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## **THE IMPACT OF THE DEVELOPMENT OF PROPERTY RELATIONS ON THE INSTITUTIONS OF ENTREPRENEURSHIP IN THE REPUBLIC OF AZERBAIJAN**

**Summary.** *Local and foreign scientists are now paying growing attention to various issues of property and the philosophical and ethical, political, economic, institutional, social, psychological, and other aspects of its formation, taking into account the requirements of large-scale transformation, which primarily concern post-industrial areas of social development.*

*In consequence, as modern studies rightfully point out, considering property relations, two general restrictions should be taken into account: this is*

*an attempt to explain the absoluteness of their roles, the presence and content of all aspects of socio-economic relations by property relations; and the denial of the role of property as one of the most important factors determining the direction of social development in the present and future. This situation forces a new look at the economic policy of the state in this area, because any financial and monetary measures taken by the government will be doomed to failure if their implementation will be without interaction with the mechanisms of the private property system.*

*The article defines the entrepreneurial sector of the region, its interaction with the institutions of the market system operating in all sectors and spheres of the region's economy, and also shows the influence of the development of property relations on the institutions of entrepreneurship.*

***Key words:** property, forms of ownership, entrepreneurship, institutions of entrepreneurship, effective entrepreneur.*

**Statement of the problem.** The problem of private property has not been sufficiently studied in the modern Azerbaijani economy and arises debates. Today, there are much more questions about this issue, than there are answers given by economic science. Disputes basically about the concept of "subordination" of the formation and development of the property system to any laws.

Another issue is regarding the importance of a new social quality of entrepreneurship, its growing social responsibility in the context of broad economic transformations. The goal of modern entrepreneurship is not only the innovative development of production and income generation but also the provision of products that meet the needs of consumers. The problem here is to study the system of entrepreneurship through the prism of social demands and to accept the process of reproduction as it is.

The article reveals the relationship between property and the development of Azerbaijani entrepreneurship. It is obvious today that the demand for legal institutions created by the official government is growing among entrepreneurs. This, in turn, exacerbates the problem of state-owned institutional entrepreneurship.

The purpose of the article is to identify and justify ways of improving the efficiency of the entrepreneurship institution and the formation of highly effective entrepreneurs on the basis of a systematic study of private property's influence on the development of entrepreneurship.

In this article as the main research method has been used 6 generally accepted methods of economic analysis (horizontal, vertical, trend, comparative, relative analysis, factor analysis).

**Analysis of recent research and publications.** When viewed from an institutional point of view, the analysis of trends in the development of entrepreneurship is particularly relevant for modern countries, where, as a result of socio-economic transformations, destructive private property and an extremely inefficient economic system have emerged. Many economists today see the reason for this state of the economy only in a weak and contradictory institutional structure that cannot be changed "from above". Therefore, it is important to take the initiative "from below", mainly by economically active entrepreneurs. In this context, the institutional initiative becomes a necessary condition for the future development of the country.

The analysis of the nature and role of entrepreneurship in socio-economic development has been carried out for a long time and very effectively by economists, sociologists and lawyers. Among them, can be mentioned such authors as A.V. Busygin, M. Weber, G.K. Gins, J.K. Galbraith, J.B. Clarke, A. Marshall, E.V. Omelchenko, V.V. Radaev, J. Schumpeter.

In the economic literature, there are different approaches both to the definition of the "entrepreneurial sector" of the regional economy and to

understanding the essence of the "institutional environment". The latter is defined as a set of basic political, economic, social and legal rules and institutions that contribute to improving the efficiency of business entities to meet the needs of both production and business people. The ongoing changes in the activities of institutions are a process of continuous quantitative and qualitative change and transformation of various legal, political, economic and social institutions.

In our country, such concepts as an institution, institutional and business environment have not been used in economic theory for a very long time. The formation of new market structures has caused the necessity for using the economic categories of institutional theory in the economy. The economic and legal problems of society are closely related to the problems of regulation. Interaction and actions between the business environment and the institution of ownership within the framework of the institutional approach contribute to understanding the importance of economic entities in making effective management decisions. Such factors as changes in science, the globalization of the economy, the search for sustainable development, the structure of social needs as well as the qualitative changes in nature require a rethinking of the approach to the human subject.

