Small and Medium-Sized Businesses as a Factor Influencing the Level of Employment

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Abstract.

SMEs are vital for socio-economic development, driving employment and innovation. They contribute over 70% of jobs in developed countries and play a key role in shaping gross domestic product. The purpose of the article is to analyze employment in small and medium-sized enterprises and to develop ways to increase it. To achieve the goal, statistical analysis, synthesis, comparison, generalization, abstraction, and formalization were used. The article compared criteria for enterprise distribution in Azerbaijani legislation and the OECD, evaluated macroeconomic indicators of SMEs in Azerbaijan, analyzed employment dynamics by economic activity and region, and proposed mechanisms for self-employment in both the general economy and SMEs. As a result of the research, the mechanism of self-employment of the unemployed population in the economic districts of Azerbaijan, which consists of five stages, was constructed. The main issue in this case is a business idea created by the team, determining the amount of necessary resources, creating the product, and determining risks. The practical significance of the results obtained is that the proposed mechanism of self-employment of the unemployed population in the economic regions of Azerbaijan can be implemented in the development of state programmes.

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Keywords: venture investment, business project, labour market, added value, government support.

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1. Introduction

The active development of small and medium-sized enterprises for the country's economy is a shield for economic growth. The development of small and medium-sized enterprises forms the country's gross domestic product and actively fills, respectively, the state budget. Also, small- and medium-sized entrepreneurship has a special impact on the level of employment because it is in this sector of the economy that the main places of employment for the population are concentrated, and new jobs are created. Positive is the impact of small and medium-sized enterprises (SMEs) on ensuring the production of products to meet the needs of the country's population. Also, it is important to note that the greatest activity in the country's innovative development is concentrated precisely in small and medium-sized enterprises. Therefore, the study of the impact of small and medium-sized enterprises on the level of employment is extremely relevant and will help to determine their characteristics. In Azerbaijan, small and medium-sized enterprises are the leaders among economic entities and, accordingly, among the employment of the population. In 2022, in the structure of operating enterprises in the country, small and medium-sized enterprises accounted for 99.6% (About 390 foreign companies, 2022).

The significance of SMEs in driving economic growth has been widely recognized in economic literature. SMEs play a crucial role in fostering innovation, generating employment opportunities, and contributing to the overall productivity of a nation's economy. As engines of innovation, SMEs often possess the agility and flexibility to explore new ideas, technologies, and business models, thus driving forward the process of creative destruction and promoting economic dynamism. Moreover, SMEs are vital contributors to a country's gross domestic product (GDP) and revenue generation. Their collective output and revenue streams significantly contribute to expanding the national economy and replenishing the state budget through taxation and other fiscal measures. By diversifying the economic landscape and fostering competition, SMEs stimulate efficiency gains and resource allocation, thereby enhancing overall economic performance (O'g'li & Karshiboevna, 2024).

In her study, Hajieva (2019) describes the main directions for stimulating small and medium-sized enterprises in Azerbaijan. The scientist has defined on the basis of the analysis of statistical data the problems of regional development of enterprises, which are based on the concentration of small and medium-sized enterprises in Baku. The author considers actively developing small and medium entrepreneurship necessary to eliminate such disproportions. The creation of the Centre for Entrepreneurship Development in the regions, which will be able to eliminate disproportions, is proposed. This author's approach will help to eliminate disproportions in the development of small and medium

entrepreneurship in the regions. However, the author does not describe in the article how they found disproportions affect employment in the regions.

The study by Zarbakieva (2020) considers the peculiarities of SME development in different countries. The criteria for determining the subjects of small and medium-sized entrepreneurship by the number of employed and turnover are described. However, the impact of small- and medium-sized entrepreneurship on employment has not been studied. Also, the author has not made constructive conclusions about the difference between the development of entrepreneurship in different countries, as well as the best practices of other countries. Mammadova (2017) substantiated the necessity of SME development in rural areas to overcome the problem of unemployment. The article analyses the direction of state policy regarding employment in rural areas. It is necessary to develop small and medium entrepreneurship in rural areas. This will help to increase employment. At the same time, the author pays insufficient attention to the formation mechanism of small and medium entrepreneurship in rural areas.

Aghayeva (2022) studied the direction of state support and regulation of small and medium entrepreneurship in Azerbaijan. It was determined that the state created the Entrepreneurship Development Fund, which helps to finance projects for entrepreneurs. At the legislative level, the criteria of small enterprises are defined. The criteria for defining small business in: industry and construction, agriculture, wholesale and retail trade, services are described. The state has developed "Simplified accounting rules for small enterprises" to encourage the creation of small enterprises. The article pays very little attention to the issue of employment, especially in the direction of increasing it. The scientist Zeynalova (2020) investigated the role of small business in the development of the industry. The author systematized the factors of world experience regarding the peculiarities of employment in small enterprises. It is worth fully agreeing with the author's point of view regarding the identified advantages of small entrepreneurship. The article describes the dynamics of the development of small entrepreneurship in Azerbaijan and analyses the main macroeconomic components of micro, small, and medium businesses. On the basis of the conducted research, the problems of small entrepreneurship in Azerbaijan are defined.

