https://doi.org/10.58225/tim.2026-1-257-264

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Məqalə redaksiyaya daxil olub 11.01.2026
The article was received by editorial board on 11.01.2026
Статья принята к печати 11.01.2026

THE PLACE AND IMPORTANCE OF SMALL AND MEDIUM ENTERPRISES IN AZERBAIJAN ECONOMY BY MACROECONOMIC FACTORS

Abstract

This paper assesses the macroeconomic importance of Micro, Small, and Medium Enterprises (MSMEs) in Azerbaijan, using a combination of descriptive statistics, time-series trend analysis, and correlation-based econometric assessment. Based on data from the Asian Development Bank SME Monitor, the Small and Medium Business Development Agency of Azerbaijan, and the World Bank for 2004–2023, this study assesses the contribution of MSMEs to GDP, employment, and non-oil economic diversification. The results show strong recent growth of MSMEs during 2022–2023, but weak long-term correlations between MSME expansion and GDP, largely due to the oil sector's structural dominance, low MSME productivity, and sectoral concentration in low–value added trade. The findings underpin both the potential and current limitations of MSMEs as drivers of sustainable, diversified growth in Azerbaijan..

Keywords: *SME, inflation, unemployment, export, GDP, Azerbaijan.*

INTRODUCTION

Globally, MSMEs are considered the backbone of resistant economies due to the fact that they create the largest impact on innovation, job creation, and social cohesion. Sanyinna, A.

Y. et al (2018) indicated that resource-rich countries like Azerbaijan need a well-structured and expanded MSME sector for economic diversification and decreasing dependence on the unpredictable hydrocarbon market. Although national prosperity has for long been propelled by the oil and gas sector, it created an unusual economic framework where non-oil sectors were suppressed by a very strong oil economy. This paper addresses the core challenge of assessing the MSME sector's effectiveness as an engine for macroeconomic stability and growth within Azerbaijan's specific context. Micro, small and medium enterprises play a very important role in economic development of a country, what is the reason that they are subject to so many studies and analyzes (Woźniak, M. et al, 2020). Successful entrepreneurial initiative leads to sustainable businesses and ensures a smooth transition from business ideas to the creation of value added, thus supporting economic growth and the narrowing of macroeconomic gaps which have been generated during the economic recession (Armeanu, D. et al, 2016). SMEs can be an important method of social inclusion (for example providing opportunities for women, underrepresented groups to participate in economic activities) also are a key channel for poverty alleviation (Bayraktar, M. et al., 2019).

SMEs support as on microeconomic and on macroeconomic levels to several economic aspects, and focusing on export, they may mark country on international level, by securing export diversification sustainability (Pulka, B. M., et al, 2022).

Coming to the part of analyzing particularly SME role in the Azerbaijan economy, Azerbaijan has spent significant resources to develop the SME sector and in fact it has had many achievements in this sphere. However, the contribution of SMEs to the GDP of Azerbaijan is very small and the natural question is to ask whether it is worth spending efforts on the development of the SME sector any more (Orujov, S., et al, 2019).

Besides, it seems that classical theories of SMEs are currently less supported because most of the international aid organizations have been helping SMEs to boost economic development in the Third World countries. It is a known fact that 80% of World Bank programs are directed to SME finance and 20% is aiming institutions assisting SMEs in different ways (Tambunan, 2014; "World Bank Group," 2013.

METHODOLOGY

This study aims to quantitatively investigate the place and importance of Small and Medium Enterprises (SMEs) in the Azerbaijan economy. The research objectives are to quantify the contribution of SMEs to Azerbaijan's Gross Domestic Product (GDP), employment, and export diversification, as well as to analyze the macroeconomic factors influencing these contributions. This study will rely exclusively on the analysis of secondary quantitative data. The quantitative data for this study will be mainly sourced from official statistical agencies and international databases, including Small and Medium Business Development Agency of the Republic of Azerbaijan. Time series data will be used to cover the relevant time period,
for example, the last 10-15 years, depending on data availability, consistency, and the time frame relevant to the research.questions.