In the process of development of science, production and culture there have been created not only property objects, based on the development of entrepreneurship, but also the economic potential of society.

In the dynamics of the economy's position, J. Schumpeter considered the development of the economy as a process of transition to a constantly changing new state. At the heart of this changing transition lay innovative processes, the bottom line of which is using the property [4]. Cobb-Douglas in his authorial modification evaluates property as a criterion of economic equilibrium, as well as supply and demand, taking into account property objects in which a variant of the production function is used [5]. Opinions of G. Becker, J. Mintzer, T.

Schultz on the knowledge and skills of subjects (human capital) were accepted as a factor influencing the nature of the entrepreneurial activity. D. North believes that institutions are such structures, which created by the human mind, that cannot be seen, felt, touched, or even measured [6]. A. Oleinik defines the concept of an institution as a complex of formal (determined by common law) and spontaneously chosen frameworks that establish the interaction of individuals in the economic, political and social spheres [7]. V. Rosenthal considers the concept of an economic institution as a socially recognized functional and organizational form of collective economic activity, where there are realizing the system functions of the economy [8].

However, despite the reality of scientific achievements in the field of institutional analysis of entrepreneurial activity, many aspects of the considered problem have not yet been fully examined.

**Formulation of the article's objectives.** The problem of the institutional initiative is considered exclusively in the context of the traditional economic theory of property rights and focuses mainly on the issues of highly efficient specification of private property rights. Besides, in the forming of the institutional arrangements for entrepreneurship, informal and local institutions are poorly taken into account. The social and developing functions of institutions are practically not taken into account in creating a system of institutional management of entrepreneurship. The creative potential of the institutional capital of individuals and organizations is also not fully utilized.

The purposes of the article are as follows:

- clarifying the theoretical and methodological foundations of the study of institutional entrepreneurship;
- defining the features and role of institutional entrepreneurship in a transformational economy;
- identifying the ways to improve the efficiency of private property as the main condition for the development of entrepreneurial activity;

- considering the institutional initiative as the basis of the operational management mechanism;
- determining the conditions for the formation of a favorable environment for the development of entrepreneurial activity.

**Summary of the main material.** Institutional entrepreneurship is considered by researchers as a form of progressive, intellectually "advanced" economic activity. Many studies in this area show that the category "institutional entrepreneurship", a purposeful combination, and their use generally accelerate socio-economic and social dynamics. Objective and subjective structures of institutional entrepreneurship make it possible to determine "what", "who" and "how" to participate in the considered entrepreneurial activity.

The existing mechanism of institutional entrepreneurship includes the following stages: a) monitoring the effectiveness of the existing norms and rules of socio-economic interaction; b) a clear definition of the subjects and subjects of the institutional initiative; c) identification and simultaneous training of business entities; d) analysis of the possibilities and ways of using the most advanced institutions of appropriation; e) application of innovative norms and rules to the practice of the direct institutionalization process. The relationship between the efficiency of institutional entrepreneurship and fairness of institutions is as follows: only fair rules and regulations can be effective, because they will be supported by society, and therefore will reduce operating costs.

Along with the development of effective economic rules, as well as minimizing the negative consequences of the shadow sector of the economy, institutional entrepreneurship itself is the egress of the institutional crisis. It can be a way to overcome the institutional crisis in the country. The formation of a stable regional business sector in the economic space of the country is the most important strategic factor for sustainable economic development and the achievement of a decent standard of living for the population. The ongoing

processes of market transformation of the economy offer a wide use of theoretical approaches to the assessing of the impact of the institutional changes on the scale and pace of socio-economic development of regions, as well as the activation of their implementation in the analysis of the institutional concept.

The system of interaction between market institutions and business entities in the economic space of the region provides a basis for monitoring changes in the input and output indicators of this system [1]. In our country, such concepts as an institution, institutional and business environment, and operating expenses have not been used in economic theory for a long time. Revealing and modeling of indicators of the development of entrepreneurship and the institution of property should be based on a combination of an institutional approach involving the theory of evolution, neoclassical theory, the theory of human capital, and the initial provisions of the theory of growth.