The article aims to address the research gap concerning the impact of small and medium entrepreneurship on employment in Azerbaijan. While existing studies have analyzed various aspects of SME development, such as regional disparities, state support mechanisms, and industry-specific factors, there is a lack of comprehensive analysis regarding their direct influence on employment levels, especially in rural areas. Additionally, previous research has not fully explored the effectiveness of state policies and support measures in promoting job creation within the SME sector. Therefore, this article seeks to fill this gap by providing an in-depth analysis of the relationship between SME

development and employment, particularly in rural regions, and by evaluating the effectiveness of existing state initiatives in fostering job growth within this sector.

The purpose of writing the article is to analyse the development of small and medium entrepreneurship, to assess employment in it, to develop a mechanism of its impact on employment in Azerbaijan.

2. Materials and Methods

The article is based on qualitative research, analysing existing approaches to the impact of small and medium-sized enterprises on employment in Azerbaijan. The information base for the article was materials from scientific and practical conferences, scientific articles from foreign and domestic scientists, analytical data from the Organization for Economic Cooperation and Development, and the State Statistics Committee in the Republic of Azerbaijan. The basis of the research was the scientific research of Kazakh, Ukrainian, American, Polish, Turkish, Chinese, and other foreign scientists. The methodological basis of the article was general scientific and specific research methods. The methods of analysis and synthesis were used to determine the criteria for the distribution of small and medium-sized enterprises. In this case, the distribution of enterprises by size of income and number of employees was synthesized by conducting a critical analysis.

The study sample includes data for 2019-2021 regarding the activity of SMEs in Azerbaijan, and on its basis, the state of SMEs in the country and the employment of the population in them have been analyzed. The reason concerning the issue why the information is applied only for the period from 2019 to 2021 is that the main statistical base for this information in the country provides only data up to 2021: a new update of information should be expected closer to the end of 2023: then the study on this topic will become relevant again. The service also does not provide information up to 2019. The study covers eleven types of economic activities in small and medium-sized enterprises, namely: agriculture, forestry, and fishing; industry; construction; trade and repair of vehicles; transport and storage; accommodation and catering services for tourists; information and communication; real estate operations; education; provision of medical and social services to the population; other types. Also, the study covers the analysis of small and medium entrepreneurship in the geographical context of fourteen economic regions of Azerbaijan.
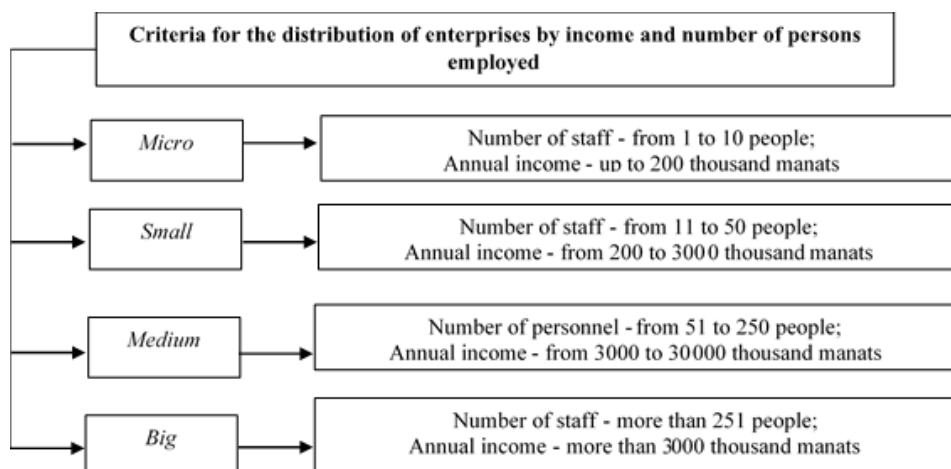
The study evaluates the dynamics of macroeconomic indicators of small and medium-sized enterprises in Azerbaijan using statistical analysis and synthesis. When analysing the dynamics of the share of employment of personnel in small and medium-sized enterprises for types of economic activity, the method of comparison was used. Thus, the evaluation of the obtained results for all types

of economic activity was carried out. When assessing the dynamics of the employed staff at the enterprises of small and medium-sized enterprises by economic districts in general, the method of comparison was also used to describe the results obtained. According to the results of the analysis, built dynamic tables. When using the methods of analysis, generalization, synthesis, abstraction described the obtained results in dynamics, as well as the degree of influence of each indicator. Methods of analysis, synthesis, and formalization helped to detail the direction of use of ways of creation of small and medium-sized enterprises at self-employment of unemployed population in economic areas of the country. On the basis of the method of general cognition and the use of the method of deduction, the problems of creation of small and medium-sized enterprises in the economic regions of the country were determined. Inferences are made, and some statements are deduced by in-depth study of scientific information and the conclusions of domestic and foreign scientists. The hypotheses were tested using empirical and statistical analyses. In accordance with the purpose of the study, the following hypotheses are put forward:

1. Small and medium entrepreneurship has a significant impact on employment and value added.
2. There is a tendency to decrease economic indicators in small and medium entrepreneurship in Azerbaijan and the need for funding at the state level.

