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Economic Development and Small-Medium-Sized enterprises: A study in the Caucasus region

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DECLARATION OF AUTHORSHIP

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The current economic condition of the Caucasus region-Azerbaijan, Armenia, and Georgia is considered transition economies. Considering the fact that SMEs play a crucial role in the region's economic growth since SMEs are the main drivers of employment creation, competition, and innovation. This research will help us to understand the effects of small and medium-sized enterprises (SMEs) in the economic development of Caucasus countries by analyzing existing data sets and reviewing the literature. The expected outcome of this project is to examine the existing effects of SMEs in the economic growth of each country in the Caucasus region.

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Abstract

Along with the importance of micro, small, and medium-sized businesses in developing socio-economic and macroeconomic indicators of a country, the significance of SMEs varies from country to country. This research paper investigates the role of small and medium-sized enterprises in the economic development of various countries, with the main focus on Georgia, Azerbaijan, and Armenia. The economic profile of these three neighbouring countries is different from one another. Azerbaijan is blessed with natural resources. Therefore SME development is not as high as it is in Armenia and Georgia. The main objective of this paper is to identify in which ways SMEs contribute to the economic development of a country. The development of small and medium-sized enterprises and business culture, improving entrepreneurial activities are crucial for future economic development, employment generation, and achieving a higher welfare level of the country's population. In this research, multiple methodologies have been used simultaneously, including description, comparison, and analysis of existing literature and data.

Keywords: economic development, small and medium-sized enterprises, Georgia, Azerbaijan, Armenia

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List of Abbreviations

Abbreviation	Definition
AMD	Armenian Dram
ARMSTAT	Statistical Committee of the Republic of Armenia
AZN	Azerbaijani Manat
CEO	Chief Executive Officer
CIS	Commonwealth of Independent States
COVID-19	Coronavirus Disease 2019
EU	European Union
EUR	Euro
FAO	The Food and Agriculture Organization
FAOSTAT	The Food and Agriculture Organization Corporate Statistical Database
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEL	Georgian Lari
GEOSTAT	National Statistics Office of Georgia
IFI	International Financial Institution
ILO	International Labour Organization
IMF	International Monetary and Financial Committee
MSME	Micro, Small and Medium Enterprises
OEC	The Observatory of Economic Complexity
OECD	Organisation for Economic Co-operation and Development
SBA	Small Business Administration
SMB	Small and Midsize Business
SME	Small and Medium Enterprise
SWOT	Strengths, Weaknesses, Opportunities, and Threats
US	United States
USD	United States Dollar
WTO	World Trade Organization

Chapter 1: Introduction

Small and medium-sized enterprises (SMEs) are important actors in a country's economic development. SMEs are the crucial source for employment creation, income generation, and economic development in many countries. It is essential to notice that successful small and medium-sized enterprises are the cornerstones of having a number of large international enterprises. Also, SMEs' role in income generation is critical because of the fact that SMEs can be in various sectors and generate income for different layers of society. Moreover, SMEs are an integral part of decreasing income and wealth inequality.

The main focus of this paper is to get answers to the following questions: Is the SME sector really leading to economic development? What are the effects of the development of the SME sector on the economic development of the country? Why is the SME sector more developed in some countries than in others? What is the definition of SMEs? By finding answers to these questions will help young entrepreneurs to find a country to pursue entrepreneurial activities. Also, policymakers of a particular country can improve the current situation in their country to achieve a more developed SME sector and advanced economic growth.

Definition of SMEs is crucial to provide support programs and adjust tax rates according to business size. Each country uses different measures to define the category of business. A company can have one employee and still counts as a medium-sized enterprise. In Azerbaijan, the Cabinet of Ministers, in Georgia, the Georgian National Investment Agency and the Ministry of Economy and Sustainable Development, in Armenia, the Ministry of Economy give the definition to micro, small, medium, and large-sized enterprises.

Various development initiatives have been implemented by different countries in order to achieve a healthy level of the SME sector. In Azerbaijan, Georgia, and Armenia, SMEs are the main source of income generation and innovative business solutions. Researchers such as Bayramov et al. (2017), Szabó and Petrosyan (2007), Toma et al. (2014) provided important insights in their research about the effect of SMEs in economic development. The development of the SME sector could lead to socio-economic and macroeconomic growth in the world. In the developed countries, the role of SMEs can be seen in the country's macroeconomic indicators.

In OECD countries, small and medium-sized enterprises are responsible for the creation of more than half of the available jobs.

Sections of this research paper are structured as follows. In the second chapter, the small and medium-sized enterprises and their effect on economic development have been explained. From this part, readers can get an idea of which ways SMEs help countries' economic development. In the next chapters, the current economic situation of Georgia, Azerbaijan, and Armenia has been analyzed. In the third chapter, readers of the paper will easily get a general idea about Azerbaijan, the economic situation in the country, as well as how SMEs contribute to economic development in Azerbaijan, lastly, the role of government in SME development in Azerbaijan. The following chapter is about the country profile, economic situation, and function of SMEs in the economic development of Armenia. Additionally, readers can find information about the government's role in SME development in this chapter. In the fifth chapter, Georgia's economic situation, the effect of SMEs on economic development will be discussed. In conclusion, in order to increase the impact of SMEs on the economic development of a country, several suggestions have been offered.

Methodology of the research paper

This research paper is written by analyzing data from a respective country's statistical committee, the World Bank, IFM and OECD's public datasets. As well, other related literature has been interpreted to find answers for the research as mentioned research questions. In this research, multiple methodologies have been used at the same time, including description, comparison, and analysis. In this research, overall effects on the economic development of the SME sector were analyzed based on using information from different sources. And identifying the statistical status of SMEs in the targeted countries, Azerbaijan, Georgia, and Armenia. The description method has been used to define SMEs in each focus country. One of the methods used is the analysis method. This method has been used to determine the effects of SMEs in economic development in Georgia, Azerbaijan, Armenia and other countries. And analyzing the role of government in SME development. Additionally, a comparison method has been used to understand better SMEs' role in Georgia, Azerbaijan, and Armenia.

Chapter 2: The Small and medium-sized enterprises and economic development

2.1. Employment and job creation

The contribution of large firms in employment has declined over the years. In the OECD countries, SMEs are responsible for creating 60-70 percent of jobs. However, this domination varies from industry to industry. For instance, in the manufacturing sector, the impact of SMEs is somewhat lower than in the tech sector. It is estimated that SMEs are responsible for 40-80 percent of jobs in the manufacturing sector (OECD, n.d.).

In the last four decades, the role of large enterprises has fallen in job creation especially, in countries like Canada, the US, and the UK. It is considered that small enterprises are the basis of net employment changes. Between the 1980s and 1990s, in all the OECD countries, small companies demonstrated rapid changes in job creation than the larger companies (OECD, n.d.).

Net job creation refers to the measures where a small startup or enterprise is established, and the number of positions, excluding the founders, counts as the net job creation. Researchers Åstebro and Tåg (2017) explain that most startups actually do not create new jobs for others. Rather those startups create employment for the founders of the firm. Therefore, Åstebro and Tåg (2017) categorize job creation into the following titles: gross (where founders count as employees), net (where founders are excluded as employees).

The main reason behind the argument of why the small businesses account for the more employment than the larger one is the success rates amongst the small businesses is highly volatile. Therefore if the establishment survives from the initial growth stage (from seed enterprises to a big corporation), they tend to expand the business and hire more employees along the way. According to Acharya (2019), startups play a crucial role in job creation in the US. Almost 75 percent of startups fail in their early stages. The critical milestone in startup development is five years' remark since the startups with less than 20 employees in the first five years tend to have an insignificant role in job creation. At the same time, startups with more than 20 employees have positive effects on job creation after five years.

2.2. Are SMEs better than larger companies?

This section of the paper explores whether SMEs are better than larger companies in any way?

In the firms' marketing, SMEs are more flexible than the larger enterprises because SMEs are relatively small and their ability to adapt to specific changes makes them agile. On the other hand, the larger companies generally reach out to more audiences and with more products. Therefore, it is required to have structural changes in terms of marketing. In their research, Simpson et al. (2006) point out that many well-known marketing strategies are not entirely appropriate for small businesses. He points out that small businesses have a competitive advantage in testing their products since there is not much difference in product differentiation. Therefore, whoever uses the best marketing technique gains a large number of market shares.

In the upper management of SMEs, founders generally perform the duties of CEOs. In general, SMEs seem more flexible once an idea is needed to be accepted. Since less bureaucracy in the small companies makes processes smoother. Contrarily, larger companies have several departments, and each department has its organizational structure (Keskin et al., 2010). Therefore, if any changes are needed, it takes more time and more discussion amongst the company managers.

One of the significant differences between larger companies and small businesses is the accessibility of finance. Larger enterprises have advanced access to financial services. Even their financial assets are higher than small companies. SMEs often struggle to access more funding. Generally, small businesses attract investors, collect money from their families and friends, and use their savings. These kinds of financing options are minimal. Therefore they struggle in the development stages. According to Schutte (2015), in 2014, 19 percent of SME investments were borrowed from family and friends. Only 53 percent of total funding comes from banks. These numbers show us that budgets from family and friends are limited and unsustainable.

2.3. Role of women in economic development through SMEs.

In many OECD countries, woman-owned SMEs have a higher growth rate than the economy as a whole. These lead to an increase in the household's well-being as a whole (OECD, n.d.). In the US, woman-owned small businesses make up 42% of the overall business, and this accounts for more than \$1.9 trillion and employs 9.4 million workers (Martins, 2019). This participation translates as a tax and an increase in social well-being. According to Vandenberg (2006), women also struggle to find a place in entrepreneurial activities in all emerging countries. ILO implements projects which directly target women. Often women are left out in these activities by local policymakers. In Benin, ILO supports women with business development training, access to financing, access to equipment. More than 2000 businesswomen have participated in one of these sessions. As the participation of women in business increased, financial barriers have been lifted. And most importantly, the project was replicated by the local government and policymakers.