The Law of Azerbaijan "On Property" of November 9, 1991, identified 3 forms of ownership in our country, they are state, collective and private ones, but later the Constitution has adopted the following 3 main forms of property: state, municipal and private. All forms of ownership have both advantages and disadvantages. As a consequence, the absoluteness of one of them leads to the emergence of a monopoly that reduces the efficiency of production. Therefore, the state creates equal conditions for the development of various forms of ownership and ensures their protection. Revealing and analysis of ways to increase the effectiveness of the impact of property relations on the development of domestic entrepreneurship are really carried out in order of "searching" the criteria for such impact. Nevertheless, first of all, it should be noted that the most important indicator in assessing the impact of private property on entrepreneurship is the result of small business activities small business. All socio-economic and institutional processes of private property and entrepreneurship are reflected "like in a drop of water". Why is small business the subject of leading research on the effectiveness of the private property's



appropriate impact? First of all, it should be noted that the most important indicator in assessing the impact of private ownership on entrepreneurship is the performance of small businesses.

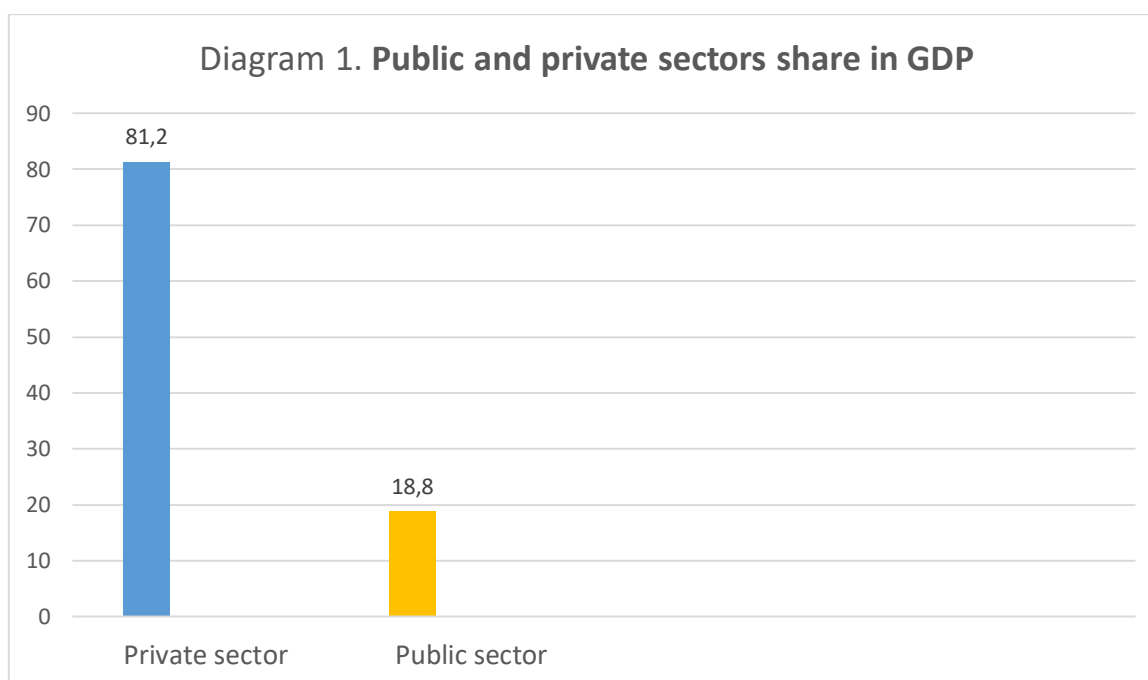
Foremost, the small business largely "justifies" the economic activity of a person as an individual. The production and movement of special goods in most cases is associated with the satisfaction of material and comprehensible, measurable, relative and other useful human needs. The existence of the economy promotes the use of a certain set of goods that are primarily needed by consumers and created in a small sector of the economy, even though this is quite appropriate. In relation to the modern economy, it is very appropriate to link the process of the impact of private property on small business, taking into account the revealing of useful human needs, considering the character of the socio-economic problems that we are solving.