3. Results

Small and medium-sized enterprises in developed economies bring the highest added value. It is supported at the level of public administration because it is there that high employment is created and GDP is formed. According to the Organization for Economic Co-operation and Development (OECD), which studies the economic performance of SMEs in the world, it is determined that about 70% of the working population in the world in 2021 worked in small and medium-sized enterprises (OECD SME and…, 2021). It is important to distinguish the differences between small and medium-sized enterprises in terms of different classification features. According to the Decision of the Cabinet of Ministers of the Republic of Azerbaijan approving the "Criteria for the classification of micro, small, medium and large enterprises" (2018), all enterprises are categorized into: micro, small, medium and large enterprises (Figure 1).

Criteria for the distribution of enterprises by income and number of persons employed

Micro	Number of staff - from 1 to 10 people; Annual income - up to 200 thousand manats
Small	Number of staff - from 11 to 50 people; Annual income - from 200 to 3000 thousand manats
Medium	Number of personnel - from 51 to 250 people; Annual income - from 3000 to 30000 thousand manats
Big	Number of staff - more than 251 people; Annual income - more than 3000 thousand manats

Figure 1. Criteria for the distribution of enterprises by income and number of employees
Source: (Decision of the CabineT, 2018).

The OECD SME and Entrepreneurship Outlook 2021 (2021) distinguishes the type of enterprise solely by the number of its employees. That is, from the legislation of Azerbaijan, the number of workers differs by one less in small, medium and large enterprises. A more optimal approach to determining the type of enterprise based on the number of employees and annual income. Also, it should be noted that in the legislation of Azerbaijan, the criteria for dividing enterprises into small, medium and large have changed three times in recent years. According to macroeconomic indicators, in 2019 the ratio of small and medium-sized businesses relative to total employment was 43.7% (Majidli, 2022). That is, if compared with global indicators, in Azerbaijan the level of employment at such enterprises is almost 30% lower. For more constructive conclusions regarding the activities of small and medium-sized businesses in Azerbaijan, their macroeconomic indicators were studied. Data divided into small and medium-sized enterprises in Azerbaijani statistics are displayed after 2018, so the data is only for 3 years (Table 1).

Table 1. Dynamics of macroeconomic indicators of small and medium-sized businesses in Azerbaijan in 2019-2021

Indicators	Small business			Medium entrepreneurship		
	2019	2020	2021	2019	2020	2021
Added value, million manat	1423.2	1617.9	2384.3	4747.7	4867.9	5781
Number of personnel, thousand people	85.1	92.1	102.2	206.9	215.7	214.8
Average monthly nominal wage, manat	437	533.8	528.2	624.6	714.4	748.3

Investments in fixed assets, million manat	494.2	380.4	892.7	2412.5	1323.5	788.8
Number of operating enterprises	2554	5943	6856	9309	2710	2879

Source: (The Azerbaijan State Department of Statistics, 2022).

Over the past three years, added value in small businesses has grown on average by 30.5% annually and in average businesses by 10.6%. This means that added value is generated more efficiently in small enterprises. The number of personnel in small enterprises has grown by an average of 9.6% annually over the past three years, while in medium-sized enterprises the growth of personnel has been an average of only 1.9% annually. Wages have grown approximately equally over the past three years, both in small and medium-sized enterprises (Lemishovska, 2023). It is worth noting that investments in fixed assets have mainly been made in small enterprises over the past three years. Accordingly, investment in small enterprises grew annually by 55.8% on average, while investments in medium-sized enterprises decreased by 46.8% on average annually. It has been determined that in recent years, there has been a trend of enterprises moving from medium to small, which is associated with the COVID-19 pandemic (Bartik et al., 2020; Huang et al., 2022; Gourinchas et al., 2022).

Over the past three years, the number of small enterprises has grown by an average of 74% annually, while the number of medium-sized enterprises has decreased by 32.3% annually on average. Determining the impact of small and medium-sized businesses on employment in Azerbaijan involves assessing the dynamics of the share of personnel employment by type of economic activity, which is shown in Table 2.

Table 2. Dynamics of the share of personnel employment in small and medium-sized enterprises by type of economic activity in 2019-2021, in %

Types of economic activities	Small business			Medium entrepreneurship		
	2019	2020	2021	2019	2020	2021
Agriculture, forestry, and fishing	14.8	13.4	12.6	38.7	33.6	33.9
Industry	7	7.4	8.2	28.9	27.8	28.1
Construction	9.6	10.9	11.8	28.6	30.7	28
Trade and repair of vehicles	13.2	12.3	12.2	23	18.5	18.7
Transportation and storage	6.7	6.5	7.5	21.1	21.8	21.7
Accommodation and catering services for tourists	48.8	15.9	18	34.1	37.9	38.2
Information and communication	12.9	14.3	17.2	40.4	37.6	36.8
Real estate transactions	25.6	26.8	29.4	20.9	22.9	28.3

Education	20.5	14	21.1	42.2	42.1	37.5
Providing medical and social services to the population	23	19.6	22.5	43.2	37.1	34.8
Other types	14.2	13.3	12.9	20.1	20	16.3

Source: (The Azerbaijan State Department of Statistics, 2022).