Martins (2019) explains in his article that the area industries where the woman-owned small business is categorized as "others". However, the categories divided into three main parts: Hair, nail, and beauty salons make up 22% of the women-owned businesses in the US. The second main category with 15% of businesses is in the healthcare sector, specifically in child and social health. The third category includes scientific and technical services, including bookkeeping, legal, and public relations, with 15% of overall women-owned businesses in the US.

The World Bank encourages women to take part in businesses more; however, the main obstacle in front of women in developing countries is the lack of access to finance. In order to overcome the situation, the World Bank Group improves the accessibility of finance to emerging women-owned SMEs. In this manner, they introduce advocacy, assistantship, credit guarantee schemes, technical and monetary aid for women who want to pursue the business. As a result of this support of the World Bank in Nigeria together with the Development Bank of Nigeria, the Development Finance Project was established. The aim of the project is to provide long-term financing and credit support for businesses. According to the World Bank's report in 2019, overall, 243.7 million USD reached almost 50000 business owners, including 70% of women.

Development of SMEs and commercializing the business ideas enable certain groups such as ethnic minority groups, disabled people, women, youngsters, seniors, migrants to make

contributions economically and socially. OECD carries out projects to make these groups more active in entrepreneurial activities. Improving these marginalized groups' participation in business activities creates a strong labour market, increased productivity, enhanced well-being despite the fact that in many countries, the difference between men and women business ownership can be observed. However, a recent study shows that once women start their businesses, women feel as confident as men (OECD, 2018).

2.4. The role of Government in SME development

After the collapse of the Soviet Union, it was important to establish a strong SME sector in Central and Eastern Europe. Manufacturing and single sector domination were the main ideas behind the centrally planned economy in the Soviet Union. Therefore, after gaining independence, countries started to implement their policies in order to diversify the economy and play a role in world trade. The development of the SME sector was not only beneficial in terms of economics but also a huge contributor to social transformation. The SME sector is a major source of employment creation. When the centrally planned economy became a transition economy, some of the state-owned companies collapsed. This led to an increase in the unemployment rate in many countries. Implementing the policies in favour of SMEs were facilitators of job creation and social development.

Smallbone and Welter (2001) explain that one of the significant obstacles in SME development is taxation issues. Governments often use various SME-targeted policies to decrease the tax burdens of small businesses. In the initial phase of the startup, zero tax policies help them to thrive. Governments play a crucial role to put a value on entrepreneurship, as ease policies encourage more people to open up their businesses. Also, defining the status of a business helps the government to regulate the legislation accordingly. In order to have a strong SME sector, financial institutions are crucial. Therefore having strong institutions facilitate the development of SME sectors.

2.5. How do we define small, medium, and large sized enterprises?

Small and medium-sized enterprises are the driving force of the economic activities in many countries in the world. It is hard to put a unique definition on SMEs since their definition varies country to country and sector to sector. For instance, in the European Union business establishments which have less than 250 employees are considered as SMEs (European Commission, 2016). On the other hand in the United States companies with fewer than 500 employees are considered as micro, small or medium-sized enterprises. According to the OECD Glossary of Statistics the definition of the SMEs is “*Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees*”. As the definition varies from country to country, therefore, in this paper I am going to use three different definitions in each of the following sections, since the purpose of this paper is to analyze the effect of the small and medium-sized business to the economic development in the Caucasus countries, Azerbaijan, Georgia, and Armenia.

The definition of SMEs is crucial in a broader perspective, considering the fact that financial institutions, government officials, local authorities, and all other related institutions use various support and assistance mechanisms for small and medium-sized businesses. In many countries tax obligations of the companies change according to their size and yearly turnover. In many cases, in order to encourage entrepreneurship small and medium-sized companies pay less tax. The access to the financial instruments, accessibility of loans are also detrimental by the size of a company.

2.6. How do SMEs work in developed countries?

In most cases, while defining SMEs, authorities use two metrics: number of employees and yearly revenue. In the US, the standard threshold limit is set by the U. S. Small Business Administration (SBA) according to the industry to differentiate SMEs from large enterprises. Government and other institutions provide fundings for SMEs. Therefore it is crucial to define them.

According to SBA's *Table of Small Business Size Standards Matched to North American Industry Classification System Codes* (2017), the number of employees and yearly turnover

matter while defining the SMEs and providing them with government contracts and funding. For instance, in the agriculture sector establishment, to not be considered an SME, the establishment's yearly revenue cap must exceed one million dollars. On the other hand, this threshold might increase to 40 million dollars in the construction industry.

In Canada, the definition of SME does not change much by the sectors. Instead, the Government of Canada considers companies that have less than 100 employees as small, between 101-499 employees as medium-sized enterprises.

2.7. Contribution of SMEs in economic development

In this section of the paper, we will analyse in which ways SMEs contribute to economic development.

2.7.1. Innovation in SMEs

British researcher Foreman-Peck (2012) mentions in his article that "Innovation is defined as major changes aimed at enhancing your competitive position, your performance, your know-how or your capabilities for future enhancements. These can be new or significantly improved goods, services or processes for making or providing them". SMEs bring Innovation to the world. There are many innovation types that scholars cover in their research. Product innovation is one of them, which describes when the SME introduces a new product and develops the product in the market. To keep up with the competition in the market, companies often work on their product to shine within the industry. Process innovation is another advantage of SMEs. Since the main idea is to be more productive and efficient, companies often put a considerable focus on their process innovation. Implementation speed, accessible information and decreased costs make this category. When it comes to implementing marketing strategies, SMEs use creative approaches, implementation of sophisticated technologies in our daily lives can be observed in companies' marketing. New techniques increase marketing innovation. The study made by Afriyie et al. (2019) states that small and medium-sized businesses are able to compete and thrive in the business environment with their innovative skills.

The meaning of Innovation is different than it was used in the last centuries. Small and medium-sized enterprises are the cornerstones of innovative approaches because of the fact that ability to foresee new opportunities, commercializing new ideas, using modern technologies

to gain a competitive advantage is what makes the SMEs grow OECD (, 2010). In fact, small businesses are the key players in making radical innovations in various sectors including, software development, clean technology, nanotechnology, biotechnology. In the article of OECD (2018) *Strengthening SMEs and entrepreneurship for productivity and inclusive growth*, it is mentioned that "SMEs are often an essential channel for the diffusion and adaptation of innovations to different contexts".

2.8. Obstacles in front of SME development

SMEs are considered fuel for economic activities in many OECD countries. They generate employment, improve innovation, and contribute to GDP. Nevertheless, there are various factors that SMEs face during their life cycles.

2.8.1. SMEs lack economies of scale

The small and medium-sized enterprises in the production sector are significantly disadvantaged while producing and expanding their businesses. Economies of scale refer to the decreasing cost of a product unit while increasing the number of produced goods. Especially in the early stages of production or services, it is hard to exceed certain limits for small and medium-sized enterprises. In SMEs, one person often carries out several positions in the early stages, which often results in a decrease in the employees' productivity. By that time, the company hires more specialized employees for specific jobs. Some SMEs have multiple offices worldwide or one country, each office required to have its employees. Due to the lack of expertise in the company, they might lack the ability to fulfil these needs by themselves. Having economies of scale would decrease this disadvantage. In the initial stage of the production, each unit cost more because all the technical costs of machinery add up. By the time production increases, the price of a single product decreases. However, SMEs from time to time suffer from not having enough economies of scale to expand their production.

2.8.2. Lack of access to financial instruments

One of the major issues in front of SME development is the lack of access to finance in many countries. In order to start a business, individuals need money for the initial steps. This is an issue not only in developing countries' entrepreneurial activities but also in developed countries as well. The reason behind it is that SMEs seem risky investments for banks; they do not have a guarantee about their payback abilities. Therefore banks provide their financial service to larger

enterprises than the smaller ones. Banks and individual investors find investing in smaller businesses as risky (Taghizadeh-Hesary & Yoshino, 2016). As there is limited information available about small businesses, banks face difficulties in order to measure SMEs creditworthiness. In order to solve this, banks usually rely on their employees' personal connection with SMEs. If the representative of the small business is able to pitch the idea to the right counterpart, they are likely to get funding from the bank. As it is clear that personal relations with banks are crucial, however over time, with the increase of modern technologies, this approach substitutes with a more quantitative approach by relying on numbers and performance indicators of a company (The World Bank, 2017).

This financial problem for SMEs is considered as both supply and demand issue. The major obstacle in the SMEs side of the story is that they have a profitable project, but they can get enough funding to make the project real. This obstacle might arise from various reasons. For instance, startups lack the ability to make a good presentation of the project to investors. On the other hand, investors or creditors do not find the startup worthy of investment (The World Bank, 2017). Therefore, this issue of finding a creditor or investor is a supply-demand issue for small and medium-sized enterprises.

Chapter 3: SMEs in the context of Azerbaijan

3.1. Country profile Azerbaijan

The Republic of Azerbaijan is situated in the southern part of the Great Caucasus Mountains in between Europe and Asia. This Transcaucasian country has five neighboring countries on land.¹ To the north, Azerbaijan has a border with Russia for 390 km. Azerbaijan shares a border with Georgia in the northwest for 471 km. The border with Iran from the south of the country is along the Aras river for 765 km. Azerbaijan has the longest land border with Armenia from the west and south-west of the country for 1007 km. Enclaved part of the country, the Nakhchivan Autonomous Republic shares borders with Turkey for 15 km in length. Azerbaijan is on the west side of the Caspian Sea, the largest body of inland water; the Caspian Sea washes the 2647 km coastline of eastern Azerbaijan.