Analytical Methods:

- Descriptive statistics for recent MSME trends (2022–2023)
- Time-series comparison for MSME metrics vs. GDP (2004–2020)
- Pearson correlation matrix to measure linear relationships
- Scatterplots with linear trendlines to illustrate regression direction

Analysis eable 1

Indicator	2022	2023	Growth
Number of SME	**377,842**	**401149**	**6.20%**
Created value added	**17.2 bln AZN**	**20,1 bln AZN**	**16.90%**
Number of employees	**370,120**	**390,845**	**5.60%**
Proportion of value added	**13.90%**	**18%**	**4.10%**
Proportion in employment	**41.80%**	**44%**	**2.20%**
Proportion of employment in non-oil sector	**43.10%**	**45.30%**	**2.20%**

Source: *Data derived from ADB Asia SME Monitor 2025, Table 2 & Table 3)*

The data presented shows a remarkable improvement in performance and economic indices.Contribution of small and medium-sized enterprises (SMEs) in Azerbaijan between 2022 and 2023. The number of registered SMEs increased from 377,842 to 401,149, representing a 6.2 percent growth rate. This growth may reflect an improved regulatory environment, more entrepreneurship or better access to finance and support services for small businesses.

Considering the value added created by SMEs, this indicator increased from 17.2 billion AZN in 2022 to 20.1 billion AZN in 2023, up 16.9 percent. It would appear that there has been a sharp productivity and operational scale improvement in SMEs. The number of people employed by SMEs also improved, increasing from 370,100 to 390,800, which represents a

5.6 percent increase. This indicates the growing importance of the sector in job creation and its importance in labor market dynamics.

Structurally, SMEs increased their share of the total value added in the economy from 13.9% percent to 18 percent, an increase of 4.1 percentage points. Likewise, their contribution to total employment increased from 41.8 percent to 44 percent, up 2.2 percentage points.

In addition, the share of SMEs in non-oil sector employment increased from 43.1 percent to

45.3 percent, while highlighting their increasingly vital role in economic diversification.

These developments align closely with the key premises of endogenous growth theory, which

emphasizes the role of internal factors such as innovation, human capital accumulation, and entrepreneurship in driving long-term economic growth. The increasing contribution of SMEs, particularly in non-oil sectors, suggests a gradual shift towards a more diversified and sustainable growth model in Azerbaijan.

Positive trends in the SMB sector also contribute to achieving the goals outlined in the "Social and Economic Development Strategy of the Republic of Azerbaijan for 2022–2026," which aims for growth in GDP, non-oil exports, and foreign direct investments, as well as reaching the planned indicators for the SMB sector.

After using data from Asian Development Bank, where there is data of number of MSME, employment and World Bank Open Data, this paper analyzed correlation between GDP per capita, GDP Growth rate from 1991-2023

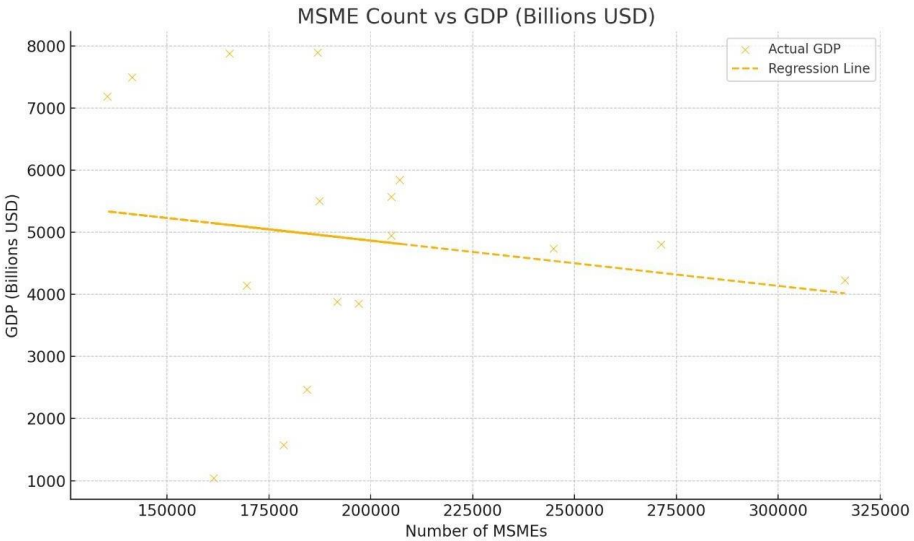
Correlation Matrix Insights:

● MSME Count vs GDP: Correlation = -0.16 → Weak negative relationship

● MSME Count vs GDP Per Capita: Correlation = -0.21 → Also weakly negative

Regression Visuals:

Figure 1



Source: *Author's own compilation based on data from ADB Asia SME Monitor 2025*

The scatter plots show wide dispersions around the regression lines from 2004 to 2020.

