. In this case, the entity can increase financial results by creating added value in the production process, ensuring the sustainability of economic results of production by meeting the demand for products in a timely manner, improving product quality and achieving an increase in competitiveness.

Research shows that the competitive potential of private entrepreneurship structures is directly reflected in their activities and determines the role of entities in economic development. From this point of view, if we look at the share of entities in the total value of goods produced by businesses, work performed, services provided, it is clear that in recent years, this indicator has increased significantly by type of economic activity. Thus, in 2019, the share of business entities in this area was 23.3%, in 2020 it increased by 2.4 points and amounted to 25.7%. The share of business entities in the total cost of goods produced, work performed, services provided in 2019 was 68.5% in agriculture, forestry and fisheries, 8% in industry, 31.9% in construction, trade; 74.8% in vehicle repair, 20.0% in transport and warehousing, 79.0% in tourist accommodation and catering, 33.7% in information and communication, 79.5% in real estate operations, 98.4% in education, 59.7% in the provision of health and social services to the population, 44.7% in the provision of services in other areas. In 2020, 2.9 points increase in agriculture, forestry and fisheries, 2.5 points in industry, 5.6 points in construction, trade; 3.9 points in vehicle repair, 6.4 points in transport and warehousing, 14.4 points in tourist accommodation and catering, 9.6 points in information and communication, 32.6 points in real estate operations, 17.2 points in education, There was a decrease of 3.2 points in the provision of health and social services to the population, and 2.4 points in the provision of services in other areas. A comparison of the indicators for individual business entities shows that in 2019 and 2020, the average share of medium-sized businesses in the total number of economic activities per year. In particular, in the

comparable periods, education had the highest share (98.4% and 81.2%), and industry had the lowest share (8.0% and 10.5%) (Table 4).

Table 4

The share of entities in the total value of goods produced, work performed, services provided by business entities by type of economic activity, as a percentage

Types of economic activity	Total	2019			Total	2020		
		Micro	Small	Middle		Micro	Small	Middle
Total by types of economic activity	23,3	9,0	3,1	11,2	25,7	9,4	3,8	12,5
Agriculture, forestry and fishing	68,5	10,6	15,0	43,0	71,4	15,6	17,1	38,7
Industry	8,0	0,7	1,0	6,4	10,5	1,2	1,3	8,0
Construction	31,9	5,3	5,1	21,6	37,5	6,5	6,4	24,6
Trade, repair of vehicles	74,8	54,9	5,1	14,7	70,9	50,7	6,5	13,7
Transport and warehousing	20,0	9,5	1,9	8,5	13,6	5,4	1,9	6,4
Tourist accommodation and catering	79,0	63,7	3,9	11,3	64,6	46,7	4,4	13,4
Information and communication	33,7	9,4	5,4	18,9	24,1	3,6	5,7	14,8
Real estate transactions	79,5	10,1	19,0	50,4	46,9	5,9	10,4	30,7
Education	98,4	85,4	2,8	10,2	81,2	66,1	3,6	11,5
Provision of health and social services to the population	59,7	30,4	5,5	23,8	56,5	29,3	7,3	19,9
Provision of services in other areas	44,7	10,0	12,4	22,3	42,3	10,9	11,0	20,4

*The table was compiled by the author on the basis of the data of the State Statistics Committee.*⁸

⁸ Micro, small and medium business in Azerbaijan. State Statistics Committee of the Republic of Azerbaijan. Baku: 2021, p.64

As can be seen, the higher level of the share of entities in the total value of goods, works performed and services provided by business entities belongs mainly to the service sector, with the exception of agriculture, forestry and fisheries. This confirms that private businesses are more inclined to provide services. The expansion of private entrepreneurship in the service sector (although competition in the service sector is higher) can be attributed to some extent to the risk factor compared to the manufacturing sector.

Thus, the real state of the competitive environment and the level of competitiveness of business structures shape their production and market behavior, the use of competitive potential. On this basis, it is possible to form a competitive strategy and identify key areas for action to improve the competitive potential of entities.

The third chapter is devoted to "Prospects for the development of private entrepreneurship and directions for improving level of financial sustainability." This chapter identifies areas state support the development of private entrepreneurship, improving the mechanism for managing the financial sustainability of business structures, and increasing the competitiveness and export potential of private businesses.