This former Soviet country in the south Caucasus occupies an 86,600 km² area. The current population of the country is ten mln.² Azerbaijan is an ethnically diverse country; according to the national census in 2009, 8.4 percent of the country's population are minorities. The capital city of Azerbaijan Republic is Baku, the largest city of the country with a 2.3 million population³ and 2140 square km area. Baku is also the center of economy and politics. The currency of Azerbaijan is Azerbaijani Manat (short AZN). 1 AZN is equal to 0.59 USD as of May 2021. The main spoken language in the Republic of Azerbaijan is Azerbaijani. But as in all other post-soviet countries, the majority of the population speaks Russian as their first or second language.

¹ Note: The information about borders of Azerbaijan Republic have been extracted from the website of the Vice President of Azerbaijan. Sərhədlərimiz - Mehriban Əliyeva - from https://mehriban-aliyeva.az/kids_azerbaijan/serhedlerimiz

² Note: Information about Azerbaijan's population has been extracted from the World Bank Database about Azerbaijan - from <https://data.worldbank.org/country/AZ>.

³ Note: Information about Baku's population has been extracted from Population Stats (2021) -from <https://populationstat.com/azerbaijan/baku>.

3.2. Definition of the SMEs in Azerbaijan

Azerbaijan's economic development is crucially affected by SMEs. In order to create jobs, satisfy consumer needs on domestic products and services, decrease the reliability of exported goods, and sustain economic growth, SMEs play an important role. The country is blessed with a huge amount of natural resources such as oil and gas. The authorities try to eliminate the negative effects of the dutch disease since the revenue from the oil and gas sector depends solely on external factors. Therefore, the government puts effort into improving the non-oil sector in the country. The best way to decrease this dependency is to promote entrepreneurship activities. Considering that the oil and gas sector is capital-intensive, therefore the number of jobs created in the sector is limited. All in all, in Azerbaijan, an improved SME sector would lead to a number of opportunities for the citizens and for the government.

The definition of SMEs varies from country to country in Azerbaijan. The definition of SMEs was approved in December 2018 by the Cabinet of Ministers of the Republic of Azerbaijan. This government agency uses these definitions (Table 1) in order to support SME development, increase their effects on the economy, participate in the protection of small and medium-sized businesses, and apply grant schemes.

In order to pursue effective development strategies toward companies, the definition of micro, small and medium-sized enterprises is crucial. In Azerbaijan, the Cabinet of Ministers (2018) approved the MSME definition by the number of employees and yearly profit rate. Micro companies employ up to 10 people, including founders, where the yearly profit should not exceed 200000 AZN, which is equal to 117 000 USD as of May 2021. Small companies can employ between 11 and 20 employees and can generate yearly profit between 200 000 - 3 million AZN (117 000 USD-1763870 USD as of May 2021). medium-sized enterprises should have 21-150 employees and three million-30 million AZN yearly profit (1763870 USD-17638700 USD as of May 2021). Larger companies create job opportunities for more than 150 people and generate yearly revenue of more than 30 million AZN. In this classification, the agency used the number of employees and the yearly profit of the establishment as a basis of the categorization. If a business establishment exceeds either of these thresholds, they classify it as one higher tier. For instance, company A has 18 employees in the professional year of 2019, and its yearly profit is 3.5 million Azerbaijani Manat; in this case, company A is considered as a medium-sized enterprise despite the fact that the company has less number of employees than in the category

of medium-sized companies. That's because of the fact that the yearly profit exceeds 3 million AZN; therefore, company A is a medium-sized enterprise.

Table 1: Definition of SMEs in Azerbaijan

Form of establishment	N of employees	yearly profit
Micro	up to 10	up to 200 000 AZN
Small	11-20	200 000-3 mln AZN
medium	21-150	3-30 mln AZN

Source: The Small and Medium Business (SMB) Development Agency of the Republic of Azerbaijan

3.3. Economy of Azerbaijan

Azerbaijan's economy has been growing since the collapse of the Soviet Union. During the Soviet period, the Republic of Azerbaijan was one of the main oil and gas providers for the central government. Azerbaijan's economy has been mainly affected by the price of oil throughout its history. The economy of the country was less diverse than the neighboring Georgia and Armenia. Since the beginning of the 2000s, the Government of Azerbaijan started to implement two large privatization projects in various sectors, including agricultural lands and SMEs. The second privatization project contained the larger enterprises to make them privately owned. According to the IMF statistics, the GDP of Azerbaijan in 2019 was 48 billion USD,⁴ which is the highest amongst the South Caucasus countries. GDP per capita for the same year is 4813 USD. In the growing economy of Azerbaijan's oil and gas sector, agriculture, tourism and services play a crucial role. In 2018, the real GDP increased by 1.4 percent.⁵

Azerbaijan has the highest agricultural lands in the region; 77 percent⁶ of the country's area is suitable for growing various types of agricultural products. Azerbaijan is the 5th largest producer

⁴ Note: This information is taken from IMF (2020), *World Economic Outlook Database* <https://www.imf.org/en/Publications/WEO/weo-database/2020/October>.

⁵ Note: This information is taken from The World Bank (2021), *Azerbaijan Overview* <https://www.worldbank.org/en/country/azerbaijan/overview>.

⁶ Note: This information is taken from Azərbaycan Coğrafiya Cəmiyyəti (n.d) *Azərbaycan torpaqları* <https://gsaz.az/articles/view/81/Azərbaycan-torpaqları>.

of persimmons in the world. The country produces on average 160 thousand tons in a year. European Union carries out an economic diversification program in Azerbaijan. In the southern part of the country, the Lankaran region has one of the lowest rates of economic indicators. Therefore, it is important to diversify the economy in the area. Quality agricultural products, such as tea leaves, citrus fruits, are characteristics of this region. In addition, Azerbaijan exports wheat, barley, potato, watermelon nuts to foreign countries.⁷ The agriculture sector provides 6 percent of GDP.⁸ This contribution of the sector creates food security and employment in the country. It is crucial to point out that 47 percent of the total population lives in rural areas. Therefore, 39 percent of the total jobs are within the agricultural sector.

One of the growing sectors in Azerbaijan is manufacturing, especially the production of military equipment. Since the country has a military conflict with Armenia, Azerbaijan tries to increase its military equipment production together with Ukraine, Turkey, and Pakistan (Giragosian, 2007). According to the World Bank on Military Expenditure, Azerbaijan's military expenditure is 4 percent of the total GDP; in Armenia, the percentage of military expenditure is 4.9 percent of total GDP, and in Georgia, it is 2 percent of the total GDP.

Azerbaijan is one of the attractive destinations among tourists within the region. Every year a growing number of tourists visit the country. The State Tourism Agency of Azerbaijan and the Ministry of Culture carry out tourism development projects in the country. By doing so, improving tourism facilities in the country, building high-standard hotels and recreational facilities make Azerbaijan one of the luxury tourism destinations. In recent years, Azerbaijan hosted different international events in sports and culture. In 2012, the Eurovision Song Contest was held in Baku; in 2017, Azerbaijan started to host Formula One motor racing under the name of Azerbaijan Grand Prix.⁹

Azerbaijan is making considerable progress in terms of supporting businesses. The World Bank's Doing Business Report (2018) mentions that Azerbaijan improved its Ease of doing business from 57 to 25.

⁷ Note: This information is taken from FAO(n.d) FAOSTAT- <http://www.fao.org/faostat/en/>.

⁸ Note: This information is taken from International Fund for Agricultural Development (n.d) *Azerbaijan* <https://www.ifad.org/en/web/operations/w/country/azerbaijan>.

⁹ Note: This information is taken from F1 Race (2021) *Azerbaijan Grand Prix* <https://www.formula1.com/en/racing/2021/Azerbaijan.html>.

3.3.1 Dutch Disease in Azerbaijan

“Dutch Disease” is an economic term that characterizes the relationship between the economic growth of one sector and decreasing other sectors. Dutch Disease often happens in countries where natural resources are abundant. Government is able to fill the Governmental budget from a certain source and avoid implementing growth strategies. This term brings two pieces of news at the same time; for instance, if an oil reserve has been discovered, and exploitation of oil causes damages to the development of other sectors, this phenomenon is characterized as Dutch Disease. Azerbaijan is abundant with a huge amount of natural gas, oil, and other minerals. The main purpose of this section is to identify whether dutch disease causes any harm to SME development in the country.

Dutch disease infection is typical for Post Soviet countries. Russia is one of the world's most resourceful countries, even a greater economy such as Russia can show signs of dutch disease, researchers Mironov and Petronevich (2015) explains in their paper on *Discovering the Signs of Dutch Disease in Russia* that if we observe even one percent increase in the price of oil. It caused an appreciation in the real exchange rate by 0.2 percent. Also, the same can be observed in other Post Soviet countries such as Kazakhstan, whose economy is mainly dependent on the oil sector. During the Soviet period, Baku was one of the main oil producers for the centrally planned economy. In Azerbaijan, in the last ten years, we observed high currency devaluation twice in 2015. This mainly due to the effects of oil prices in the market.

Azerbaijani Government tries to pursue initiatives to decrease the dependency on the oil sector. Because of the fact that, on average, between 2008 and 2011, oil and gas GDP was 21,139 million AZN (Niftiyev, 2020). Therefore, SME sector development in the non-oil sector is a great way to diversify the Azerbaijani economy.

