

Features and Main Issues of Small and Medium Entrepreneurship Development in RA

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Փոքր և միջին ձեռնարկատիրության զարգացման առանձնահատկությունները և հիմնախնդիրները ՀՀ-ում

Խաչատրյան Բունդի

Ընդհանուր տնտեսագիտության ամբիոնի հայցորդ, Երևանի «Գլաձոր» համալսարան (Բանգկոկ, Թայլանդ)

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Ամփոփագիր. Ժամանակակից աշխարհում փոքր և միջին ձեռնարկատիրության զարգացման անհրաժեշտությունը ազգային տնտեսությունների վերակառուցման և զարգացման հիմնական հրամայականներից է: Դա շուկայական հարաբերությունների հաստատման, տնտեսական առաջընթացի հիմնական գրավականն է: ՓՄՁ-ները շուկայական տնտեսության զարգացման հիմնական շարժիչ ուժն են: Այն խթանում է մասնավոր սեփականությունը, ձեռնարկատիրական հմտությունները, ճկունությունը փոփոխվող շուկայական տնտեսության մեջ, օգնում է դիվերսիֆիկացնել տնտեսական ակտիվությունը, կարող է նշանակալի ներդրում ունենալ միջազգային առևտրի, արտահանման խթանման և, իհարկե, աշխատատեղերի ստեղծման գործում: Արդյունքում ապահովվում է կայուն տնտեսական աճ և միջին խավի ձևավորում: Բարձր տեխնոլոգիաների շուկայում վերջին տարիների զարգացումները ցույց են տալիս, որ այս ոլորտում գործող ՓՄՁ-ները մեծ ներուժ ունեն համագործակցելու խոշոր կորպորացիաների հետ, նույնիսկ մրցակցելով, ինչը նրանց ստիպում է վերանայել սեփական կառավարման համակարգերը և նորարարության քաղաքականությունը: Սակայն ներկայիս ժամանակակից պայմաններում Հայաստանում ՓՄՁ-ների գործունեության զարգացման վրա ազդում են մի շարք խոչընդոտներ, որոնց անդրադարձել է հեղինակը սույն հոդվածում:

Հանգուցաբառեր՝ փոքր և միջին ձեռներեցություն, համագործակցություն, բանկային վարկեր, ռազմավարական թիզնեսի զարգացում, թիզնես գործընկերներ

Характеристики и основные проблемы развития малого и среднего бизнеса в РА

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Аннотация. В современном мире необходимость развития малого и среднего предпринимательства является одним из главных императивов реконструкции и развития национальных экономик. Это главная гарантия установления рыночных отношений и экономического прогресса. МСП являются главной движущей силой развития рыночной экономики. Он способствует развитию частной собственности, предпринимательских навыков, гибкости в условиях меняющейся рыночной экономики, помогает диверсифицировать экономическую деятельность, может внести значительный вклад в международную торговлю, продвижение экспорта и, конечно же, создание рабочих мест. В результате обеспечивается стабильный экономический рост и формирование среднего класса. События на рынке высоких технологий в последние годы показывают, что МСП, работающие в этом секторе, имеют большой потенциал для сотрудничества с крупными корпорациями, даже конкурирующими, что заставляет их пересматривать собственные системы управления и инновационную политику. Однако в нынешних современных условиях на развитие деятельности МСП в Армении влияет ряд препятствий, на которые автор ссылается в данной статье.

Ключевые слова: малое и среднее предпринимательство, сотрудничество, банковские кредиты, стратегическое развитие бизнеса, деловые партнеры

1. Introduction.

Small and medium enterprises (SMEs) occupy an important place in the market economy. They are one of the key components of the stable and

dynamic development of the economy. Speaking about the SME in general and about its role in the economy of Armenia and the issues of its establishment, it is necessary to first address the

concept of "small and medium-sized enterprise" and the features and standards of its definition. The concept of small and medium-sized enterprise is not only due to the high risk of legal entities, targeted business activity with the overarching goal of obtaining maximum profit, but also by applying the mandatory provisions of legal norms, activity in accordance with the classification standards of small and medium-sized business entities.