The structure of employment in small and medium-sized businesses is significantly different, and the population of Azerbaijan is more employed in medium-sized businesses than in small ones. In medium-sized enterprises, the highest employment is in enterprises providing services for accommodation and catering for tourists, and in small enterprises, in real estate transactions. For an in-depth analysis of employment problems in small and medium-sized businesses, the geographical distribution of employment was studied, which is displayed in Table 3.

Table 3. Dynamics of people employed personnel at small and medium-sized enterprises by economic region in 2020-2021

Economic regions	Small business		Medium entrepreneurship	
	2020	2021	2020	2021
Baku	62427	70051	128012	128231
Nakhchivan Autonomous Republic	3509	3784	12186	11754
Absheron-Khizi economic region	6593	6747	14251	14500
Nagorno-Shirvan economic region	1238	1424	3194	2829
Ganja-Dashkesan economic region	2112	2743	8124	7965
Karabakh economic region	1622	2188	4813	4141
Gazakh-Tovuz economic region	1901	1783	5737	5827
Guba-Khachmaz economic region	1897	2169	6245	7016
Lankaran-Astara economic region	2339	2227	6132	5285
Central Aran economic region	2573	2877	7295	7871
Mil-Mugan economic region	1541	1578	5173	4350
Sheki-Zagatala economic region	2190	2473	7723	7857
East Zangezur economic region	547	577	990	1057
Shirvan-Salyan economic region	1636	1559	5873	6068

Source: (The Azerbaijan State Department of Statistics, 2022).

From an analysis of the geographical distribution of employment of the population of Azerbaijan in small and medium-sized businesses, it was determined that the bulk of the population involved in it live in Baku. From this, it is clear that small and medium-sized businesses mainly develop in the capital.

This factor is negative, and the Azerbaijani government needs to look for ways to solve employment problems in small and medium-sized businesses in the country's regions by building a certain state mechanism. It is also worth considering and comparing the number of existing, newly created, and liquidated enterprises in more detail, as shown in Table 4.

Table 4. Dynamics of changes in the number of small and medium-sized enterprises in 2020-2021 by type of economic activity

Year	2020			2021		
Types of economic activities	I	II	III	I	II	III
Agriculture, forestry and fishing	352693	108807	9347	407764	54173	2267
Industry	34827	2654	338	38025	3179	321
Construction	35859	3885	232	39341	3367	268
Trade and repair of vehicles	272581	15757	3052	290917	19345	2520
Transportation and storage	120272	15486	3301	134863	15447	2077
Accommodation and catering services for tourists	46308	2367	629	49013	2850	513
Information and communication	14701	1393	163	16405	1757	150
Real estate transactions	16753	568	325	17754	715	212
Education	12978	1987	235	15206	2161	212
Providing medical and social services to the population	8681	740	101	9531	779	87
Other types	214395	13831	4849	226034	14946	3384

Note: I – number of registered enterprises; II – newly created enterprises; III – liquidated enterprises. Source: (The Azerbaijan State Department of Statistics, 2022).

As can be seen from Table 4, the number of enterprises in the country as a whole is increasing. The greatest absolute growth is observed in the field of agriculture (55 thousand enterprises), while relative growth is in the field of education at 17% (which may be due to the onset of the COVID-19 pandemic and an increase in demand for such services). However, agriculture remains in second place (with a growth rate of 15%), which also indicates the level of development of the industry. Finally, let's look at the data on the output of these enterprises, which is shown in Table 5.

Table 5. Output of micro, small, and medium-sized enterprises in Azerbaijan in 2019-2021

Year	2019	2020	2021	Absolute change	Average annual growth rate
Total					

Total	19386709.3	19725676.1	24747439.2	5360729.9	12.98
Micro	7523799.1	7216169	9373358.8	1849559.7	11.62
Small	2553783.6	2918187	4230072.6	1676289	28.7
Average	9309126.6	9591320.1	11144007.8	1834881.2	9.41
Percentage of total				**Absolute change**	**Average annual growth rate**
Micro	38.8%	36.58%	37.88%	-0.93%	x
Small	13.17%	14.79%	17.09%	3.92%	x
Average	48.02%	48.6%	45.03%	-2.99%	x

Source: (The Azerbaijan State Department of Statistics, 2022).

As seen in Table 5, the absolute value of the output of micro, small, and medium-sized enterprises in Azerbaijan has increased significantly from 2019 to 2021. The average growth rate was almost 13%, while small enterprises showed the highest growth level – 28.7%. This was also the reason concerning the issue of why their share in the overall structure of small and medium-sized businesses increased by 4%. All this, in general, is a good sign regarding the development of these types of companies in the state (Jawabreh et al., 2023). Finally, it is worth conducting a certain assessment of the level of development of small and medium-sized enterprises in Azerbaijan with other countries: within the framework of this study, it was decided to do this with the European Union (EU) (as an association of states), as this is shown in Table 6.