3.4. Effect of COVID-19 in economic development of Azerbaijan

The decrease in the price of oil and gas in the world market, as well as the COVID-19 pandemic, negatively affected Azerbaijan's economy in 2020 and 2021. The Ministry of Economy Mikayil Jabbarov mentioned in one of the videoconferences, in order to decrease the negative results of the pandemic, we have to create *Working Groups*. The main objective of these Working Groups is to identify the damage, and provide the necessary support to business owners, especially micro, small and medium-sized enterprises. On the first stage of the projects

of Working Groups, 12 main sectors have been identified, including tourism, entertainment, transportation, trade, etc. sectors.

The COVID-19 brought many strict rules in the country in order to decrease the number of infected cases. The full closure of Baku Metro, which is the main railway transport in the capital city, Baku, limited movement between cities, affected the public transport sector deeply.

Remittances are a crucial part of the economy in the rural areas of Azerbaijan. In 2019, remittances made up 2.6 percent of total GDP, which is equal to 1.2 billion USD.¹⁰ The World Bank estimates that the income from remittances will decrease about 20 percent in 2020.

3.5. Role of SMEs in Azerbaijan's economic development

For a young country like Azerbaijan, the active presence of micro, small and medium-sized enterprises in the economy are crucial in many aspects. For instance, in OECD countries, SMEs play an important role. Because they make up 95 percent of all enterprises, and SMEs generate 60-70 percent of jobs. Azerbaijan's dependency on the oil sector must be replaced by investing in smaller businesses. The Republic of Azerbaijan Ministry of Economy statistics shows that in 2016, in the country, there were 792 764 SMEs in various sectors. Out of these business entities, 86517 are categorized as small businesses. Azerbaijan is showing a growing number of entrepreneurial activities.

The hub spot of entrepreneurial activities in the country is the capital city, Baku. According to Bayramov et al. (2017), 56 percent of overall registered businesses are operating in Baku. Forty-three percent, on the other hand, are scattered across the country. Baku's role in economic activities is important. Due to the fact that, in terms of population and area, Baku is the biggest city in the country. 13 percent of the active small businesses operate in the Aran region, 7 percent in Absheron economic region, 6 percent Ganja-Gazakh economic region, and 6 percent in the Lankaran economic region.¹¹

Findings in Bayramov et al. (2017) show that small businesses in the non-oil sector account for only 5.8 percent of value-added, which is equal to 0.7 percent of total gross profit. According to

¹⁰ Note: This information is taken from Hasanov (2021) The impact of COVID-19 on Azerbaijan in five charts from <https://top-center.org/en/analytics/3080/the-impact-of-covid-19-on-azerbaijan-in-five-charts>

¹¹ Note: This information is taken from Dövlət Statistika Komitəsi (n.d) from <https://www.stat.gov.az/>

the Statistical Committee of Azerbaijan, small businesses provided jobs for only 6.5 percent of the workforce of Azerbaijan in 2015, according to the Statistical Committee of Azerbaijan.

The distribution of small businesses across the sectors varies in the country. According to the Ministry of Economic of Economic of Economic of Economic of Economic, the main portion of the small businesses are in the trade sector with 31.2 percent, the construction sector with 10.7 percent, and the other services make up 13.5 percent of small businesses in 2016 Azerbaijan Republic. The role of small businesses in the country’s GDP is smaller than in the OECD countries. Small businesses account for only 4 percent of overall GDP, and the country’s dependency can explain this low contribution on the oil sector. Mostly, large companies operate in the oil sector, and therefore the contribution of the large companies to the GDP of Azerbaijan is higher (Bayramov et al., 2017).

3.6. SWOT Analysis¹² of Small and medium-sized enterprises in Azerbaijan.

The main idea of this section of the paper is to understand the actual situation in the country. The findings of this section might help policymakers adjust policies addressed to the development of small and medium-sized enterprises in Azerbaijan. Additionally, strengths and opportunities within the SME sector in Azerbaijan can be an essential piece of information for attracting local and international investors. On the contrary, identifying weaknesses and limitations can be a stimulus for entrepreneurs to increase their research and development and come up with innovative solutions to revolutionize the business environment.

List of strengths of the small and medium-sized enterprises in the Republic of Azerbaijan	List of weaknesses of the small and medium-sized enterprises in the Republic of Azerbaijan

¹²Note: This SWOT analysis has been done based on summarized information from the Strategic Roadmap for SME Development in Azerbaijan (2016).

<ul style="list-style-type: none"> ● Azerbaijan has a regulative measures which dedicated to the protection and improvement of SMEs; ● to start doing business is a quick and easy process in the country. In order to increase the productivity and encourage individuals to register their establishment in the government electron portal, the “one window” program was created;¹³ ● in order to increase the participation of SMEs in international trade and international activities, the requirements were simplified for SMEs; ● the infrastructure in the country is growing and has high standards; ● government of the Azerbaijan has support programs to for SMEs; ● the price of energy is relative cheaper than the rest of the Caucasus countries; 	<ul style="list-style-type: none"> ● the relationship with private sector actors and the SMEs are not satisfactory enough; ● the relationship between micro, small, and medium-sized businesses is not strong; ● accessing to financial instrument and credits are hard for SMEs; ● the lack of development in the provided financial instruments; ● the relationship between private sector and public vocational education institutions is weak; ● limited number of experienced individuals to create successful business; ● limited number of experienced organizations to provide support to SMEs; ● lack of managerial and business skills amongst the SME owners; ● lack of support norms to increase government’s demand for SME product and service; ● limited experience of Azerbaijani small and medium-sized businesses in the international trade; ● lack of productive relationship between SMEs and research and development institutions;
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¹³ Note: this information is taken from DÖVLƏT VERGİ XİDMƏTİ (n.d.). Bir pəncərə from <https://www.taxes.gov.az/az/page/bir-pencere>

	<ul style="list-style-type: none"> ● existing support programs is not fully accessible to SMEs; ● limited access to regional and local market; ● corruption in the business environment;
<p>List of opportunities of the small and medium-sized enterprises in the Republic of Azerbaijan:</p>	<p>List of opportunities of the small and medium-sized enterprises in the Republic of Azerbaijan:</p>
<ul style="list-style-type: none"> ● increasing the access to the financial instruments and having an appropriate environment to create credit bureau to facilitate the access to credits; ● using the potential increasing trends SMEs in the development of the non-oil sector; ● in the government purchases and the construction of infrastructures using the potential of SMEs; ● increasing the vocational education and business education centers in order to create more educated and experienced individuals for SME sector; ● creating educational institutions which support “lifelong learning” idea ● expanding the production sector and diversification of the Azerbaijan economy; 	<ul style="list-style-type: none"> ● potential international economic indicators such as financial crisis, decrease in demand in the international market, closure of borders etc. ● the limited competitiveness of product and services of the local SMEs in the international market; ● ignoring the influence of the vocational education; ● accessing to the international market is hard due to each country has their own regulations; ● newly established industrial parks offer discounted tax rates to Azerbaijan citizens, this decrease the competitiveness of foreing business owners in Azerbaijan;

<ul style="list-style-type: none"> • having enough labor capital in the country; • adopting roadmaps to plan future of SME sector; 	
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Source: The Decree of the President of the Republic of Azerbaijan. (2016)

3.7. Government Support in SME development in Azerbaijan

Starting from 2015, Azerbaijan has shown crucial improvements in SME development by adopting various strategic targets. In order to address the development of SMEs in the country, the *Strategic Roadmap for the Production of Consumer Goods at the Level of Small and Medium Enterprises in the Republic of Azerbaijan* (2016) was adopted by president Ilham Aliyev. The main goal behind SME Roadmap is to create a favorable environment for SME development, attract investments, create a legal framework, and access the financial instruments for SMEs in Azerbaijan by the Ministry of Economic of the Azerbaijan Republic. In order to create and implement this roadmap, Azerbaijan's Ministry of Economy asked for assistance from the OECD.

In recent years, in order to increase the sustainable development of the Azerbaijani economy and have a competitive position in the world market, Azerbaijani Government has approved support policies and programs towards the development of SMEs. The economic volume of SMEs and their fragilities make the Government pursue support mechanisms; under the *Strategic Roadmap* program, the following measures has been included:

Strategic Goal 1: Improving the business environment and regulatory framework for SME activities: This measure aims to increase the number of small and medium-sized businesses as well as increase the share of those businesses in the country's GDP. The effects of the adoption of normative legal acts will be studied in more detail, public consultations will be organized, and more detailed information will be obtained about the possible benefits and effects of the legislation.

Strategic Goal 2: Ensuring efficient and effective access of SMEs to financial resources: All the priorities set as part of the strategic goal of ensuring efficient and effective access of SMEs to financial resources are part of a common set of measures. As a result of increasing the financial

literacy of SMEs, their competitiveness will increase, which in turn will have a positive impact on the level of proper use of financial resources.

Strategic Goal 3: Internationalization of SMEs and increasing access to international markets: Provision of international trade, especially export-related guidelines, and financial products, will create additional export opportunities for SMEs in Azerbaijan and increase their share in exports. Thus, SME entities will have better access to international markets.

Strategic Goal 4: Increasing the knowledge and skills of SMEs, accelerating the application of best practices: Taking advantage of the opportunities created by model enterprises and business incubators for SMEs will increase their competitiveness, increase production efficiency, and, as a result, ensure their sustainability.