The small and medium enterprise sector covers a broad sector of the economy and represents manufacturing and processing enterprises, crafts, retail and wholesale trade, farms, services, and maintenance, etc. Small business is the main driver of market economy development.

Recent years have been marked by the growth of SMEs engaged in innovative activities, that is, specializing in the production of new products and the creation of high technologies, which can be explained by the investment of venture (risk) capital in SMEs. The development of small business is largely determined by the amount of capital needed for self-financing (personal funds of the entrepreneur). and access to external sources of funding (loans, loans, venture capital, grants, etc.). Without increasing these opportunities, the competitiveness of the small and medium-sized business sector, both in the country and abroad, will be quite low.

2. Literature review

Due to its importance, the SME sector has almost always been the center of attention of various researchers and specialists. At the same time, it should be noted that there is no unified and universal definition of entrepreneurship as an economic category in professional literature. Evidence of the latter can be considered the views of various specialists on entrepreneurship, which, despite their similarity, are nevertheless somewhat different from each other. The first definitions of this category came back in the 18th century, when in 1725 R. Cantillon introduced the entrepreneur as "a person operating under risk conditions" [7].

It was followed in 1797 by K. Bodo's interpretation that "an entrepreneur is responsible for entrepreneurial activities and plans, controls and organizes these activities and owns the enterprise." And According to J Jean-Baptiste Say, "the entrepreneur moves economic resources from areas of low productivity and low income to areas of higher productivity and profitability." [8]. Basically, we can record that the comments on entrepreneurship in the given historical period were superficial enough in terms of their depth of content and referred to separate aspects of the given economic category.

Along with the development of economic thought, the theoretical studies on entrepreneurship also became more profound. Already in the 20th century, an attempt was made by several economic currents to present the economic content of entrepreneurship, as a result of which certain definitions were given by various specialists.

P. Drucker describes the entrepreneur as "a person who makes the most of every opportunity." [9].

R. Khizrich defines entrepreneurship as "the process of creating something new with value, and an entrepreneur as a person who spends his time and spends his energy on it, bearing all the financial, psychological and social risk, getting money and satisfaction in return." [10].

3. Analyze

It is worth emphasizing that one of the key factors in business development is the availability of competitive and affordable financial services. This factor is crucial for all enterprises in the country, regardless of size, location, nature of activity. Availability of funds refers not only to the "value for money" or interest rate, but also to factors such as collateral, loan repayment period, service fees, commissions, guarantee requirement, etc. There is a variety of products available in the financial market, which can make SME lending more targeted and expedient. Beck and Demirguc-Kunt stated that SMEs can primarily rely on external sources of financing [3]. According to Holton, access to finance is a core constraint to SME performance and is one of the most important obstacles to SME development [4]. Especially, in developing countries, SMEs face various problems, among which the most significant are the constraints regarding to access to finance. In this respect, Armenia is no exception. These issues are always in the center of attention of the Government of the Republic of Armenia and various international organizations, which regularly conduct studies to identify them. Entrepreneurs in Armenia face several problems when setting up new businesses. Finance is a priority among these issues. The credit and financial support of SMEs is very limited and insufficient. The lack of state support for financing small and medium-sized enterprises is especially evident. At the same time, SMEs have a limited access to existing financial sources, which is mainly explained by the factors such as high interest rates of loans, the absence of loan guarantees, insufficient collateral for loans, low quality business plans, problems with the loan process, etc. According to EIB report, real estate is the main asset demanded as collateral [5]. In this regard, the main goal of the state fiscal policy towards small and medium-sized