Thus, the importance of small business as the object of our analysis lies in the fact that it is here where the most important personal values for the daily life and activities of people are created. At the same time, we are talking about private benefits that are actually designed to improve people's well-being.

The efficiency of the economic realization of private property directly depends on the subjective will of the "good" or "bad" head of the region, the municipality, the mayor, etc. This is due to the position of the city administration and the positive actions of the mayor himself. Secondly, in the system of small business, human capital is realized directly. In this regard, small business should be considered as the "first brick" of any economic system. The complexity and effectiveness of entrepreneurial activity at any other level of management will be determined by the characteristics of the socio-economic and institutional conditions of the effectiveness of small businesses. Regulation of the private property's formation and development process, as well as its system of forms and methods, makes the system a special and independent object of institutional entrepreneurship. Transition to the system of free economic



relations based on private property, free enterprise, and healthy competition required a radical change in property relations and liberalization of the economy. The return to power of Heydar Aliyev, the national leader of the Azerbaijani people, has brought a completely new stage in the existing economic, political, social and social relations. On the 9th of September, 1995, under the initiative of national leader Heydar Aliyev and the approval of the "State Program for the Privatization of State Property for 1995-1998", deep foundations of privatization were laid in our country. The second privatization program has created new opportunities for the development of free business. In August 2000, the second stage of privatization began with the entry into force of the Law of the Republic of Azerbaijan "On privatization of state property" and "II State program of privatization of the state property in the Republic of Azerbaijan". At this stage, there have been set new goals aimed to open more strategic enterprises for privatization. As a result of the policy pursued by President Ilham Aliyev, a worthy successor of national leader Heydar Aliyev, there have been achieved positive results in all areas of policy and economy, including the management and privatization of state property.



It should be noted that although the share of the private sector in GDP during privatization was less than 10%, now more than 85% of GDP and 75% of the employed population are concentrated in the private sector. The private sector accounts for 99.8% of agricultural production, 92% of industrial production, 80% of transport services, and 70% of construction. Over the past years, as a result of the transfer of state-owned enterprises to private ownership and joint-stock companies, more than 400 thousand citizens have received new jobs in the private sector. The continuation of the denationalization policy led to the privatization of more than 35,000 small enterprises. Over 1,500 joint-stock companies were established. Most of them are on the verge of privatization now. At present, 125 thousand joint-stock companies have been established in the country. 325,000 entrepreneurs became owners. In consequence of privatization, foreign investors have invested hundreds of millions of dollars in the Azerbaijani economy. Following the new program, there are wide opportunities for the privatization of more strategic enterprises. In the implementation of the second privatization policy, Azerbaijan took into account international experience. In 2019, there have been operating 83,017 units or 79.7% of small enterprises from the total number of enterprises in the country, most of which (31.2%) were in trade and other services (13.5%), construction (12.1%), and agriculture (10.7%). 56.7% of small businesses were established mainly in Baku, the capital city.