Strategic Goal 5: Promotion of innovations, expansion of research and development activities for SMEs: The national innovation policy will be conducted more systematically, and the legislative framework will be improved. The creation and development of innovation-oriented regional clusters are expected in the Republic of Azerbaijan.

In conclusion, Azerbaijan shows great potential in the development of the SME sector; meanwhile, the effect of the SME sector in Azerbaijan's economy has been increasing over the years. The creation of the strong SME sector is helpful in the diversification of the Azerbaijani economy and decreasing the dependency on oil prices in the world market. The current contribution of SMEs to the GDP of the country is relatively lower than the neighboring countries. However, the Government of Azerbaijan implements SME-specific support programs in the country.

Chapter 4: SMEs in the context of Georgia

4.1. Country Profile of Georgia

Georgia, in Georgian Sakartvelo, is an intersection between Europe and Asia. The country is situated in the Southern part of the Caucasus Mountains and the east part of the Black Sea. Georgia has borders with Russia from the north and northeast, with Azerbaijan from the east and southeast, with Armenia from the South, with Turkey from the South. With 3.72 million (World Bank, 2018) population lives on 69,700 square kilometers. The capital city of the country is Tbilisi. Currently, one-third of the country's population resides in the capital city ((approximately 1.114 million inhabitants) (UN, 2018)).

Georgia is abundant with natural resources, including coal and petroleum. The quality of magnesium in the country is able to compete with global extractors of it, like India and Brazil. Georgian rivers are suitable for receiving hydropower, as some rivers start from the mountains.

The official language in Georgia is Georgian, as the population of the country consists of various ethnic groups; besides the Georgian language in the country, several languages are spoken. Georgian is spoken by 86 percent of the population. Additionally, the Azerbaijani language is spoken by 6.5 percent of the population due to the fact that Azerbaijanis are the largest ethnic minority group in Georgia (General Population Census of Georgia, 2014).

4.2. Economy of Georgia

Georgia has a rising economy due to the fact that the country implements successful economic reforms since its independence from the Former Soviet Union in 1991. The economic growth of the country was steady between 2005 and 2019, on average 5 percent growth. Poverty has been declining in the country to 19.5 percent in 2019 (Asian Development Bank, 2021). Despite the government policies and support, the Georgian economy was not able to create enough employment for its citizens. Therefore, the population has been engaging in the less productive agricultural sector.

Georgia's economy is considered as a free market economy; the prices in the market have been arranged by the supply and demand factors of the market. The country's economy was

damaged during the early 1990s due to the collapse of the Soviet Union. Georgian economy started its recovery years by the middle of the 2000s. Georgian Government managed to have economic stability in the country after the Rose Revolution in 2003. Currently, the GDP of the country is 15.9 billion USD in 2020 (World Bank, 2021). The GDP and the GDP per capita have been increasing since the early 2000s. However, due to the current COVID-19 pandemic, GDP per capita fell from 4 763 USD in 2019 to 4 274 USD in 2020 (World Bank, 2021).

Georgia is an attractive place for investors from all over the world. Therefore, Foreign Direct Investments (FDI) became the cornerstones of the Georgian economy. The country offers the same rate of taxes for local and international investors. Georgia has steady economic growth, a free market, an investor-oriented tax system, a lower amount of licenses, and the geographical position between Europe and Asia make the country FDI friendly. In Georgia, there are only six types of taxes, income tax which amounted to 20 percent; profit tax or corporate tax, which amounted to 15 percent; value-added tax or VAT, which amounted to 18 percent; property tax can be up to 1 percent, custom tax and excise taxes vary (Legislative Herald of Georgia, 2012).

In trade, Georgia shows considerable improvement since joining European Union's Free Trade Area in 2014 (European Commission, 2021). European Union countries are the major importers of Georgian products; this trade relationship with the EU decreased Georgia's trade with CIS by 22 percent in 2015 (Civil Georgia, 2016). Another important source of income for Georgians is remittances. According to the Central Bank of Georgia's information, a considerable amount of remittances come from Russia. Due to the fact that the Russian Census in 2010 shows that there are over 150 thousand ethnic Georgians living in Russian Federation.¹⁴

During the Soviet period, Georgia's agriculture sector was damaged; after gaining independence, this sector started to flourish. The agriculture sector provides 55% employment to Georgia citizens. Which only equals 7 percent of the country's total GDP¹⁵. Georgian farmers produce grains, tea, hazelnut, citrus fruits, tomato, wine. The wine sector is a crucial part of agriculture; only in 2011, according to the National Wine Agency of Georgia, Georgian wine exported to more than 40 different countries, which is a total of 54 million USD.

¹⁴ Note: this information is taken from Russian Population Census (2010) from https://www.gks.ru/free_doc/new_site/perepis2010/croc/results2.html

¹⁵ Note: this information is taken from Invest in Georgia (n.d.) from <https://www.investingorgia.org/en/>

One of the growing parts of the Georgian economy is the tourism sector. Georgian government invests in tourism development by creating recreation facilities, improving the transport sector, and making worldwide advertisements of Georgian hidden gems. For instance, Georgia has the second deepest cave in the world-Krubera Cave. Additionally, in the city of Kutaisi, David the Builder Kutaisi International Airport opened in 2012; the airport mainly operates with low-cost airline companies. This increased the number of incoming tourists from European countries.

4.3. Effect of COVID-19 in economic development of Georgia

Georgia is one of the most affected countries in terms of the number of reported cases per million population. Therefore, Georgia's economy has been severely affected by the COVID-19 pandemic. In order to decrease the number of infected people, the country has followed several strict measures. The curfew, border closure, lockdowns, limited transport among regions of the country, limited or restrictive public transport negatively impacted Georgia's economy. As tourism is one of the key contributors to the Georgian economy, in the summer of 2020 and winter of 2021, tourism facilities were closed.

Ever since the start of COVID-19 pandemic measures in Georgia, household consumption has decreased due to the limited usage of transport and recreational facilities, spending on cloth, and electronic shopping. As domestic consumption decreases, the currency value is also decreasing. As a result, investors try to keep their assets safe. Therefore foreign direct investments have been decreasing since the start of the pandemic. In the European Countries, Russia, Azerbaijan, and other countries, several serious COVID measures made trade and employment hard for Georgian citizens. As one of the main sources of the economy is remittances, the decline is inevitable. Also, all these effects create spillover effects in many sectors due to the fact that the demand for goods and services decreased in 2020 and 2021 in the world. Therefore, the Georgian trade balance was negatively affected (The World Bank, n.d.).

4.4. Definition of SMEs in Georgia

SMEs play a crucial role in Georgia's economy by creating jobs, decreasing demand for imported goods and services. In 2010, in Georgia, 42530 enterprises were under the category of small and medium-sized businesses. These enterprises account for 96 percent of all active companies. Georgian National Investment Agency and the Ministry of Economy and

Sustainable Development define SMEs according to their annual turnover and number of employees. If a business has employees less than 20 and yearly turnover is below 500 thousand Georgian Lari (GEL) (125 thousand EUR), this business is considered a micro-enterprise. The small enterprises have employees between 20 and 50, and yearly turnover between 500 thousand to 12 million Georgian Lari (125 000 EUR to 3 million EUR). Medium-sized enterprises employ between 51-249 employees, and yearly turnover is between 12-60 million Georgian Lari (3-15 million EUR). Large enterprises have more than 250 employees, and their annual turnover exceeds 60 million Georgian Lari (15 million EUR).

Table 2: Definition of SMEs in Georgia

Form of establishment	Number of employees	Yearly turnover
Micro	up to 20	up to 500 000 GEL
Small	20-50	500 000-12 mln GEL
Medium	51-249	12-60 mln GEL
Large	more than 250	more than 60 mln GEL

Source: Georgian National Investment Agency and the Ministry of Economy and Sustainable Development (n.d.)

According to the National Statistics Office of Georgia, in Georgia, only 4 percent of registered firms are considered large enterprises in 2010. On the other hand, large enterprises consider 79.5 percent of the total yearly turnover of all active businesses. Each category of companies generates a different amount of employment and tax. Therefore, Law on Georgia on Georgian National Investment Agency defined SMEs as mentioned previously to address appropriate support policies and tax collection rates.

4.5. Role of SMEs in Georgia's economic development

Micro, small and medium-sized enterprises play an important role in Georgia's developing economy. SMEs generate employment, increase productivity in the country. In Georgia, the National Statistics Office (GeoStat) has estimated that micro, small and medium enterprises generate 67 percent of total work in the country. SMEs overall account for 61 percent of gross value added. The number of SMEs and the number of employment generated by SMEs vary in various sectors. SMEs hold 98 percent of the tourism industry (hotel and restaurants), 98 percent of agriculture and forestry, 92 percent of communication and transport, 96 percent of construction industries. However, the value-added is 20-40 percent in agriculture, real estate, education sector for the SMEs contribution. In Georgia's economy, the informal economy is crucial. SMEs are an essential part of the informal economy. For the Georgian Government, SME development is one of the top priorities to achieve sustainable economic growth. SMEs in the Georgian economy play a crucial role. GeoStats (2013) shows that out of all the enterprises, 94 percent of them are SMEs. And SMEs generate 42 percent of total employment in the country. Additionally, SMEs make up 20 percent of value-added, which is relatively high in the region.

According to the Ministry Of Economy And Sustainable Development Of Georgia (2015), in the Georgian economy, SMEs contributed about 18 percent in 2014. However, in terms of employment creation, the role of SMEs is growing. In 2006 SMEs provided jobs for 168.7 thousand people in the country. This number increased to 259 thousand jobs in 2014.