enterprises should be to improve the unfavorable situation of SMEs in the financial market, as well as to finance high-efficiency and strategically important projects. In Armenia, bank lending has a large share as a mean in the external financing of SMEs, and non-bank alternatives have a relatively low perception, nevertheless, they can benefit from the strengthening of the legal framework regulating them. Steps are being taken to support SME financing through several government programs, but the monitoring and evaluation of such programs is not widespread. Positive steps have been taken to improve financial literacy, and increased efforts to target enterprises can be particularly beneficial in addressing some of the problems SMEs face in accessing finance. After the last assessment, banking intermediation has increased, as of December 2018, accounting for about 52% of bank loans, compared to 42% in December 2015. The monitoring of banks and credit organizations has shown an increase in loans in double digits since the end of 2016. However, more disaggregated data show that in addition to some significant growth in business loans in 2018, the growth was mainly due to household lending [6]. The share of business loans, as such, decreased as of June 2019, reaching 43% compared to the last valuation period, when the same figure was 50%. In addition, there are many banks, credit organizations, and although some consolidation has taken place in recent years, further consolidation can help the efficient distribution of loans in the economy. Access to finance for SMEs in this environment remains a problem, although its extent is difficult to pinpoint due to the lack of specific data on SMEs. Given the non-standard quality of financial reporting by many legal entities, banks rely heavily on collateral, which exacerbates the problem of access to credit for SMEs. There are ongoing public programs to facilitate SMEs' access to bank financing, and other programs are currently in the planning and design phase. The focus of current programs is on SME sub-indicators such as young enterprises and agricultural producers. Loan guarantees of up to 70% of the principal amount of the loan are provided through the Small and Medium Entrepreneurship Development National Center (SME DNC) for eligible SMEs. Financial support is also provided through several programs managed by the German-Armenian Fund. There are various donor and financial corporations funded programs targeted to SMEs, including for women-owned or women-run enterprises, as well as companies active in agriculture and tourism. Finally, the Ministry of Economy has several ongoing programs aimed at supporting agricultural producers, many of which are SMEs. These include interest rate subsidies and other support measures.

There are plans to increase interest rate subsidies, target SME financing, and provide microloans. Rarely are various government programs monitored and evaluated, and their results are not publicly available. In this manner, the availability of non-bank financing tools is generally underdeveloped. Microfinance is mainly provided through credit organizations. Operations are governed by the RA Law on Credit Organizations, but there is no specific definition for microfinance, which gives rise to operational challenges in the sector. There are plans to reform the law on microfinance, but this process is still in its infancy. Leasing and factoring activities are regulated by the provisions of the Civil Code. In general, private equity is not as well developed as a market, as well as limited opportunities decrease the corresponding activities of investors. In 2013, the first venture fund in Armenia, Granatus Ventures, was introduced to invest in IT-oriented startups. By considering the current portfolio of 14 companies and one successful outcome, more time will be needed to assess the success of this fund. In 2019, EU and EBRD provided €16 million to support the launch of the Amber Capital EU-Armenia SME Private Equity Fund, which sought to raise € 70 million to invest in SMEs in Armenia. In 2017, the Business Angel Network of Armenia (BANA) was established, which aims to unite Armenian Diaspora investors to support startups in the country. This could be the key to provide a platform for potential investors. In addition, in 2018 the government has launched the "Neruzh" program, which aims to help Armenians living abroad, want to return and start a business in Armenia. Finally, Armenia has implemented legal reforms to make it possible to launch investment-based crowdfunding platforms in the country. Together with the EBRD, the Central Bank of Armenia is developing law regulations for that purpose. This could be another alternative source of funding for small businesses and startups.

Studies show that in RA SME entities encounter a large number of problems in the course of their activity, which hinder their development, as well as increasing their competitiveness. Acknowledging the important role of SMEs in the RA economy, state institutions are obliged to provide comprehensive support to enterprises. Accurate information on small business and competitiveness is essential on issues of raising so that SME support measures a real benefit to home entrepreneurs. Moreover, this information is needed to the maximum reflect the state and opinion of entrepreneurs, which will help local government bodies to draw attention to entrepreneurs to the most important issues of concern, to pool all resources to provide permanent and full assistance to small

businesses. Along with the trends in SME development, SME studies and as a result of administrative control, a number of problems were identified, which are still faced by SME entities. Those issues are determined by objective and subjective factors, in particular:

1) Inaccessibility of financial means for SME entities (especially beginners) due to their short-term nature and alternative financing (credit) sources absence, as well as long-term (more than 3 years time point) lack of financial (credit) resources, which is serious is a problem especially in the field of production, in particular, for SMEs operating in scientific branches of production.

2) Lack of business skills and financial resources for starting entrepreneurs.

3) Receiving business information and advice and personnel difficulties in vocational training.