Table 6. Comparison of development indicators for small and medium-sized businesses in Azerbaijan and the European Union for the period from 2019 to 2021

Azerbaijan			European Union		
Small businesses					
2019	2020	2021	2019	2020	2021
2554	5943	6856	1310565	1282271	1273529
Change					
x	132.69%	15.36%	x	-2.16%	-0.68%
Medium entrepreneurship					
2019	2020	2021	2019	2020	2021
9309	2710	2879	201459	199362	197972
Change					
x	-70.89%	6.24%	x	-1.04%	-0.7%
Population, million people					

10.02	10.09	10.14	447.7	447.8	448
Ratio of number of small enterprises to population level					
254.9	589	676.1	2927.3	2863.5	2842.7
Ratio of the number of medium-sized enterprises to the population level					
929	268.6	283.9	450	445.2	441.9

Source: (The Azerbaijan State Department of Statistics, 2022).

As shown in Table 6, during the COVID-19 pandemic, the number of medium-sized enterprises in Azerbaijan decreased significantly, while the number of small enterprises increased, indicating that some companies literally "turned" small from medium-sized due to the significant problems in the country; however, a rapid recovery of these values can be observed in 2021, which is a good sign. At the same time, in the EU there is a gradual decline in all indicators despite the fact that the main negative effects of the pandemic at the end of 2021 have already passed. It is also worth noting that the number of SMEs is higher in the European Union, which is not surprising, which is why it was decided to recalculate with the population (Dankevych et al., 2023). This data showed how far Azerbaijan is actually ahead of the EU in SME. Although for medium-sized enterprises in 2020 and 2021 this indicator was 65% and 55%, respectively, and for small enterprises 386% and 320%, they are gradually decreasing, which is generally a good indicator. Thus, what is shown in Table 6 indicates a gradual improvement of SMEs in Azerbaijan, and their deterioration in EU countries. A comparative analysis of Azerbaijan's entrepreneurship development indicators was also carried out in comparison with Albania, as a separate representative of European countries. Although Albania is not currently a member of the European Union, it is already taking steps to move closer to the association. The data are shown in Table 7.

Table 7. Selected data characterizing the activities of small and medium-sized enterprises in Azerbaijan and Albania in 2019-2021

	Azerbaijan				Albania			
2019								
Characteristic	I	II	III	IV	I	II	III	IV
Small	2.55	85100	837	291	5,736	114451	1305	719
Average	9.31	206900	2793	1419	1.251	12233	1343	53
2020								
Characteristic	I	II	III	IV	I	II	III	IV
Small	5.943	92100	952	224	5.674	1864	1316	578
Average	2.71	215700	2863	779	1.173	111347	1322	511

2021								
Characteristic	I	II	III	IV	I	II	III	IV
Small	6.86	102200	1403	525	5.608	111318	1733	618
Average	2.88	214800	3401	464	1.227	121002	1682	37

Note: I – number of enterprises, thousand; II – workers, number; II – value-added, million dollars (recalculation was carried out from national currencies at the average monthly rate); IV – investments, million dollars.
Source: (The Azerbaijan State Department of Statistics, 2022).

However, based on the data from Table 7, it is difficult to draw any precise conclusions about the level of entrepreneurship development due to the different levels of development of these countries. Information from Table 7 is translated into relative indicators within Table 8.

Table 8. Selected relative data characterizing the activities of small and medium-sized enterprises in Azerbaijan and Albania in 2019-2021

	Azerbaijan				**Albania**			
2019								
Characteristic	V	VI	VII	VIII	V	VI	VII	VIII
Small	0.255	8493.014	1.74	0.6	2.01	40101.962	8.48	4.67
Average	0.929	20648.703	5.8	2.95	0.438	4286.265	8.72	0.34
2020								
Characteristic	V	VI	VII	VIII	V	VI	VII	VIII
Small	0.589	9127.849	2.23	0.52	1.999	656.801	8.7	3.82
Average	0.269	21377.602	6.71	1.82	0.413	39234.32	8.74	3.37
2021								
Characteristic	V	VI	VII	VIII	V	VI	VII	VIII
Small	0.676	10078.895	2.57	0.96	1.994	39586.771	9.49	3.38
Average	0.284	21183.432	6.23	0.85	0.436	43030.583	9.21	0.2

*Note: V – number of enterprises, thousand/population of the country, million; VI – workers, number/population of the country, million; VII – value-added, million dollars (recalculation was carried out from national currencies at the average monthly rate)/ GDP, million * 100%; VIII – investments, million dollars/GDP*100%.*
Source: (Statistics on small and medium enterprises, 2021; The Azerbaijan State Department of Statistics, 2022).

As can be seen from Table 8, the level of development of medium and small enterprises in Azerbaijan is comparatively lower than in Albania: almost all the estimated indicators have values lower than those of Azerbaijan. On the other hand, their growth rate appears to be higher than that of the comparable country.

In general, it is possible to reach the same conclusions as it was done above in the analysis of Table 6: although the absolute indicators of SME development in Azerbaijan are still lower, the percentage change is comparatively higher, which indicates a high rate of development of the sphere (The strategic road map, 2016). At the state level, it is necessary to create a mechanism of self-employment for the unemployed population in the economic regions of the country by providing a business plan to solve the problems relevant at the regional level. Financing can be carried out at the state's expense or a foreign venture fund, with which an agreement should be concluded at the state level. In general, according to foreign experience, venture capital investment for the creation of small businesses can be obtained in banking institutions, government institutions, corporate investors, insurance companies, and enterprise development funds (Grajcevci & Shala, 2021). However, most often, such financing is obtained from government institutions and enterprise development funds. Banking institutions and corporate funds, as a rule, issue financing at interest or on participation in the business and profit sharing. Therefore, state or foreign funds will be reliable for start-up entrepreneurs (Musayev, 2021; Abdullayev et al., 2024).