In the previous section of this research paper, we observed the classification and definition of SMEs in Georgia. The definition of SMEs is different in Europe. This difference in the classification creates various scenarios in terms of access to finances. For instance, if a company borrows credit from a Georgian financial institution, they might be considered corporate clients. As a result, their debts are higher. However, the same category is defined as SME in the EU/IFI (international financial institutions) definitions. All in all, Georgian banks give large amounts of financial instruments to a few larger companies.

4.6. SWOT Analysis of Small and medium-sized enterprises in Georgia

In this section of the paper, Georgian SMEs' strengths, weaknesses, opportunities, and threats will be observed. The findings will help policymakers to understand the current issues in order to tackle ongoing problems in the SME sector development in Georgia.

List of strengths of Georgian SMEs	List of weaknesses of Georgian SMEs
<ul style="list-style-type: none"> ● Georgia has a beneficial business environment for entrepreneurs; ● starting to a business is a smooth and easy process; ● corruption in the country is low; ● government's support programs to SME development; ● multilingual youth population; ● access to international market is easy; ● highly developed public services 	<ul style="list-style-type: none"> ● limited business knowledge and skills; ● lack of experienced managers; ● lack of access to long-term investment opportunities; ● low productivity; ● lack of qualified labor force; ● lack of capacity to participate in international trade; ● price of technological appliances is high;
List of opportunities of Georgian SMEs:	List of threats of Georgian SMEs:
<ul style="list-style-type: none"> ● increasing access to financial instruments; ● well-developed public institutions to implement international requirements; ● diverse chain of production; ● SME specific support policies; ● existence of modern business culture; ● the country well-positioned geographically; ● being a member of WTO helps to get easy access to world market; 	<ul style="list-style-type: none"> ● dependency on exogenous activities, such as global financial crisis, global pandemic etc.; ● political uncertainty; ● participation of Georgian SMEs in the international market is low, Georgian SMEs struggle to compete against international firms; ● lack of business educational programs; ● having a small sized economy;

Source: Ministry Of Economy And Sustainable Development Of Georgia, 2015¹⁶

¹⁶ Note: This SWOT Analysis is based on the Ministry Of Economy And Sustainable Development Of Georgia's SME Development Strategy of Georgia 2016-2020

4.7. Government Support in SME development in Georgia

Support programs for SME development in Georgia have been implemented for decades. One of the programs, *Small and Medium Enterprise State Support Program for 2002-2004*, was started in 2002 for supporting small and medium-sized businesses.

Under this program, there were two main goals to achieve: increasing access to financial instruments by attracting investments and providing information and advisory services through education and training (Szabó and Petrosyan, 2007).

The Produce in Georgia project was implemented in 2015 in order to receive investments for various projects. Thus, the amount required for the project was 355.6 million GEL. The government's investment is addressed to different sectors; for instance, 26 percent of the total investment is addressed to construction material producer SMEs (Bayramov et al., 2017).

All in all, Georgia has a young and growing economy full of opportunities for entrepreneurial activities. Georgian government tries to create a favorable environment for SME development and attract foreign investors to the country by keeping the low taxes for everyone. Georgian SME sector has a higher potential to contribute to the country's GDP more than it does now.

Chapter 5: SMEs in the context of Armenia

5.1. Country Profile of Armenia

The Republic of Armenia is the smallest country in the South Caucasus region, with a population of 2.9 mln (The World Bank, 2019). The country's population consists mostly of Armenian with 98.1 percent and 1.9 percent minorities: Russians, Yezidis, Kurds, Assyrians, Greeks, Ukrainians, Jews, and others (The Government of the Republic of Armenia, n.d.). Azerbaijan surrounds this landlocked country to the East, Georgia to the North, Turkey to the West, and Iran to the South. The country overall covers a total of 29,743 km² area in Southeastern Asia. After gaining independence from the Soviet Union in 1991, the Armenian government struggled with war with the neighboring country, Azerbaijan. This war negatively affected countries' economic, political and social status for decades. The small and medium-sized enterprises in the country kept their importance after gaining independence from

the Soviet Union. SMEs play a crucial role in generating employment, improving living standards, and creating a more middle-class society.

Armenia is a parliamentary Republic, the current President of the country is Armen Sargsyan, who has served the country since 2018. Today, the political power is in the Armenian Parliament, and the current Prime Minister, Nikol Pashinyan, took office in 2018.

The Republic of Armenia is geographically mountainous, with an average elevation of 1800 meters above sea level. The geographical features of the country affect its economic and social life. In the country, lowlands do not exist; most of the country's elevation range between 1000 meters and 2000 meters, the highest point is on Mount Aragats (4095 meters).

The official language of the Republic of Armenia is Armenian. However, a poll in 2012 shows that 94% of the country's population has knowledge of the Russian language (Kempe, 2013). The official currency of the country is the Armenian Dram (AMD).¹⁷

5.2. Definition of SME in Armenia

Under the current legislation, the definition of SMEs in the Republic of Armenia is made by the Ministry of Economy of the Republic of Armenia in order to correctly address the development projects towards SMEs. In 2018, the ministry started the "*Support to SME Development in Armenia*" program for facilitating SME development in the country. In the definition of SMEs, the officials take into account the number of employees, the yearly revenue of the company, and also the sector of the company. All of these differentiations make the appropriate policies to reach the correct endpoint. Categorizing companies help the Armenian Government to make necessary arrangements in order to strengthen the SME sectors through increasing access to the financial instruments, improving SME development and business culture, creating a market for SMEs, providing legal easiness and favorable institutions for SMEs development. As in recent years, we can observe in the government statistics that there is a considerable increase in SME development. One of the reasons behind this increase is the use of appropriate definitions for SMEs; therefore, officials are able to provide necessary support policies to appropriate audiences.

¹⁷ Note: As of May 2021 1 euro is equal to 635 Armenian Dram according to the Central Bank of Armenia's

The Ministry of Economy defines SMEs as follow:

Micro or super small-sized enterprises- the average payroll number of employees is between 0 and 9, with yearly revenue of less than 100 million Armenian Drams.

Small-sized enterprises- the average payroll number of employees is between 10-49, with yearly revenue between 100 million and 500 million Armenian Drams.

Medium-sized enterprises- the average payroll number of employees is between 50-249, with yearly revenue between 500 million and 1.5 billion Armenian Drams.

Table 3: Definition of SMEs in Armenia

Form of establishment	Number of employees	Yearly Revenue
Micro	up to 9	up to 100 mln AMD
Small	10-49	100 mln-500 mln AMD
Medium	50-249	500 mln-1500 mln GEL
Large	more than 250	more than 1500 mln GEL

Source: The Ministry of Economy of the Republic of Armenia

The Ministry of Economy of the Republic of Armenia points out that in 2018, the newly established companies per 1000 inhabitants was 9.8 in Armenia. According to the World Bank, in the upper-middle-income countries, this ratio is around 30 businesses. Therefore Armenia is considered as a low, middle-income country in terms of SME development.

The support program for SMEs shows its significance in various aspects of SMEs. For instance, they are creating a favorable tax environment for micro, small, and medium-sized enterprises and providing educational seminars for people with entrepreneurship spirits, and providing consultancy and business development support, and increasing access to the necessary modern technologies. Provide support for the SMEs which operate in overseas countries with their economic activities (Gevorgyan et al., 2005).

5.3. Economic Profile of Armenia

The Republic of Armenia has had a steady developing economy since the country gained independence from the Soviet Union in 1991. In the country, the nominal GDP is 12.6 billion USD according to World Bank (2020) data, which accounts for GDP per capita 4297 USD.

During the times when Armenia was part of the Soviet Union, the country was specialized in the production of chemicals, electronic products, machinery, processed food, synthetic rubber, and textiles, which mainly depended on the import of raw materials from other countries. Currently, Armenia has trade relationships with Iran and Georgia out of neighboring countries. As a result of conflict with Azerbaijan and Turkey, the borders with these countries are closed. The main ally in the trade of Armenia is Russia. The main sectors of the economy are agriculture, construction, mining, energy, industrial, retail trade, information communication technologies, financial services, and tourism.

The role of the agriculture sector in the country's economy is crucial; agriculture provided 20% of GDP, 35% of employment, and 28% of total export in 2015 (Christensen, 2017). However, the agriculture sector is highly vulnerable to weather conditions; for instance 2010, agricultural productivity decreased by 17 percent due to the bad weather conditions. Armenia is abundant with natural resources such as copper, gold, molybdenum; therefore, the mining sector plays a crucial role in the country's economy. In the year 2017, the output of the mining industry has grown by 14 percent, which accounts for 3.1 percent of total GDP (ARMSTAT, 2017). One of the growing and impactful sectors of the Armenian economy is the information and communication technologies sector. This steady development of the sector positively affects the country's GDP by 7.4 percent (12.4 billion USD) in 2017 (Mkrtumyan, 2019). The recent study by ARMSTAT (2019) shows that the employees of the ICT sector are one of the highest-paid workers in the country.

Estimates show that there are twice as many Armenians living abroad than Armenia itself. Therefore, it is understandable that the role of remittances in the country's economy is undeniable. According to the World Bank data, in 2019, personal remittances consisted of 11.2 percent of GDP.

According to the statistics of OEC¹⁸ Armenia was 129 for their exports in 225 countries in 2019. The main bulk of exports in the country come from mineral materials, natural resources, tobacco, and liquor production. The total amount of exports in the country adds \$3.34 billion to the country's budget. However, the government spends more on imports, around \$5.04 billion, which creates a trade deficit. The main importers of Armenian products are Russia (\$734 million), Switzerland (\$681 million), China (\$220 million), Bulgaria (\$208 million), and Iraq (\$177 million). Armenia lacks natural gas and petroleum; therefore, the main imports of the country are in these sectors. The major exporters to Armenia are Russia (\$1.44 billion), China (\$525 million), Georgia (\$398 million), Iran (\$300 million).