4) Problems related to the promotion of the products (services provided) issued by SME entities to the markets, which are mainly related to the compliance of the quality of the issued products with international standards, which is significantly hindered lack of modern laboratories, the test results of which will be accepted in exporting countries.

5) Insufficient inter-provincial and intra-provincial economic cooperation level

6) Inaccessibility of information flows and their perception and processing and exchange issues that are directly related to SMEs entity management and marketing issues.

7) Complications related to insurance against market and, in particular, foreign currency risks and their management, which creates problems for SMEs operating in the production sector.

8) Using information technologies for SME entities weak competitive positions in the market due to incomplete and insufficient use of the opportunities provided, which is partly due to the inaccessibility of information technologies and their with insufficient understanding of application possibilities.

The main problems of increasing the activity and competitiveness of SME entities are caused by a number of objective and subjective factors, which have their impact on both start-up and existing SME entities on activity. These factors can be conventionally divided into several groups according to legislative, financial, technical and infrastructure of factors. Manifestations and severity of existing problems vary greatly are also depending on the place of operation of SME entities (Yerevan, RA regions). The differences are pronounced especially in the far outskirts and in border settlements.

Legislative issues hindering SME development and increasing competitiveness lead to SME entities

and state a number of administrations in the relationship between bodies nature of problems related, in particular, to economic entities (SMEs entities) to submit financial (accounting) reports with the facts of complicated procedures, the frequency of conducting inspections in economic entities (SME entities), etc.

Constant changes due to the imperfection of the legislative base is exposed to the activities of small enterprises. For example, about taxes in all laws and instructions for their application quite often (year several times) changes are made and entrepreneurs should always follow them independently. The imperfection of the tax system It is a serious problem for the SME entities which affects them negatively on financial and economic activity. Current tax rates are high are, and the privileges given to small enterprises are very limited.

Entrepreneurs complain about both tax legislation and taxes from rates or the complexity of presenting financial statements from the process, as well as from the tax administration, which is inconsistent being against the spirit of the law, causes mistrust of the entrepreneurs towards the liberal reforms of the government. The current tax system in general not only does not favor SMEs in our country development of the field, but in many cases simply hinders it.

Tax policy does not take into account start-up entrepreneurs interests, there are no start-up conditions, which is weak does not allow the SME sector to grow and develop rapidly.

Thus, the frequent changes in the tax legislation, the increase of unjustified overpayments for some types of taxes, the unnecessary manifestations of tax administration, the activities of SME entities make them unproductive and push them into the shadow economy.

SME is one of the factors hindering foreign economic activity imperfection of customs legislation, complicated customs procedures and unnecessary manifestations of customs administration.

The second group of factors hindering SME competitiveness are financial issues. Financial problems of SMEs in RA are indirectly related to the ongoing economic reforms in the country, to the complex processes of socio-economic development of the country and their condition new problems. Among the factors inhibiting the development of the SME sector, it is necessary to emphasize initial and working capital also the small amount of capital investments, the lack of alternative financing mechanisms for the SME sector. Although common throughout the world loans by commercial banks to SME entities on preferential terms providing: today,

the financing provided to SMEs in RA is still insufficient.

In the last 2-3 years, bank interest rates in RA have generally been falling, and banks are developing more programs for SME entities to include in the list of customers. Difficulties related to the sources of funding provided are due to:

- ✚ high level of loan interest rates,
- ✚ medium-term and long-term loans in small amounts,
- ✚ insufficient collateral security of loans,
- ✚ lack of experience and low quality of business plans,
- ✚ administrative issues related to the loan process,
- ✚ due to the almost impossibility of obtaining loans for start-up entrepreneurs,
- ✚ mistrust of banks and other financial institutions,
- ✚ Entrepreneurs' ability to work with the banking system in the absence of skills and knowledge.

Most of the loans provided are short-term (up to one year), which are appropriate mainly for activities in the field of commerce for implementing organizations. But even such loans are given are those applicants who have adequate collateral for the loan, for example gold or real estate in the center of Yerevan, and operating in the regions for companies, particularly in the processing sector,

financial the problem of attracting funds is more acute due to potential with low liquidity and low value of collateral.