At the state level, Azerbaijan has developed a strategic roadmap for the production of consumer goods in small and medium-sized businesses until 2025 (Xu & Abbasov, 2021). One of the points of the plan is the development of business incubators and startup projects to create model enterprises. But no clear mechanism is provided. The mechanism of self-employment of the unemployed population in the economic regions of Azerbaijan should be as follows:

1. Establishment of public organizations in each economic district, which will help to train the population to create business projects by starting small businesses. The population has difficulties in finding financial resources to create their own business and often lacks skills and is afraid of the risk of running a small business. Also, in Azerbaijan, there is no coordinating organization between the state and a person wishing to create his/her own business. It is the public organization that is capable of such coordination.

2. Together with the employment centre and regional authorities, create a competition for business projects and determine the size of the state budget for the implementation of a small business creation project.

3. Search for ways of public organization to get foreign grant for financing of business projects of creation of small enterprise in economic regions of Azerbaijan and to create competition among unemployed for getting foreign financing.

4. Creation of a bank account for financing of the won business projects, which will be regulated by the financier from the government or the responsible for foreign grants, in order that the financial resources will be invested in the proposed project and spent on its implementation.

> 5. Control by state authorities during the payback period of the project, compliance with the implementation plan.

Schematically, the development of a business project by an applicant for small business financing can be shown in Figure 2.
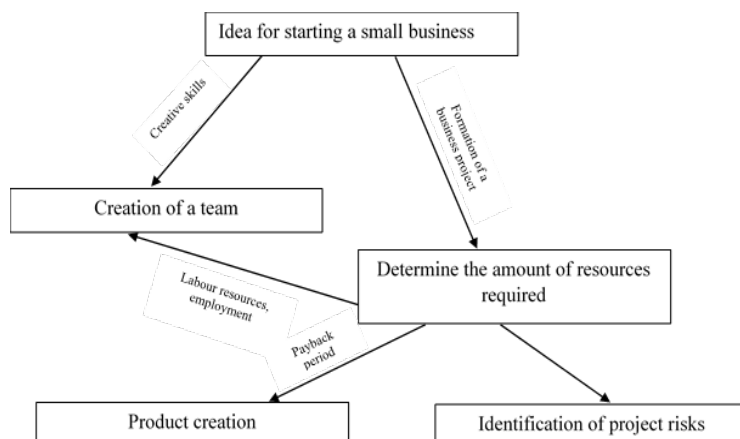
Figure 2. Scheme for creating a business project for implementation in small businesses
Source: developed by the authors.

The key components of a business project are the idea of creating a business, the required amount of resources and the team that can implement the project. It is by describing the team of performers that the state will be able to determine how many people will be employed and, accordingly, this indicator affects overcoming unemployment. It is important for the state whether the unemployed will be involved in small businesses in order to increase the level of employment, especially in rural areas. When developing a business project, it is important to identify possible risks of the project not being implemented. To do this, it is necessary to conduct a very reasonable marketing research of the market with a survey of future consumers about the need to introduce a product or service to the market of the economic region where it is located. It is very important to determine who the competitors will be, their product prices and the range of consumers.

4. Discussion

The proposed self-employment mechanism aims to facilitate the creation of new entrepreneurial ventures by providing support and resources to unemployed individuals in Azerbaijan. This mechanism could be promoted through public organizations and competitions designed to identify and nurture promising

business ideas. Public organizations, such as government agencies, business development centers, or entrepreneurship support groups, can play a central role in promoting the self-employment mechanism (Kerimkhulle et al., 2023). These organizations can collaborate with each other and with relevant stakeholders to design and implement programs aimed at fostering entrepreneurship among the unemployed. Public organizations can launch awareness campaigns to inform unemployed individuals about the opportunities available through the self-employment mechanism. These campaigns can include workshops, seminars, and information sessions to educate participants about entrepreneurship, business planning, and available resources. Public organizations can offer training programs and capacity-building initiatives to equip unemployed individuals with the skills and knowledge needed to start and manage their own businesses (Bayanbayeva et al., 2023). These programs can cover various aspects of entrepreneurship, including business planning, financial management, marketing, and networking. Public organizations can facilitate access to financing for self-employment initiatives through partnerships with financial institutions, venture capital firms, or government funding programs. This can include providing information about available financing options, assisting with loan applications, and advocating for favorable terms and conditions for entrepreneurs. Public organizations should continuously monitor and evaluate the effectiveness of the self-employment mechanism to ensure that it is achieving its objectives and delivering positive outcomes for unemployed individuals. This can involve tracking key performance indicators, gathering feedback from participants, and making adjustments to the program as needed to enhance its impact.