Private entrepreneurship is one of the most promising areas of economic development and is directly involved in solving the country's economic, social, scientific and technical problems. The development of private entrepreneurship contributes to the development of competition at all levels, meeting market demand for products and services, creating and implementing innovations, increasing tax revenues, solving employment problems and creating new jobs. From the above, private entrepreneurship performs important economic and social functions and makes it an integral part of economic development as a whole.

Research shows that in recent years, special attention has been paid to the development of entrepreneurship, as well as the provision of direct financial support by the state to compensate entrepreneurs for the damage caused by the Covid 19 pandemic. In this regard, as an important direction of government incentives, *"improvement of the mechanism to support the development of entrepreneurship in connection with increasing access to financial resources for businesses"*

operating in the private sector”⁹ is becoming more sustainable. Thus, until January 1, 2022, 113 million 64.5 thousand manat was allocated under the program of financial support to individual (micro) entrepreneurs operating in areas affected by the pandemic.

“The amount of loans guaranteed and subsidized by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan in 2019 compared to 2018 (17.529 million manat) increased by 3 times and amounted to 52.195 million manat. With the introduction of guarantees and interest subsidies, entrepreneurs will receive 70 mln. received a loan of up to AZN ”.¹⁰

The Entrepreneurship Development Fund of the Ministry of Economy has allocated AZN 8.6 million in soft loans to finance 153 investment projects of business entities. According to the number of projects, 92.8% of soft loans fell to the production of agricultural products, 5.9% to the production and processing of industrial products, and 1.3% to the development of services ”.¹¹

The main purpose of supporting private entrepreneurship is to increase the living standards and quality of life of the population, the dynamic and sustainable development of private entrepreneurship, creating jobs, increasing the income level of entrepreneurs, providing the consumer market with products and services. Thus, state support of private entrepreneurship and stimulation of entrepreneurial activity aims to create favorable conditions for increasing the efficiency of the economy as a whole.

In addition to the above, stimulating the development of private entrepreneurship should be considered as one of the effective methods of regional policy. In the opinion of Professor I.H.Ibrahimov, importance should be given to the following directions of state support for the development of entrepreneurship in the regions, including the territories freed from occupation: diversification of competitive and safe food products production and export, regular improvement of

⁹ Decree of the President of the Republic of Azerbaijan dated July 31, 2018 “On improving the mechanism of state support for the development of entrepreneurship in the Republic of Azerbaijan”

¹⁰ <http://mcgf.gov.az/post/692>

¹¹ <http://edf.gov.az/az/news/2665>

stimulation mechanisms; improving governance; improvement of this process, taking into account the factors determining integration processes, etc. Entrepreneurial structures are the main means of stimulating economic activity in regions, since the effectiveness of entrepreneurial activity is related to having the opportunity to create jobs for the labor force with various qualifications in a relatively short period of time, quickly adapting to the production of new products and technologies and playing an important role in the sphere of innovation, and not requiring large investments for their creation. is accepted as Stimulation of entrepreneurial activity in the regions is also important because a significant part of the entrepreneurial entities operate in the regions. In particular, the development of agrarian entrepreneurship is mainly related to the regions.

Looking at the distribution of business entities by region, it is known that in 2020, 47.6% of these economic structures are located in Baku. The economic regions where the most entrepreneurial entities are located are Sheki-Zagatala (4.9%) and Aran (4.8%) regions. This indicator was 3% in Ganja-Kazakh economic region, 4% in Absheron, 1% in Lankaran, 5% in Aran economic region, and 34% in other areas (Figure 2).

