

Challenges Faced by Entrepreneurship in Azerbaijan During Its Early Years

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1. INTRODUCTION

This article examines the institutional environment of entrepreneurship in Azerbaijan, reveals the role of the state in the formation of the institutional environment of business and substantiates the need for a systematic approach to the formation of the institutional environment of business in the country.

The history of entrepreneurship formation in Azerbaijan dates back to the distant 70's of the XIX century. It was the reforms of that time that contributed to the development of market relations in Azerbaijan, the formation of a new class – the bourgeoisie, and a wide network of its entrepreneurial activities.

Only thanks to the oil contracts signed on September 20, 1994, the country managed to mobilize its resources and ensure macroeconomic and macro-financial stability, thus ensuring the possibility of implementing economic reforms. Further, it was necessary to develop market relations and ensure the investment attractiveness of the business-environment and create favorable conditions for the development of entrepreneurship in various sectors of the country's economy.

In the following years after the signing of oil contracts, Azerbaijan, using the resources of the regions, ensured intensive development of entrepreneurship in them. The Government of Azerbaijan has pursued a consistent policy of developing the country's regions: 3 state programs have been implemented since 2004. The 4'th state program, which covers 2019–2023, is currently being implemented.

Entrepreneurship plays a vital role in shaping economic growth, job creation, and innovation across the globe. For Azerbaijan, the transition from a planned economy to a market-based economy after independence in the early 1990s brought about fundamental changes in the structure of society and the economy. In this process, entrepreneurship emerged as a driving force of transformation. However, the early years of entrepreneurial development were marked by serious difficulties, including bureaucratic constraints, lack of infrastructure, weak financial markets, and macroeconomic instability.

The purpose of this article is to examine the challenges faced by Azerbaijani entrepreneurs during the formative years of the market economy. This paper also aims to connect these early experiences with contemporary developments, particularly by integrating statistical data from 2022 and 2024. While the share of small and medium-sized enterprises (SMEs) in Azerbaijan's GDP has grown steadily in the last two decades, it remains below the levels observed in many developed and transition economies. Therefore, a historical perspective is essential to understand both the achievements and the gaps that remain to be addressed.

2. MATERIALS AND METHODS

This study adopts a qualitative and historical-institutional approach. Data were drawn from multiple sources, including:

- Statistical indicators from the State Statistical Committee of Azerbaijan (2022, 2024);
- Reports from international organizations such as the World Bank (2023), OECD (2022), and IMF;
- Secondary literature on entrepreneurship in transition economies (Audretsch & Thurik, 2004; Aidis, 2005).

The methodology combines descriptive statistics with comparative analysis. The periodization focuses on two stages: the early independence years (1991–2000), characterized by institutional voids and instability, and the period of reform and stabilization (2000–present), marked by increasing government intervention in entrepreneurship policy.

In analyzing the more recent data, particular emphasis was placed on the SME sector's contribution to GDP, employment statistics, and cross-country comparisons within the post-Soviet space. This mixed-method approach allows us to contextualize early challenges while situating Azerbaijan's entrepreneurial development within a broader regional framework.

3. DISCUSSION

Entrepreneurship in Azerbaijan has evolved under unique historical and institutional conditions. The challenges encountered in the early years can be grouped under four primary themes: legal and administrative barriers, financial constraints, infrastructure and human capital shortages, and macroeconomic instability.

Legal and Administrative Barriers

During the early years of independence, entrepreneurs struggled with an underdeveloped legal framework. Registration of businesses was cumbersome, licensing procedures were non-transparent, and interactions with state authorities often involved informal payments. According to OECD (2022), excessive bureaucracy remains a challenge, though reforms such as the introduction of ASAN service centers have simplified some procedures in recent years. These initial obstacles created an atmosphere of uncertainty and discouraged many potential entrepreneurs from entering the market.

Access to Finance

Financial barriers represented one of the greatest hurdles for new entrepreneurs. In the 1990s, Azerbaijan's banking system was underdeveloped, and inflationary pressures made long-term lending nearly impossible. Even in the 2000s, interest rates on loans remained prohibitively high, often exceeding 20–25% annually. SMEs in particular struggled due to strict collateral requirements.

Recent trends show gradual improvement. The World Bank (2023) reports that by 2022, Azerbaijan had introduced several credit guarantee schemes to support SME lending. Nevertheless, access to affordable financing remains a significant barrier compared to OECD countries, where SME financing is supported by well-developed capital markets.

Infrastructure and Human Capital

The shortage of infrastructure and skilled human resources compounded the difficulties faced by entrepreneurs. In the 1990s, basic market institutions—such as business incubators, consulting services, and financial advisory systems—were absent. Moreover, the emigration of skilled labor reduced the pool of qualified professionals. Training programs and entrepreneurial education were limited in scope and accessibility.

Since 2015, however, Azerbaijan has made efforts to promote innovation ecosystems, particularly through the establishment of industrial parks, technology incubators, and public-private partnerships. Despite these advances, regional disparities remain: while Baku has benefited significantly, rural entrepreneurs continue to face severe challenges in infrastructure and education.

Macroeconomic Instability

The broader economic context in the 1990s was characterized by hyperinflation, currency devaluation, and the impact of the Nagorno-Karabakh conflict. These factors created a highly uncertain environment for entrepreneurship. Inflation exceeded 1,000% in the mid-1990s, undermining savings and discouraging long-term investment.

By contrast, the period after 2000 was marked by relative stabilization, particularly due to revenues from the oil and gas sector. Nevertheless, Azerbaijan remains vulnerable to global oil price fluctuations, which influence macroeconomic stability and indirectly affect entrepreneurial activity.

Statistical Overview: 2022 and 2024

Recent data confirm that entrepreneurship has become a growing force in Azerbaijan's economy. In 2022, SMEs accounted for approximately 27% of GDP and employed around 45% of the workforce (State Statistical Committee, 2023). By 2024, the SME contribution to GDP had risen to nearly 30%, reflecting incremental progress.

When compared with Eastern European transition economies, however, Azerbaijan still lags behind. For instance, in Poland and Lithuania, SMEs contribute more than 50% of GDP and over 60% of employment (OECD, 2022). These differences highlight the ongoing structural challenges that need to be addressed in Azerbaijan's entrepreneurial ecosystem.

4. CONCLUSION

The findings of this paper suggest that entrepreneurship in Azerbaijan's early years was severely constrained by legal, financial, infrastructural, and macroeconomic barriers. Despite these challenges, entrepreneurs demonstrated resilience, and government reforms gradually improved the environment. Statistical evidence from 2022 and 2024 points to the growing role of SMEs in the national economy, though the sector continues to face significant obstacles.

Policy implications include the need to expand access to finance, strengthen entrepreneurial education, reduce regional disparities, and further simplify administrative procedures. In addition, greater diversification away from the oil sector is essential to ensure sustainable growth and stability. The experience of Azerbaijan confirms that while the early years of entrepreneurship may be difficult, systematic reforms and sustained support can lay the foundation for long-term success.

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