There are serious difficulties associated with the insufficient level of financial existence of enterprises. Enterprise financier They often lack the experience and skills to work with (lending) institutions do not make their business plans competently, but received loans are not used efficiently either.

Financing of SME entities is also hampered by lending the hassles caused by the process, in some cases the unjustified extension of the terms of the loan formulation, the lack of a business-insurance system. International credit programs are the subject of separate consideration. This programs provide loans to small and medium-sized enterprises at relatively low interest rates. In this case, there are also certain complications in the effort proposed by international financial organizations in terms of business compliance conditions.

The coronavirus pandemic has forced many governments to introduce quarantine, limit the work of companies and organizations. One of the most affected industries is small and medium-sized businesses (SMEs), which largely support the economies of many countries. Only a small number of such firms can last without income until the end of the restrictive measures, and it is not known how long it will take to recover after they are lifted.

Table 1. Actual interest rates of Loans provided by RA commercial banks to small and medium enterprises*

1.	«ACBA BANK» OJSC	Agricultural Loan	Actual interest rate /with collateral/ AMD` 12.6-20.3%, USD` 11.6-19.1%, RUR` 14.9-24% Actual interest rate without collateral AMD` 17-24%, USD` 14.8-25%, RUR` 16-24%
2.	«Ameriabank» CJSC	Investment Loan	AMD` 16%, USD` 13%, EUR` 10%
3.	«Ararat bank» OJSC	Agricultural Loan	AMD` 23.96%, USD` 21.49%, EUR` 20.27%
4.	«Ardshinbank» CJSC	Purchase of working assets	AMD` 17.0%, USD` 15.0%, EUR` 18.0%
5.	«ArmSwissbank» CJSC	Business Development Loans	AMD` 15.0%, USD` 11.0%, EUR` 9.50%
6.	«Artsakhbank» CJSC	Agricultural Loan	AMD` 19.28%, USD` 17.40%,
7.	«Evocabank» CJSC	Business Loan	AMD` 15.0%, USD` 9.5.0%, EUR` 7.50%
8.	«VTB Armenia bank» CJSC	Business Loan	AMD` 18.39%
9.	«Inecobank» CJSC	Micro Business Loan	AMD` 21.0%, USD` 12.5.0%, EUR` 10.50%
10.	«Converse bank» CJSC	Business Loan	AMD` 18.48-24%, USD` 13.88 - 22%, EUR` 11.64-19.54%
11.	«ABB» CJSC	Business Loan	AMD` 11.0%, USD` 8.0.0%, EUR` 7.0%
12.	«Armeconombank» OJSC	Startup Loan	AMD` 13.-16%, USD` 10 - 13%, EUR` 9-12%

* The table was compiled by the author based on the indicators of the RA banking system

As evidenced by the above-mentioned data, the loans provided by RA commercial banks to small and medium enterprises vary:

In Armenian drams: an average of 17.5% (11-24), in US dollars: 18% (11-25), in euros: 13.5% (7-20%). It is necessary to emphasize 2 important facts.

First, the amplitude of interest rate fluctuations is very large, even if we consider the fact that banks have set such a large range depending on the type of

loan to be provided, its size, term and even the entrepreneur's gender /VTB-Armenia Bank/.

And the second and most important fact is that the loans provided with such high interest rates cannot at all contribute to the development of small and medium enterprises and especially startups. As an actual example, let's present the amount of annual actual interest rates of similar loans operating in several countries of the world.

Table 2. Actual interest rates of Loans provided by international commercial banks to small and medium enterprises. *

Country (Bank)	%	Availability of collateral/ ensure	Max Term Length
USA			
Bank of America	3.2	-	7 years
TAB Bank	5.8	+	5 years
PNC Bank	5.99	-	25 years
JP Morgan Chase	3.0	-	10 years
West Europe			
European Investment Fund	4.8	+	15 years
High-Tech Gründerfonds (HTGF)- Germany	3.4	-	6 years
Banque De France – France	4	-	8 years
Eastern Europe			
OTP Bank – Hungary	4	+	15 years
United Bulgarian Bank – Bulgaria	4.7	+	10 years
Uni Credit Bank – Romania	5.5	+	7 years
Post-Soviet Countries			
ProCredit Bank – Moldova	10.4	+	13 months
Credo Bank – Georgia	5.6	-	12 years
Ata Bank - Azerbaijan	4.6	+	20 years
Southeast Asia			
OCBC Bank – Singapore	6.0	-	10 years
Maybank - Malaysia	6.6	+	15 years
Kasikornbank - Thailand	4.4	+	18 years
Krung Thai Bank	4.8	-	15 years

*The table was compiled by the author based on the indicators of the international banking statistics.