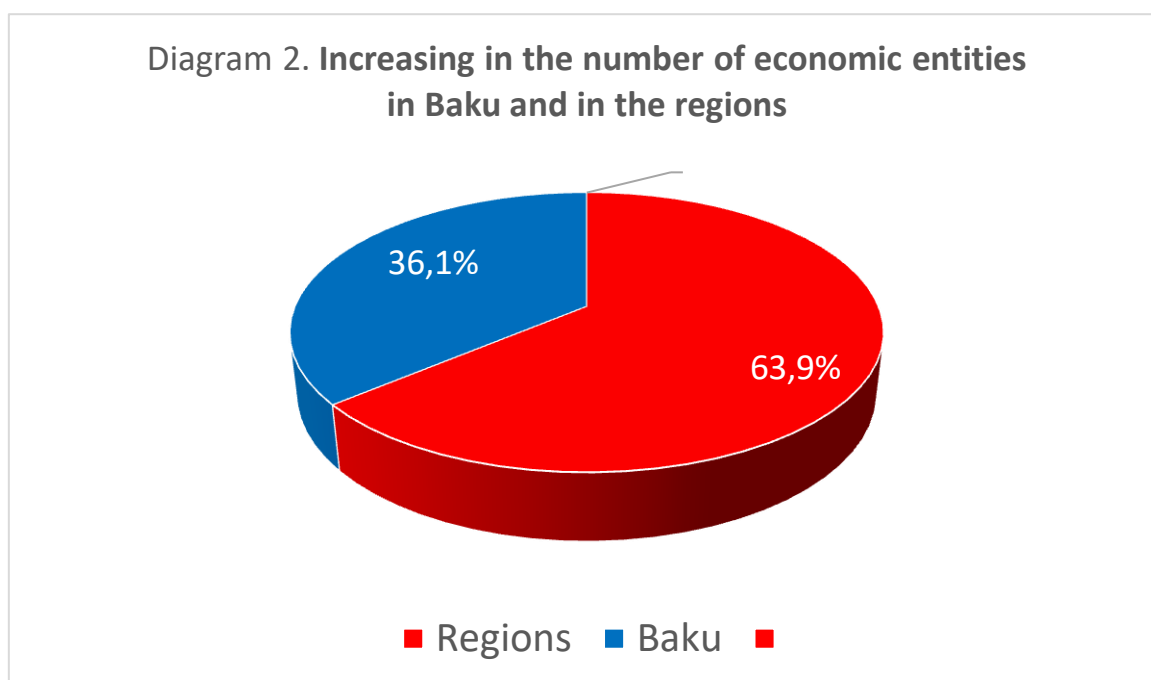
*Table 1*

**Distribution of enterprises and organizations by the types of ownership**

Types of ownership	Enterprises and organizations as of 01.01.2020	The number of newly created enterprises as of 01.01.2020	
		Total:	%
Total:	104191	4362	4,2
State-owned enterprises	10662	144	1,4
Private enterprises	91829	4212	4,6
Municipal enterprises	1700	6	0,4

According to this Table it is seen that the number of private enterprises as of 01.01.2020, was 91,829, and the number of state-owned enterprises was 10,662, which is approximately 9 times exceeds. If we look at the number of newly created enterprises, we will see that the number of private enterprises increased by about 30 times during 2020.

The private sector share of GDP was 81.2% In 2019, and the share of employment was 74.7%. The number of economic entities in 2019 increased by 5.4% and amounted to 715,585 units. 36.1% of entrepreneurs are registered in Baku and 63.9% in regions, 14.6% of entrepreneurs are legal entities, 85.4% are individuals, 79.7% are small enterprises.



Presently, in accordance with the instructions of the President of Azerbaijan, the development of an appropriate concept for the restoration of the occupied territories of Azerbaijan and the construction of new infrastructure facilities has been completed and activities are already underway in the territories. From this point of view, the dynamics of entrepreneurship in the regions will grow with the development of infrastructure in the liberated territories of Karabakh.

It was planned to give 120 million manats of soft loans by 2020. In fact, the given loans amounted to 126.9 million manats. More than 173 thousand workplaces were opened due to these loans.

In 2020, the Entrepreneurship Development Fund provided entrepreneurs with 126.9 million manats of soft loans for financing 908 investment projects worth 397 million manats through authorized credit organizations. Due to these loans have been nopened more than 2,700 new workplaces. 57% of given loans were directed to the development of the agricultural sector (production and processing), and 43% to the production and processing of industrial products and other areas.79% of loans fall on the regions, and 21% on the settlements of Baku.In June of last year, there were launched two programs, which are credit guarantees and interest rate subsidies, aimed to support the entrepreneurs working in the areas affected by the pandemic.

It should be noted that for the first time in the country, the Ministry of Economy has created an electronic credit platform for online acceptance of applications for new business loans under the credit guarantee mechanism. More than 3,300 applications for new business loans worth 949 million manats were registered through this platform in 2020. 433 applications of them had a loan need of 148 million manats and were guaranteed by the fund.The amount of guarantees for guaranteed applications is 86.1 million manats. The loan amount under the applications that came into force was 130 million manats, the guarantee amount was 74.8 million manats. Another support mechanism is the subsidy provision for 100 million manats of interest subsidies on the loan portfolio of entrepreneurs for 1 billion manats, 50 million manats of which are provided from the state budget, and 50 million manats from the Fund. According to this mechanism, since the 10th of March 2020, the interest subsidy has been providing for a period of 12 months in the amount of 10 percentage points of the interest rate on existing loans to entrepreneurs.