In the article by Majidli (2022) investigated the economic factors of SME support in Azerbaijan. The reforms implemented by the government of the country are described. It is justified how the classification of small and medium entrepreneurship in the legislation of Azerbaijan has changed from 2009 to the present time. However, the authors did not compare the classification with international criteria, which is significant and is done in the study conducted above. Also, the statistical analysis of the share of small and medium-sized enterprises in the country's economy, employment, and investment in fixed capital has been carried out in depth. However, the study does not sufficiently substantiate the problems of employment in small and medium-sized enterprises and their impact on macroeconomic indicators (Liadskyi & Diadyk, 2023). Also, there are no proposals for improving the situation, which affects the constructive conclusions. Turkish scientist Musayev (2021) conducted an econometric analysis of the factors of influence on small and medium-sized entrepreneurship in Azerbaijan. The author studied in detail the Strategic Roadmap for the production of consumer goods in small and medium-sized enterprises and came to the conclusion that the country has everything necessary to increase GDP,

employment, and the inflow of foreign investment, which is confirmed in the above study. Also, the author has confirmed such conclusions by conducting an econometric analysis, which is quite relevant (Chernetska & Chernetskyi, 2023; Borysenko & Borysenko, 2024).

Xu and Abbasov (2021) studied how the COVID-19 pandemic affected small and medium-sized enterprises in Azerbaijan. Small and medium-sized enterprises have a positive impact on the economy of the country and increase employment, gross value added, and turnover of foreign trade activities. The COVID-19 pandemic had a negative impact on the work of small and medium-sized enterprises; many of them were forced to close down, and, accordingly, their employment dropped significantly (Trusova et al., 2020). The tourism, catering, and education sectors of Azerbaijan's economy during the COVID-19 pandemic were the most affected sectors. The data of the above study in Table 2 confirm such conclusions of scientists. The share of employment in accommodation and catering services for tourists was 48.8% in 2019 and 15.9% in 2020, i.e. it fell by 32.9% (Gazilas, 2024). In education, the employment share was 20.5% in 2019 and 14% in 2020, a drop of 6.5%. In 2021, a slight increase is seen, but the result of 2019 is not achieved. To keep SMEs working, the authors propose the following measures: tax deferral, deferral of social security contributions, financial assistance loans, subsidies, and grants. Such proposals by the authors are justified based on the implementation and retention of employment in SMEs in other countries (Juergensen et al., 2020; Maulana, 2020). The above study also suggests the use of grant funding for entrepreneurship development as one of the most effective ways.

Analyzing gender representation and its impact on employment in SMEs in Azerbaijan reveals several noteworthy points. Women in Azerbaijan face challenges accessing entrepreneurship opportunities compared to men due to traditional gender roles and societal norms. Limited access to resources, such as finance, training, and networking opportunities, can disproportionately affect women entrepreneurs, hindering their ability to start or grow SMEs. Gender disparities also exist in employment within SMEs, with women encountering barriers to accessing opportunities, especially in male-dominated industries or sectors. This disparity can be attributed to factors like hiring biases and occupational segregation. Addressing gender inequalities in SMEs requires a multifaceted approach involving government policies, private sector initiatives, and civil society efforts. The Azerbaijani government can implement targeted policies and programs to promote women's entrepreneurship and improve gender equality in SMEs. At the same time, civil society organizations and the private sector can provide support services and advocacy platforms for women entrepreneurs and employees (Shahini, 2024). Promoting gender diversity and inclusion within SMEs is crucial for achieving sustainable and inclusive economic development in Azerbaijan.

Researchers Eniola and Entebang (2015) investigated the impact of public policy on the management of SMEs. The study was based on the justification of the performance of SMEs and the impact of public policy on them. How well the state policy is chosen in relation to it depends on their competitiveness and, accordingly, the level of employment. It is worth agreeing with the opinion of scientists, but there is a necessity for constructive conclusions regarding the implementation of the best foreign experience in public policy.

Li et al. (2013) believe that there are three parties involved in venture capital: venture investors, venture capitalists, and entrepreneurs. In venture capital investment, the third party is government institutions rather than venture capitalists, which is described in the above research results. Particular attention is paid to the definition of the control system of risky projects according to the following attributes: technology, management, product features, finance, and politics. Also, venture capitalists control their contributions to entrepreneurs with limited ownership (2011). This approach is the right approach. Since when venture capitalists have chosen a business project to invest in, they immediately determine (in case the project is successful) how much interest they will receive from the moment they receive profits from the project. An interesting approach to venture capital investment as a generator of growth in the creation of small and medium-sized enterprises (2017). The study conducted by scientists through correlation analysis between venture capital investment and patents obtained showed that venture capital investment is significant in some sectors of the economy, namely energy and information technology. Therefore, this conclusion once again confirms the need to find venture capitalists to invest in SMEs in Azerbaijan.