5.4. Effect of COVID-19 in economic development of Armenia

As it is shown in the above-mentioned section of the paper, over the years, Armenia shows a gradual, steady economic development. However, the current health crisis affected Armenia's economic growth negatively. Due to the COVID-19 pandemic, the country was ranked 33rd globally in terms of the COVID-19 patients per million population (The World Bank, 2021). This pandemic, together with the war with Azerbaijan, negatively affected the country's macroeconomic stability, increased poverty, and fiscal decline. The pandemic hit the country in several ways. Effect of countries' entry barriers, the trade has been negatively affected, Armenian SMEs struggled to continue their activities. The economic vulnerability has increased; as a result, the production capacity of SMEs decreased. Despite the fact that companies increased their domestic sales, it's not enough to cover all the losses from international trade. Armenia has several e-commerce startups and dropshipping businesses. These kinds of businesses require fast delivery and return of the product. However, the pandemic made it impossible to ship the products outside of the country, and it was difficult to make timely returns. Therefore, SME business owners lost their customers and profit. As SMEs are mostly unable to perform their economic activities, they become unable to pay their debts. Moreover, there was a sharp increase in the SMEs' debt burden. According to the survey, 79 percent of SME owners mentioned that their business's survival is solely dependent on government support (United Nations, 2021).

¹⁸ Note: this information is taken from The Observatory of Economic Complexity: OEC (n.d.). *Armenia (ARM)* from <https://oec.world/en/profile/country/arm>

5.5. Role of SMEs in Georgia’s economic development

SMEs play a crucial role in Armenia’s economy; in the “non-financial business economy,” 99.8% percent of all firms are SMEs. The role of small and medium-sized enterprises in employment is considerably high in the non-financial business economy; SMEs provide jobs for 66.1% percent of total employed people (European Commission, 2019).

Table 4: Number of economic entities and number of employees in each entity by Classification of Economic Activities and by size of economic entities¹⁹

	Micro		Small		Medium		Large	
	Number of Employees	Number of Companies	Number of Employees	Number of Companies	Number of Employees	Number of Companies	Number of Employees	Number of Companies
Mining and quarrying	605	196	532	25	917	8	7310	5
Manufacturing	10124	5004	11830	596	12000	128	22457	43
Electricity, gas, steam and air conditioning supply	529	100	1470	92	535	4	17447	6
Water supply, sewerage, waste management and remediation activities	107	43	298	14			3620	3
Construction	2968	856	5848	295	7252	68	1609	5
Wholesale and retail trade; repair of motor vehicles and motorcycles	26920	39264	13935	787	11331	112	13996	20
Transportation and	1824	775	4060	203	2204	28	9025	10

¹⁹ Note: This table is a combination of information that available on ARMSTAT (2018)

storage								
Accommodation and food service activities	4825	2148	6602	357	4890	53	313	1
Information and communication	2962	1351	4360	233	3935	42	7150	10
Real estate activities	2483	1449	1833	94	842	9		
Professional, scientific, and technical activities	4609	2812	3465	191	2164	26	341	1
Administrative and support service activities	2581	1426	2766	130	3700	36	2486	4
Repair of computers and personal and household goods	463	497	262	14	156	1		
Total	61000	55921	57261	3031	49926	515	85754	108

Source: (Statistical Committee Of The Republic Of Armenia (ARMSTAT), 2018)

5.5.1. Effect of SMEs on employment in Armenia

Small and medium-sized enterprises are the cornerstones of the Armenian economy. In 2018, companies categorized as SMEs comprised 99.8% of all business establishments in the country. Out of these companies, 93.6% of them counted as micro-businesses. SMEs provide employment for the workforce of Armenia in various sectors, including manufacturing, accommodation, and food service activities, and information communication technologies. All in all, micro, small, and medium-sized enterprises account for 68 percent of total employment (OECD, 2020).

The growing Armenian economy supports the SME sector since the country's labor force takes advantage of the improved SME sector. Within the SME sector, companies in different

categories generate different amounts of employment. For instance, on average micro establishments generate two employment per company. Statistics show that MSMEs created jobs for approximately 245 thousand people in 2017, which is one-third of the total employment of the same year. The number of establishments in the country change according to the sector in which they operate and the type of the business. In 2017, 76 615 micro-enterprises generated almost half of the employment in the MSME sector, around 122 thousand jobs. On the other hand, statistics show that 4570 small enterprises generated 63 thousand jobs for Armenia's labor force. And 1024 medium-sized enterprises generated 61 thousand jobs in the country in 2017 (Business Support Office, 2018).

SMEs operate in many sectors, including mining, transportation, construction, etc. Each of the sectors generates various numbers of jobs. Each SME category led a certain sector. For instance, as it is clear in **Table 4**, in 2017, in the mining and quarrying sector, there are 234 operating businesses; out of these, 196 of them are micro, 25 of them are small, 8 of them are medium, and 5 of them are large enterprises. However, when it comes to employment generation in the mining and quarrying sector, large-sized enterprises generate more jobs than the rest combined. In this sector, micro, small, and medium-sized enterprises generated 605, 532, and 917 jobs consecutively. On the other hand, the large five companies generated 7310 employment in 2017. Nonetheless, in the same based year, in the accommodation and food service activities sector, MSMEs generate more jobs than larger companies. 2148 micro-sized businesses in this sector create 4825 jobs, 357 small-sized enterprises generate 6602 jobs, and 53 medium-sized businesses generate 4890 jobs. Additionally, one large company in the accommodation and food service activities sector generates 313 employment for Armenia's labor force.

5.5.2. Innovation in SME Sector in Armenia

The Caucasus countries engage in various activities to boost their transition economies. Azerbaijan and Georgia work together on the Baku Tbilisi Ceyhan pipeline project to bring Caspian oil to the Mediterranean sea. On the other hand, Armenia is a landlocked nation without having trade relations with neighboring countries like Turkey and Azerbaijan. Therefore, in recent years, the Armenian economy has flourished with high-tech startups. Writer Wade Shepard entitled Armenia as "the world's next tech hub" in his article on Forbes in 2020. Armenia has a growing number of successful startups which not only operate in the local market but revolutionize the international market. As SMEs a crucial part of the Armenian economy, the

government has deep support for creating and developing tech startups in the country. In the last decade, startups like “PicsArt” have gained great fame in the international media. This photo and video editing company started as a seed startup in 2011, and it is growing over time; currently, the company employs more than 600 employees (Kunthara, 2020). Armenian startups operate in a wide range of sectors, including entertainment, education, personal growth, etc. One of the groundbreaking online education platforms-” SoloLearn” is a free application for learning coding and programming. The company has more than a million active users monthly. Additionally, the company employs over 240 employees in 2021²⁰. Having successful startups increases innovation idea generation in the Republic of Armenia. Therefore, high-tech startups would be the cornerstones of the economic development of Armenia.

5.5.3. Effect of SMEs on the GDP of Armenia

Economic effects of the SME sector in Armenia have been growing, as small and medium-sized businesses facilitate employment generation, innovation, and a competitive business environment. The country's budget also takes a great advantage. Due to the increase in the number of businesses, the number of taxpayers also increases. It is mentioned in the Business Support Office's (2018) SMEs in Armenia's Economy article that SMEs provide on average 35 percent of Armenia's GDP. Micro, small and medium-sized businesses contribute differently to the GDP of the country. Armenian Government facilitates the support mechanisms to help startups to achieve higher development, therefore certain groups of business are exempt from taxation. Despite this fact, 66 percent of total SMEs are taxpayers. The number of businesses which pay tax in the country is above 50 thousand. In the year 2016, SMEs paid 209 billion AMD tax to the government budget. Micro, small, and medium-sized businesses play a crucial role in export of Armenian products to the world. The main importers of Armenian products are Commonwealth of Independent States (CIS).

The Ministry of Economy of Armenia states that in 2018, micro, small, and medium-sized businesses contributed to the country's economy by 23.6 percent. This share varies according to the sector they operate. SMEs in the “trade” sector contribute to the country's GDP by 7.4 percent, and services provide 7.5 percent, the industry sector provides 5.4 percent, the construction sector among SME businesses contributes to the country's economy by 3.3

²⁰ Note: this information is taken from Craft.co (2020) *SoloLearn Company Profile* from <https://craft.co/sololearn>

percent. SMEs operate in the regions of Armenia other than the capital Yerevan; important destinations for SME growth include Kotayk, Armavir, Ararat, Shirak, etc.

5.5.4. Participation of women in the SME development in Armenia

One of the best ways to achieve United Nations Sustainable Development Goal 5: Achieve gender equality and empower all women and girls is to increase their participation in economic activities. The SME sector provides huge advancement in the economic freedom of women in Armenia. In 2016, Armenia became the top country in Eastern Europe for its support of women in entrepreneurship activities. The number of women-owned businesses has been increasing. Between 2005 and 2013, women-owned businesses rose from 11.5 percent to 15.3 percent of ownership of firms (Waseem, 2019).

In Armenia, the role of women in entrepreneurial activities is increasing day by day. Due to the fact that Armenia pays strong attention to human capital, by doing so, increased access to education facilities that focus on entrepreneurship and career development makes women's participation legit in entrepreneurship. Therefore, SME training and development policies are implemented countrywide. The Armenia Statistical Committee points out that women in Armenia are more likely to pursue higher education than men. In 2017, 32 percent of women gained university degrees, whereas 27 percent of men achieved university degrees. In Armenia, in order to increase the participation of women in entrepreneurial activities in 2014, the "Women's Entrepreneurship Strategy" was developed. Under this program, training and consulting services are provided to women who want to pursue business (OECD, 2020).