It is already planned to provide soft loans to entrepreneurs for 130 million manats in 2021. Entrepreneurs affected by the pandemic are expected to receive 222 million manats of state guarantees, 370 million manats of new business loans, 58 million manats of interest subsidies, including 80 million manats of interest subsidies on existing loans. Since 2014, the "Single Window" system has been operating in the republic. It simplifies the process of filing both tax and financial statements.

Today, the formation of a highly effective proprietor should be considered as a factor of entrepreneurship development. In modern conditions, there are no stable and reliable economic agents allowing to minimize operating costs and adequately protection of the legal property rights for all levels of institutions, as well as entering the business. The "culprit" of the existing "failures" of the domestic economy is not a competitive market mechanism, but the lack of socio-economic and related institutional conditions necessary for the formation and development of individual and social reproduction. Regarding entrepreneurship, we are talking about the lack of an institutional "framework" for private forms and methods of appropriation and the inability to ensure the subsequent ownership of goods. This leads to the "freezing" of the energy potential of private entrepreneurs, who often do not have the opportunity to effectively use their property.

**Conclusion and suggestions.** The results of our study are as follows:

**Firstly**, the problem of private property is insufficiently examined and discussed in modern Azerbaijani economic science. It seems to us that today there are more questions to the problem of private property than answers from economic science. Considering from this point of view, the following question is being discussed: can the private property system develop successfully without or out of the positive development of the public property, which is usually represented by state property? But the main issue here is to find out what are the laws that the formation and development of private property relations "obey"?

The answers to these and many other key questions will allow us to develop theoretical and methodological foundations for studying not only private property, but also civil society as a whole.

**Secondly**, in the context of large-scale economic transformations, it is imperative to define a new, that is, the social "quality" of entrepreneurship and its growing social responsibility.

**Thirdly**, it is important to determine the relationship between the private property system and the country's entrepreneurial tendencies. Entrepreneurship, as a sphere of realization of the special economic interests of a person as an individual, as well as the interests of a person as a member of a certain organization, imposes requirements on society represented by the state, aimed to institutionalize the system.

**Fourthly**, in terms of large-scale socio-economic transformations, it is necessary to emphasize the growing socio-economic importance of the formation of a highly effective economical institute of entrepreneurship. The solution of the entire complex of socio-economic problems of the transition period is impossible without the formation of a long-term mechanism of action that ensures the highly effective implementation of all levels of private property.

**Fifthly**, there is an institutional "gap" in solving the socio-economic problems of the transition period. It is necessary to find ways and make mechanisms for creating legal entities in the development of private property and entrepreneurship. Despite the intensity of the activities of official institutions regulating and coordinating the system of operations in the field of the movement of individual goods in the context of entrepreneurship development, it cannot be argued that state bodies are the necessary institutional platform today.

**Sixthly**, the relevance of the topic is determined by the necessity to create a highly effective impact mechanism of private property on the dynamics of

entrepreneurship, as well as the creation of entrepreneurship institutions in the context of socio-economic transformation.

The general clarity of the problem does not release us from the seeking of specific forms and methods of the impact of the private property system on the dynamics of individual reproduction in the private sector of our economy but on the contrary, obliges us to do so. The mechanism of communication between the private property system and business institutions has not been practically explored. The existing interpretations and features of this relationship have largely general character, however, small and medium-sized enterprises, same as the private property system, are objects of institutional entrepreneurship too. Besides, considering the motivational potential of private forms and methods of appropriation, it can be argued that entrepreneurship should be considered as a function of private property.

This situation forces a new look at the economic policy of the state in this area, because any financial and monetary measures taken by the state will be doomed to failure if their implementation will be without interaction with the mechanisms of the private property system. The purpose is to systematically examine the impact of the development of private property on the development of business institutions, to identify and justify ways of improving the efficiency of entrepreneurship as well as formation of highly effective entrepreneurs.

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