The lines slope slightly downward, suggesting the weak negative correlations between the number of MSMEs and overall GDP.

In this dataset, an increase in the number of MSMEs from 2004 to 2020 does not show a strong positive relationship with overall GDP or GDP per capita in Azerbaijan.

This could be due to:

● Structural shifts in the economy (e.g., oil boom or bust)

● Low productivity of MSMEs

● External macroeconomic shocks

● Data issues or definition mismatches

Time-Series Trend Analysis:

MSME Count vs. GDP Growth Trajectories (2004–2020)

●MSME Growth: The number of MSMEs showed a general upward trend from 2004 to 2020, indicating a growing entrepreneurial sector.

●GDP Growth: GDP exhibited fluctuations, with notable growth during certain periods and contractions during others.

While MSME numbers steadily increased, GDP growth did not always mirror this trend. Periods of GDP contraction did not correspond to declines in MSME numbers, suggesting that MSME growth was resilient to broader economic downturns. The steady increase in MSME

numbers alongside fluctuating GDP growth suggests that while MSMEs have been growing in number, their impact on overall GDP growth may be limited or influenced by other dominant sectors in the economy.

MSME Growth Rate vs. GDP Growth Rate Comparison

The growth rate of MSME has remained positive and relatively stable over most years. GDP growth rates were more volatile, with some years seeing negative growth. There is no strong correlation between MSME growth rates and GDP growth rates, which implies that increase in the number of MSMEs did not directly result in equivalent GDP growth. The lack of a strong correlation between MSME growth rates and GDP growth rates suggests that other sectors may have more significant impact, particularly the oil and gas industry, more favorable effect on fluctuations in GDP than that of the MSME sector.

Sectoral GDP Contributions: Assessing MSME Impact

By analyzing the contributions of various sectors to Azerbaijan's GDP this paper is eager to understand the relative impact of MSMEs.

1. Dominance of Oil and Gas Sector:

The oil and gas sector has historically been the largest contributor to Azerbaijan's GDP. For instance, in certain years, it accounted for a substantial portion of the GDP.

2. Agriculture and Other Sectors:

Agriculture's contribution to GDP in Azerbaijan has been relatively small, despite employing a significant portion of the population. Other sectors, such as services and manufacturing, have had varying contributions over the years.

3. MSME Contribution:

While data for the exact contribution of MSMEs to GDP may be lacking, MSMEs are ubiquitous in sectors like trade, services, and agriculture. With the dominance in the oil and gas sector, it would appear that the overall impact of MSMEs in Azerbaijan is overshadowed on GDP. While MSMEs are growing in number, this graph suggests that their overall economic impact is less pronounced. Diversification efforts may be necessary to enhance the role of MSMEs in the economy.

Employment Generation by MSMEs

The data includes a breakdown by size class:

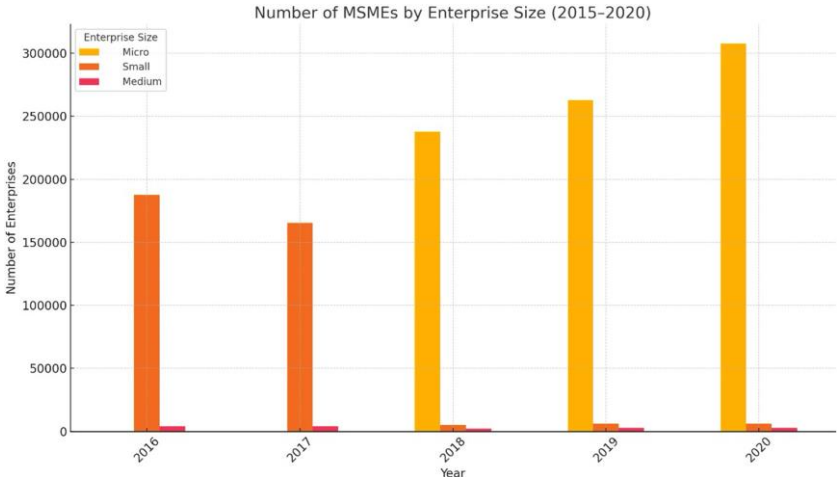
- Micro
- Small
- Medium

From 2015 onward, there are distinct numbers for:

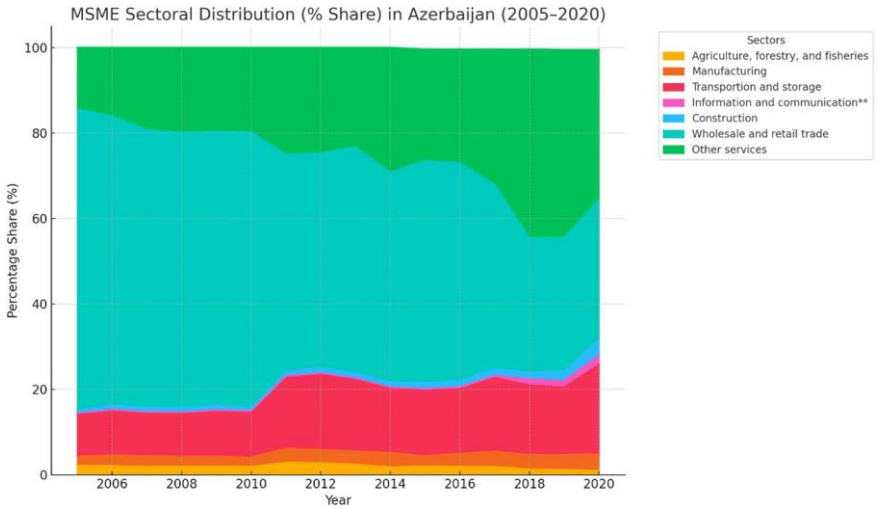
- Micro enterprises
- Small enterprises
- Medium enterprises

As we can observe micro enterprises dominate the MSME count, small enterprises show consistent presence but at a far lower scale, while the medium enterprises represent a tiny fraction, with only a few thousand enterprises. This is a typical pyramid structure in developing economies-many micro businesses, fewer small ones, and very few medium-sized firms. This structure can limit the potential for significant employment generation or productivity scaling.

Figure 2 and 3



Source:Author's own compilation based on data from *ADB Asia SME Monitor 2025*



Source: *Author's own compilation based on data from ADB Asia SME Monitor 2025*

The dataset provides percentage shares of MSMEs by sector from 2004 to 2020, under the label:

MSMEs by sector (% share) Sectors include:

- Agriculture, forestry, and fisheries
- Manufacturing
- Transportation and storage
- Information and communication
- Construction
- Wholesale and retail trade
- Other services

These sectoral shares show how MSMEs are distributed across economic activities. The most dominant sector appears to be *Wholesale and Retail Trade*, with over 70% share in early years, declining toward 30% in 2020. *Other Services* have significantly increased in share, suggesting a shift towards service-oriented businesses. *Transportation and Manufacturing* remained relatively steady, while Construction and Information & Communication saw modest growth. *Agriculture* consistently held a very low share (<3%), indicating limited MSME penetration in this sector.

CONCLUSION

MSMEs are definitely one of the most crucial contributors to the economic development in nations, a fact underlined by the extensive research devoted to it. Through entrepreneurial initiative, they make possible the creation of value added and thus promote economic growth and helping to reduce macroeconomic imbalances originating from economic downturns. Beyond economic metrics, MSMEs serve as crucial avenues for social inclusion contribute to offering economic participation opportunities to women, underserved and underrepresented groups, and contribute considerably to alleviating poverty. Their importance ranges from a micro to a macroeconomic level, and, with a emphasis on exportation allows them to increase their international prestige, and ensure that sustainability of export diversification (Pulka, B. M., et al, 2022).

Against this backdrop, in Azerbaijan, substantial resources have been devoted to development of the SME sector, yielding notable progress. The data from 2022 to 2023 indicates positive growth in the number of SMEs, value added created, and employment. within the sector, by supporting the objectives of the "Social and Economic Development Strategy of the Republic of Azerbaijan for 2022-2026." Notably, in the structure of value added and employment rate contributed by SMEs has increased, particularly in the non-oil sectors, suggesting a gradual diversification.