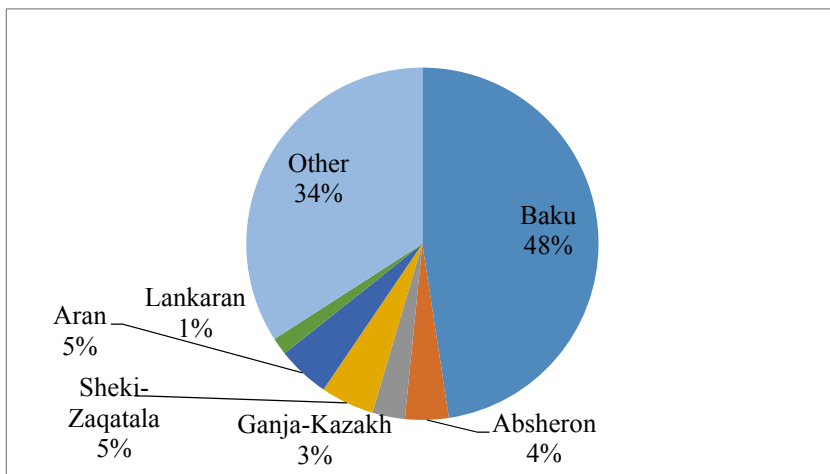


Figure 2. Distribution of business entities by economic regions in 2020, in %

At the global level, in the context of the instability of the economic environment, private entrepreneurship structures face serious risks. In such conditions, it is difficult to maintain a stable position of business structures and ensure their long-term development. In this regard, the formation of an effective management mechanism aimed at ensuring financial sustainability is considered one of the most important tasks of private entrepreneurship. One of the important elements of effective management is the management of financial sustainability, which requires taking into account the different characteristics that exist in the management of financial stability of individual businesses. In addition, it is important to consider the impact of financial sustainability on private entrepreneurship as a crisis management mechanism. Thus, effective management of financial sustainability is one of the main conditions for more efficient use of financial resources of entities and ensuring their stable operation.

The competitiveness of private entrepreneurship is a key factor in its successful operation and dominance in the markets. In the context of globalization, the need to replace imports with exports and modernize domestic production increases the importance of creating a competitive potential of businesses and a mechanism to improve it. Ensuring the competitiveness of private entrepreneurship is based on a comprehensive approach to determining the principles of their activities, the quality of products and works and services offered, as well as the assessment of competitiveness.

In the current context of expanding international economic relations, the intensification of competition in the field of entrepreneurship is naturally increasing. This process has a serious impact not only on the competitiveness of products (works and services) produced in one or another area, but also on the competitiveness of private enterprises as a whole. Therefore, increasing the competitiveness of local production and its comprehensive assessment becomes the main task of business entities.

From the above, it is clear that by promoting and stimulating exports, the state acts as a guarantor of economic activity of businesses as a whole. Also, the use of more effective measures and tools of the state in the export activities of business entities will strengthen the

position of national exporters in the world market eliminate the imbalances created by international economic instability.

Thus, it is possible to obtain a number of generalized results in determining the potential of private entrepreneurship to ensure financial sustainability and prospects for its strengthening:

1. Analysis of financial measures used to stimulate the development of private entrepreneurship shows that it is necessary to adapt the existing financial instruments, especially to the needs of micro and small business. In this case, the issues of preferential lending, insurance of risks and property, subsidies of priority areas as financial support may be considered expedient. At the same time, it is necessary to create preferential conditions for business entities to use material and technical, information resources, scientific and technical innovations and innovative technologies.

2. For many private businesses, the urgent task of applying resource-saving technologies and modernizing production remains unresolved. This situation is due, on the one hand, to financial security, and on the other hand, to a sharp decline in the ability of entities to obtain long-term bank loans. This largely highlights the objective trends of banks in increasing the level of credit risk, including the pandemic, fluctuations in the international financial system. Therefore, stimulating the intensification of long-term bank lending in the field of entrepreneurship is one of the important measures.

3. The increase in the prospects for the development of private entrepreneurship in connection with the liberation of our territories has raised the issue of effective financing of innovative entrepreneurship projects. For this purpose, it may be expedient to use the partnership mechanism implemented through the establishment of a special fund formed on a parity basis at the expense of public and private investors. In international practice, along with the budget, the activities of venture firms, insurance companies and other financial institutions are widely used for this purpose.

4. Research shows that the decline in the level of solvency of micro, small and medium enterprises in some economic activities has led to a negative trend in their liquidity and financial stability, and their reserves and assets have declined over time. Therefore, it can be

considered expedient to intensify the use of the financial potential of dynamically developing virtual capital markets with the most efficient use of financial resources. In addition, in modern economic conditions, the use of innovative forms of financial relations related to the process of integration into the digital economy seems more promising. In our opinion, it is important to pay special attention to stimulating the initiators of investment and innovation projects in this direction.