Dziekoński and Ignatiuc (2015) had a similar approach to the stages of venture capital investment to the one proposed in the course of the study. The scientists identified three stages: seed stage (business idea, product or service development, market characteristics); launch (the beginning of production or provision of services); dawn stage (reaching profit, conquering new markets, increasing production or services). The third stage may not always be successful. There are risks when a business idea fails to bear "fruit" and the business project has to be either closed or reorganized (Vankevich et al., 2021). Researchers S.K. Amoah and A.K. Amoah (2018) investigated how small and medium scale entrepreneurship affects employment in Ghana. The problems of their influence are similar to those in Azerbaijan. The research conducted by the scientists allowed them to recommend the following: the creation of pragmatic structures for the formation of small and medium enterprises and employment of the unemployed; the development of the possibility of financing them at the state level; the creation of training centres in all regions of the country for training in small and medium entrepreneurship. This approach of the scientists is correct, and their proposals will help to increase employment in the country. Also, the

proposal on the mechanism of self-employment of the unemployed for Azerbaijan, which is described in the results of the study above, can be implemented for Ghana.

Ukrainian researchers Zhurakovska et al. (2020) described the peculiarities of employment creation in small and medium entrepreneurship in Ukraine. It is in Ukraine that many programmes of the European Union, the World Bank and other international institutions are implemented. The study conducted a correlation analysis of the dependence of employment in small and medium-sized enterprises. It was determined that high tax rates have the greatest impact. The authors suggested: introducing "tax holidays" for 3 months; easier accounting; a system of creating favourable crediting for small and medium-sized enterprises. Such measures will help to create new jobs and increase employment. Public organizations in Azerbaijan can adopt the experience of public organizations in Ukraine, which are engaged in obtaining grants for the development of small and medium-sized enterprises and implementing their best practices (Dolhikh, 2024).

The use of long-term data can prove beneficial for many aspects of SME development research. Analyzing data over a long period can help identify long-term trends in SME development, such as changes in employment, production, investments, etc. This approach allows for a deeper understanding of the dynamics of this sector of the economy. Long-term analytics can also help identify how various economic and political factors affect SME development over time. For example, the effectiveness of different SME support programs can be evaluated based on long-term data. Identifying cyclical trends in SME development is also an important aspect of long-term analysis. Detecting these cycles, such as economic downturns and upturns, can be useful for forecasting future trends and developing management strategies. This helps understand how these enterprises adapt to changes in the economic environment and manage risks.

The discussion section of the research article addresses several key gaps and limitations observed in prior works on the topic of SMEs and their impact on employment in Azerbaijan. It highlights the need for a comprehensive mechanism to facilitate the creation of new entrepreneurial ventures by unemployed individuals, which has not been adequately addressed in previous studies. The proposed self-employment mechanism aims to fill this gap by providing support and resources to unemployed individuals, thereby promoting entrepreneurship and potentially reducing unemployment rates. The discussion emphasizes the importance of public organizations in promoting the self-employment mechanism and fostering entrepreneurship among the unemployed. While previous studies may have touched upon the role of government agencies or business development centers, this research underscores the need for concerted

efforts from public organizations to design and implement programs to support self-employment initiatives.

The research has certain limitations. In this case, the limitation is the three-year window of data analysis on SMEs due to the limited availability of data from national statistical sources. Additionally, some sectors or aspects of SME activities may be inadequately represented or not reflected at all due to limitations in data collection methods or reporting. The analysis primarily focuses on macroeconomic indicators and employment trends in Azerbaijan SMEs. However, there has been no in-depth investigation into qualitative aspects such as specific challenges SMEs face, their innovative opportunities, or government policies' effectiveness in supporting SME development. The research results may not be fully representative due to the geographical focus on Baku, the capital of Azerbaijan. This limitation may not fully reflect the diversity of SME activities and employment patterns across different regions of the country. The research also has limitations regarding the generalizability of results to other contexts or countries due to unique socio-economic factors and political conditions in Azerbaijan. Further research could take these limitations into account to construct a more objective and representative analysis of the role of SMEs in the economy and employment of Azerbaijan.

5. Conclusion

The conducted research on the impact of small and medium-sized enterprises on employment in Azerbaijan allowed drawing the following conclusions. The criteria for categorizing enterprises into small and medium-sized enterprises in Azerbaijani legislation differs from the OECD approach. Thus, in OECD, they are divided by the number of personnel, while in Azerbaijani legislation, they are divided by the number of personnel and annual income. The analysis of macroeconomic indicators of small and medium-sized enterprises has shown that the value added of a small enterprise is higher than that of a medium-sized enterprise. In 2021, the value added of both small and medium enterprises increased compared to the previous period. The highest employment in small entrepreneurship is in real estate operations, while the average employment is in services with accommodation and catering for tourists. The development of small and medium-sized enterprises by economic districts is uneven, mainly in Baku. In the economic districts of the country is a very low number of creation of small and medium enterprises, which is associated with the specialization of labour in these areas.

It is proposed to create a mechanism of self-employment of the unemployed population in all regions of the country by means of competition of business projects. The mechanism of self-employment of the unemployed population is proposed to be implemented in five stages: to create public

organizations in each economic region to train the unemployed population to develop business projects; to create a competition for financing business projects at the state level; to find ways to obtain foreign grants for the development of small and medium-sized enterprises; to create a controlled bank account for the implementation of the won project; to control the implementation of the business project. A scheme for creating a business project for SMEs is proposed, which consists of creating a business, creating a team, determining the amount of resources needed, creating a product, and determining the project's risks. Although the study made constructive conclusions regarding the impact of SMEs on employment in Azerbaijan, additional research on the best foreign experience is needed, which will be done in the following studies.

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