However, when analyzing longer-term trends from 2004 to 2020, the analysis reveals a weak

negative correlation between the number of MSMEs and overall GDP and GDP per capita. This apparently counterintuitive finding would suggest that although the MSME sector in Azerbaijan has seen an increase in the number of enterprises, but it has not reflected in amuch greater positive contribution to GDP as a whole. Pressures are increasing, due to such variables as the historic pre-eminence of the oil and gas industry in the potentially lower productivity levels within Azerbaijan's MSME sector. Even more frequent macroeconomic shocks, or even limitations in data and definition, steadily raised MSME numbers alongside fluctuating GDP growth with a lack of strong correlation. Between their respective growth rates indicate that the other sectors have a higher affect the performance of the national economy. Furthermore, sectoral distribution indicates that MSMEs are concentrated in wholesale and retail trade, although this share has been declining, with an increase in other services. The consistently low penetration of MSMEs in agriculture, notwithstanding that this sector employs most of the population base, and the pyramid structure of the MSME landscape dominated by micro-enterprises. This limited entity structure-with fewer small and very few medium-sized firms-may also limit overall impact of the sector on GDP and large-scale employment generation.

The leading question that Orujov, S., et al. (2019) addressed was about the value of continued investment in the development of SMEs remains relevant. The latest figures indicate encouraging growth within the SME sector, the historical analysis indicates that it is simply as such, merely increasing the number of MSMEs may not be sufficient to increase the overall GDP in an economy that is historically dominated by the oil and gas sector. Future efforts may need to focus on strategies that improve the productivity, competitiveness, and diversification of the MSME sector into higher value-added activities and sectors beyond traditional trade. Addressing structural issues, fostering innovation, improving access to finance, and technology, therefore, and the promotion of a more balanced sectoral contribution will be crucial to unlock the full potential of SMEs, so that they make a more significant and positive contribution to the long-term economic development of Azerbaijan.

Limitations:

This study is subject to the limitations inherent in the use of secondary data. These may include:

- **Data Availability and Consistency:** The availability and consistency of disaggregated data specifically for SMEs over the chosen time period may be a constraint.
- **Data Definitions and Methodologies:** Differences in data definitions and collection methodologies across different sources and over time could potentially affect the comparability of the data.
- **Establishing Causality:** While regression analysis can identify statistical relationships, establishing definitive causal links between SME development and macroeconomic outcomes can be challenging due to the complex interplay of economic factors.
- **Omitted Variable Bias:** Regression models may be susceptible to omitted variable bias if all relevant factors influencing the dependent variable are not included in the analysis.

Despite these limitations, this quantitative study will provide valuable insights into the measurable contributions of SMEs to the Azerbaijan economy and the macroeconomic context in which they operate. Rigorous statistical analysis will be employed to ensure the robustness and validity of the findings.

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Makroiqtisadi amillərə görə kiçik və orta müəssisələrin Azərbaycan iqtisadiyyatında yeri və əhəmiyyəti

Xülasə

Bəqalə təsviri statistika, zaman seriyası trend təhlili və korrelyasiyaya əsaslanan ekonometrik qiymətləndirmənin birləşməsindən istifadə etməklə Azərbaycanda Mikro, Kiçik və Orta Müəssisələrin (MKOB) makroiqtisadi əhəmiyyətini qiymətləndirir. Asiya İnkişaf Bankının KOBİ Monitorinqi, Azərbaycanın Kiçik və Orta Biznesin İnkişafı Agentliyi və Dünya Bankının 2004-2023-cü illər üçün məlumatlarına əsaslanaraq, bu tədqiqat MKOB-ların ÜDM-ə, məşğulluğa və qeyri-neft iqtisadiyyatının diversifikasiyasına töhfəsini qiymətləndirir. Nəticələr 2022-2023-cü illər ərzində MKOB-ların son zamanlarda güclü artımını, lakin əsasən neft sektorunun struktur dominantlığı, kiçik və orta sahibkarlıq məhsuldarlığı və aşağı əlavə dəyərli ticarətdə sektor konsentrasiyası ilə əlaqədar olaraq MKOB-larının genişlənməsi ilə ÜDM arasında zəif uzunmüddətli korrelyasiya olduğunu göstərir. Nəticələr Azərbaycanda dayanıqlı, şaxələndirilmiş inkişafın sürücüləri kimi kiçik və orta sahibkarlığın həm potensial, həm də cari məhdudiyyətlərini əsaslandırır.

Açar sözlər: *KOB, inflyasiya, işsizlik, ixrac, ÜDM, Azərbaycan.*