In order to increase the participation of women in the economic activities "Developing Women Entrepreneurship in Armenia",²¹ the project was launched by the Armenian Young Women's Association. Under this project, the "Women Entrepreneurs Network" was created to underline the importance of women in the country's economy. In the regions of Armenia, this project creates small contests to encourage women to present their business ideas. Contestants get a chance to take part in the training sessions and win small prizes (100-200 EUR). Women also get a chance to work with mentors after the training and win a greater contest (between 700 and 1000 EUR equivalent prizes). Women often spend these prizes on developing their business ideas and turning those ideas into small or micro-sized enterprises.

²¹ (2020, December 28). Women Entrepreneurs Network in Armenia. Retrieved May 30, 2021, from <https://businesswoman.am/en/projects/view/3>

5.6. SWOT Analysis of Small and medium-sized enterprises in Armenia

Small and medium-sized businesses in Armenia are crucial in many ways including employment creation, innovation etc. In order to fully understand the current status of SMEs in Armenian economy, this section provides SWOT analysis of SMEs in Armenia. This SWOT analysis is based on the information provided by Gevorgyan et al. (2005) in their paper.

Strengths of the Armenian SMEs:	Weaknesses of the Armenian SMEs:
<ul style="list-style-type: none"> ● stable growth in SME sector and recent macroeconomic growth; ● creation of government support programs; ● creation of institutions in order to support SMEs; ● labor market effectiveness; 	<ul style="list-style-type: none"> ● demand side issue in the local market for products and services provided by SMEs; ● lack of access to financial instruments; ● lack of business skills among SME owners, especially in the managerial level; ● high number of people in poverty
Opportunities of the Armenian SMEs:	Threats of the Armenian SMEs:
<ul style="list-style-type: none"> ● access to modern technologies to facilitate development of SMEs; ● being a member of WTO increase chances of Armenian SMEs to participate in the world market; ● potential to increase cultural tourism; 	<ul style="list-style-type: none"> ● level of corruption in the country; ● ongoing regional conflicts with Azerbaijan; ● high income inequality amongst the population

5.7. Government Support in SME development in Georgia

The Ministry of Economy and the Government of Armenia in 2020 approved *the Small and Medium-sized Entrepreneurship Development Strategy* for 2020-2024 to facilitate the development of SMEs in the country. The main objective of this strategy is to establish an SME-friendly business environment and increase entrepreneurial activities. The target of the program is to eliminate weaknesses in the SME sector. Improving access to financial resources, creating local institutions for SME support, encouraging people to pursue their business ideas are the primary targets to achieve from these action plans. It is projected to achieve 3 percent higher productivity between 2020 and 2023. By 2024, the targeted goal is to achieve 7.5 percent SME productivity and growth (The Ministry of Economy of the Republic of Armenia, n.d.). The current COVID-19 health crisis has caused an immense amount of damage in the SME sector in Armenia, and these action plans will help business establishments to cope with the bankruptcy.

Armenian Government has been implementing macroeconomic policies in order to facilitate its economic growth. The development of the country gained a newer speed in the last two decades, mainly due to the visible effects of the economic reforms. These reforms mainly targeted improving the economic and social conditions of the country's growing population.

These economic reforms impact the private sector, the creation of a favorable business environment. As well, the increasing role of Armenia in foreign trade created a stable environment for the stable inflation rate and currency exchange. As a member of the WTO, Armenia has escalated its exports. Researcher Winter (1995) mentions that the Development of the Private Sector and Privatization is another crucial factor for facilitating SME development in the country. Armenian Government implies privatization projects in the country. As the country was ruled under a centrally planned economy, this is the fastest way to facilitate growth in the private sector. As one of the major interests is to attract foreign investors to the country, privatization is the key. After the collapse of the Soviet Union, Armenia needed to apply structural changes in its economy. During the centrally planned economic time frame, most of the activities were limited by the Government; therefore, these restrictions mainly were one of the obstacles in front of the growing SME sector. Therefore, in the last three decades in the country, some business restrictions were lifted. This has resulted in the creation of a competitive business environment.

In conclusion, Armenian SMEs play a crucial role in the country's economic development. SMEs provide employment for the Armenian labor force and contribute to the country's GDP. Therefore, in Armenia in recent years, SME sector growth has been accelerated. Government support programs, creation of institutions to increase the know-how of business development help Armenian SMEs to thrive and prosper. Armenia has a relatively successful SME sector because of the fact that Armenian startups can compete in the international market and contribute to the country's GDP immensely.

Chapter 6: Comparison of SMEs and their effect on Georgia, Azerbaijan, and Armenia

As it is clear from this research work, small and medium-sized enterprises play a crucial role in a country's economic development. SMEs contribute to economic development differently. This is due to several factors. For instance, Georgia is interested in SME development because of the fact that the country's natural resources are limited. In Georgia, government incentives play an important role in attracting different investors to the country. Therefore, starting a business in Georgia is relatively easy for entrepreneurs. Georgian Government keeps the level of taxes at the same rate for local and international investment. The geographical location of Georgia makes it an attractive destination for FDIs because entrepreneurs in the European Union countries and other developed countries struggle with the taxation of their countries. Therefore, they choose Georgia to invest and start a business; Georgia's proximity to Europe and to the Middle East makes it an ideal country to grow a business.

However, currently, the role of SMEs in the economic development of Georgia is limited. Due to several factors, the large population of the country engages in low productive sectors such as agriculture. On the other hand, limited access to financial institutions, lack of experienced labor force in the startup environment, low productivity of existing companies, and the small size economy of Georgia make the country's SME development slow. As the development of SMEs is slow, the effect of small and medium-sized enterprises on the country's economic development is low.

The development of the small and enterprises in Armenia is crucial for gaining economic stability in the country. Limited amount of natural resources, closed borders with two out of four neighboring countries, landlocked position, military conflict with Azerbaijan are the main reasons front of Armenia's economic development. Therefore, having a strong SME sector is important; not only are SMEs the main source of employment in the country but also SMEs make the country recognizable amongst foreign investors. As SMEs contribute to the economy of Armenia more than they do in Azerbaijan and Georgia, the Government of Armenia pays strong attention to the development of this sector. Moreover, the number of successful tech companies emerging from Armenia is growing.

Azerbaijan's economy is growing; however, the role of SMEs in this growth is considerably less. Because of the fact that the main production and export of Azerbaijan are oil and gas and petroleum related products. Azerbaijan needs diversification in its economy. The price of oil and gas is fluctuating, and Azerbaijan does not have a strong position to determine or affect the prices in the world market. Therefore, the development of small and medium-sized enterprises in the country can help Azerbaijan to improve other sectors and become less dependent on natural resources.

Conclusion

SMEs are the main economic development mechanism in many countries. Due to the role of SMEs in economic development, their positive effects on job creation, reduction of income inequality, and poverty alleviation are widely known in recent years. Comprehensive research shows that SMEs have considerable effects on countries' economic growth. However, each country's GDP gets a different share from small and medium-sized enterprises. In Armenia, SMEs are the main source of income and employment generation; however, in Azerbaijan, larger companies provide more employment. The development level of SMEs, as well as government support to SME development, vary from countries' view on SMEs.

There are several factors negatively affecting SME development in Georgia, Azerbaijan, and Armenia. The common issue in all three countries is the lack of access to finance, and banks are reluctant to provide loans for startups or individuals due to the fact that lending money to entrepreneurs seems risky for banks. Engaging in military conflicts: all three countries have had military conflicts in the last two decades. Most recently, Azerbaijan and Armenia declared war against each other on the Nagorno-Karabakh territory. Having military conflicts causes various issues, including discouraging foreign investors from investing in the country. Additionally, once there is a military conflict in the country, the government's military expenditure is growing. Another common issue in terms of SME development in the South Caucasus countries is the lack of an experienced labor force to manage and develop a business. It is understandable that all three countries gained their independence in the early 1990s.

SMEs, which follow the markets closely, understand customer needs better, and are in close contact with their employees, are more flexible than large companies in production, marketing, and service. Because this flexibility allows it to adapt to changes in time and space, SMEs can

easily overcome many problems with minimal damage. Although SMEs have some weaknesses, they are subject to changing conditions. They also absorb the effects of the economic crisis and play a squeezing role. In this context, SMEs are of vital importance, especially for developing countries.

Given the above, it can be concluded that the effects of SMEs on the economic development of a country are obvious. Countries try to implement various support mechanisms to achieve strong SME sector development. However, in Azerbaijan, for instance, the level of contribution of SMEs to GDP is not high enough. Therefore, the future plans of the Government of Azerbaijan are to put emphasis on SME development. This research paper helps readers to understand the role of SMEs in economic development. Below recommendations have been added to consider potential ways to improve the SME sector in the South Caucasus countries, Georgia, Azerbaijan, and Armenia.

Limitations and recommendations to improve the quality of future researches

Currently, in all three countries, there is a lack of reliable and detailed information about the effect of small and medium-sized businesses on the economic development of a nation. This limitation causes various issues in the research; first of all, limited access to the up-to-date data makes it hard to demonstrate the current situation in the country. Therefore, I suggest the following recommendation to the statistical committees of each country.

Improving statistics about SMEs by creating a single database to store available information is crucial for having extensive future research. In order to make the database more detailed, contributions of each sector can be added, the size of a business can be mentioned, as well as the number of employees in each of the companies should be noted.

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