By conducting a comparative analysis of the annual interest rates of loans provided by international and RA commercial banks to the SME sector, we are once again convinced that even compared to post-Soviet countries, RA has the highest loan interest rates, which absolutely cannot contribute to the further development of this sector.

4. Conclusion

2020-2024 Development of Small and Medium Enterprises of the Republic of Armenia In order to strengthen the sector and increase competitiveness, the following strategic directions were highlighted in the strategy:

- 1) Increasing access to financial resources
- 2) Development of capacities and entrepreneurial culture of SME entities

- 3) Ensuring access to markets for SME entities
- 4) Providing a favorable institutional and legal environment for SME development.

Undoubtedly, these directions are very important in terms of further development of the sector, but in the "Increasing access to financial resources" section, it is necessary to draw priority attention to the presence of extremely high interest rates on business loans provided by banks, which, in our opinion, is the most important obstacle to the underdevelopment of this sector, especially if we take into account be it the fact that access to financial resources for SMEs in Armenia is still limited and bank financing continues to be predominant. Therefore, the Government of RA should take measures in the direction of diversification of financial markets, attraction of

alternative (non-banking) sources of lending to SME sectors. Otherwise, the SME sector will act according to the famous Leninist dogma of "one step forward, two steps back".

Interregional and insufficient level of intra-regional economic cooperation. In this context, there are serious problems of access to information flows the problems of perception, processing and exchange with which directly management and marketing issues of SME entities are related. Available statistical data are either not available to entrepreneurs or are inaccurate, which is why when expanding the company's production or creating a new product, they are not enough to recognize the RA market. A number of SMEs subjects prefer to obtain the necessary information on their own, which, however, is very costly and not always effective. SME entities always need reliable information, in particular, internal and study of foreign markets, potential partners, dramash norah programs and tenders, loan programs and their conditions, about the laws and changes made in them, organized seminars, exhibitions, relevant literature sources.

Periodicals are one of the most effective forms of information dissemination newsletters, seminars, consultations, business information, etc forms and of course the web. The role of the latter in the modern business world is very large, but not everyone is given the opportunity to use it, especially in regions and border villages.

SME entities, especially enterprises operating outside of Yerevan and It is a serious problem for beginning businessmen to organize their business management. In order to solve this problem, the quality of the services provided by consulting companies is still not sufficient, especially in the regions of the Republic of Armenia (some regions do not have similar structures at all).

On the other hand, such services are available from SME entities the fact of not realizing the importance. In this context, start-up entrepreneurs and existing SMEs need quality consulting services entities trying to introduce an innovative product or service to the market. The obstacle for entrepreneurs is also educational or the absence and inaccessibility of courses, or their partial inefficiency, because the organizers of the courses do not thoroughly study the requirements, wishes of entrepreneurs, and very often these courses are not useful for employees.

The structures providing business services in RA cannot to fill the above-mentioned gaps in advisory, informational and educational services, because they, in turn, face a number of obstacles that hinder their effective operation. Mainly the structures created with international funding are deprived of the state sponsorship and support, and

support from foreign donor organizations is inconsistent and insufficient. On the other hand, Armenian most entrepreneurs are unable to pay for the services of these structures for others do not realize the need to apply to these structures or are not aware of their activities. So, entrepreneurship in RA the low level of development also inhibits the development of these structures, which in turn hinders the development of the SME sector. It should be noted that SME the success of overcoming the factors hindering development and increasing competitiveness and solving problems is largely conditioned.

With a complete system of SME development and support. It should to include both state institutions, as well as public, commercial and international organizations. To solve the problems listed above as a result of targeted actions will significantly increase the SME competitiveness in RA, which in turn will contribute to the progress of the country.

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