5. The intensity of development of the global financial market in the modern economy is characterized by significant advantages in attracting capital to finance the activities of companies or individual investment projects. This, in fact, determines the prospects of the mechanism of raising capital in modern entrepreneurship. Therefore, the expansion of the integration process in this area can lead to positive results in the provision of financial resources. Financial risk insurance is one of the most important measures in the financial and credit system.

6. Financial stability and sustainable development of private entrepreneurship in the real sector of the economy in general makes it necessary to apply innovative management technologies. This is especially important in terms of rationalization of financial management systems of business entities, especially in the management of financial resources and financial sustainability.

7. Taking into account the negative impact of the recent pandemic and changes in international financial markets on the activities of business entities, the introduction of preferential budget anti-crisis financing (grants, subsidies, soft loan programs, etc.) may be considered appropriate. Such measures will allow expanding budget support programs and ensuring access to the required financial resources.

8. International experience shows that the integration policy (activation of relations with local and international banks, etc.) is the basis for the mobilization and increase of financial resources of business structures, sustainable financial activity. The result of this policy is reflected in the attraction of both own and borrowed funds to the improvement of financial capacity by conditioning the economic independence of the development of integration entities, as well as ensuring the financial sustainability of business entities.

9. Based on the research, it can be noted that the assessment of the financial situation, the definition of conditions and prospects, the institutional and competitive environment, infrastructure development, state support for the development of entrepreneurship in the regions are of particular importance in the development of private entrepreneurship. These issues are also a key condition for the financial sustainability of private entrepreneurship, and require a comprehensive approach to measures to regulate and support entrepreneurship. Therefore, building contacts and trust between the state, entrepreneurs and society, strengthening mutual cooperation at all levels are the most important issues.

10. The need for financial-credit, investment, information, normative-legal support makes the development of innovative entrepreneurship in the field of private entrepreneurship, regulation of social relations, support and stimulation of participation of business entities in foreign economic activity as the main conditions. In view of the above, the implementation of the following measures to support private entrepreneurship can be considered expedient:

- providing information support to individual entrepreneurs, establishing a consulting service center for this purpose;
- formation of marketing policy that serves the development of business entities and the formation of competitive advantage in both domestic and foreign markets;
- implementation of promotion and training programs in the field of innovation application;
- providing necessary support for the export of products produced by business structures to specialized markets, etc.

11. One of the most successful support measures for the development of the information support system of private entrepreneurship is the regular provision of information support to business entities through the media. Implementation of information and consulting support to entrepreneurs can lead to more effective results in the following areas: providing information on existing regulations and improvements; dissemination of information on the necessary software, registers of property intended for lease or sale;

Advising on promising areas, financial and legal issues related to the development of entrepreneurial activity, etc.

The following articles and theses of the author on the topic of the dissertation have been published.

1. Entrepreneurial activity and factors influencing risk reduction in this field // Scientific Works of ADAU. Ganja 2020, № 1. P. 74-76
2. Features of ensuring financial sustainability of private entrepreneurship entities // Scientific Works of ADAU. Ganja 2021, №1. p. 100-104
3. Private entrepreneurship as the main tool of economic development // Innovative economy and management. Ganja 2021, № 1 (5). p. 31-36
4. Directions for increasing the competitive potential of private entrepreneurship entities // Economics and Entrepreneurship. Москва2021, № 5.p. 890-892
5. Innovation: some factors of its impact on the development of entrepreneurship // Scientific Works of ADAU. Ganja 2021. № 3. P. 122-125
6. Ensuring healthy competition in entrepreneurial activity and state measures against competition threats / Actual problems of modern natural sciences. Ganja 2021. P. 210-213
7. State support and measures to stimulate the development of private business structures / Actual scientific research in the modern world. Pereyaslav 2021. Issue 7 (75) Part 3. p.69-74
8. Directions for encouraging and stimulating exports from private businesses / Food security: problems and solutions. Makhachkala 2021. p.451-453
9. Advantages, disadvantages and success factors of entrepreneurship/ Current scientific research in the modern world. Pereyaslav 2021. Issue 10 (78). p.120-125
10. Social responsibility in entrepreneurship / Sustainable development strategy: global trends, national experiences and new goals. Mingachevir 2021. P. 336-338



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