

Current Problems of Entrepreneurship Development in the Karabakh Economic Region in the Context of Sustainable Development

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ABSTRACT: The article examines the current problems of entrepreneurship development in the Karabakh economic region in the context of sustainable development. Regional development problems are reviewed and generalized. The issues of accelerating the development of entrepreneurship in Karabakh are analyzed, taking into account the existing resources. The mechanisms and priorities of effective organization of entrepreneurial activity are studied in a complex and systematic manner. The main directions of the state policy on entrepreneurial activity in Azerbaijan are characterized. The essence of the state-defined concessions and state support mechanisms for the sustainable development of entrepreneurial entities in the Karabakh economic region is given. Proposals are made to intensify the development of entrepreneurship in Karabakh in the near future.

KEYWORDS: Azerbaijan, sustainable development, Karabakh, Karabakh economic region, entrepreneurship, entrepreneurship development problems, entrepreneurship development prospects.

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Introduction

The full restoration of the territorial integrity and state sovereignty of the Republic of Azerbaijan has laid the foundation for a completely new stage in the country's socio-economic development strategy [1]. This stage is not limited to the restoration of the territories liberated from occupation, but also includes the integration of these territories into the national economic system, the application of a modern management model, ensuring sustainable economic development and the safe return of the population to their native lands. In this regard, the Great Return concept is considered one of the important directions of the long-term development policy of the Azerbaijani state.

The First State Program on the Great Return in the Republic of Azerbaijan is the main strategic document for the restoration and reconstruction of the territories liberated from occupation. The main goal of the State Program is to ensure safe living conditions, create modern infrastructure, restore economic activity, organize social services, develop entrepreneurship and ensure the gradual return of former internally displaced persons to their native lands. Within the framework of the program, the construction of roads, railways, airports, power plants, reservoirs, schools, hospitals and other social facilities has gained wide scope [2].

During the occupation, settlements, industrial enterprises, agricultural facilities, roads, energy infrastructure, water systems and social facilities of Karabakh and surrounding regions were completely destroyed, natural resources were exploited, and historical and cultural heritage was seriously damaged. Therefore, the restoration of these territories is not considered an ordinary construction process, but the formation of a completely new economic and social environment. The State Program was developed taking into account these realities and aimed to coordinate restoration work within a single management mechanism.

Research Aim and Research Questions

The main purpose of writing the article is to disclose the current problems of entrepreneurship development in the Karabakh economic region in the context of sustainable development and to make appropriate generalizations. Currently, there is a need to increase the role of entrepreneurship in the more intensive restoration and revitalization of post-conflict territories. In the course of the research, preference was given to the use of analysis, synthesis, comparison and generalization methods. At the same time, reference was made to studies conducted on the problems of entrepreneurship development in the Karabakh economic region.

Research Results

Karabakh's rich natural resources and economic potential are being used more effectively with the support of the State Program. The reconstruction of agriculture, the creation of modern agroparks, the development of the processing industry and the promotion of environmentally friendly production allow for the expansion of entrepreneurial activity in the region. At the same time, the restoration of

historical and cultural heritage accelerates the development of the tourism sector and creates new business opportunities in the hotel, public catering, transport and other service sectors. In addition, Karabakh has strong potential in terms of diversification of the non-oil and gas industry [3]. In particular, the development of innovation-oriented sectors is of great importance [4]. Thus, the role of high technologies and innovations in the formation of new sources of growth of the country's economy is increasing [5]. In addition, increasing the country's non-oil and gas exports is of maximum relevance [6].

The economic development of the Karabakh economic region is of strategic importance not only in terms of the restoration of the region, but also in terms of the development of the non-oil sector of Azerbaijan, ensuring regional economic balance, increasing employment and expanding export potential. In this regard, the development of entrepreneurship is considered one of the main economic pillars of the Great Return concept. The financial resources allocated for the reconstruction of the liberated territories are considered one of the largest state investment programs implemented by Azerbaijan during its independence. Over 22 billion manats were allocated from the state budget for the restoration of these territories during 2021–2025. In 2024 alone, approximately 4.828 billion manats were allocated to finance restoration and construction work in the liberated territories. In 2025, the state allocated 4.465 billion manats in this direction. In 2025, the main part of the allocated funds, i.e. 84.7% or 3.782 billion manats, was directed to the creation of infrastructure systems in the regions and the restoration of existing facilities. The funds were mainly spent on the implementation of new infrastructure projects, the construction and renovation of settlements, as well as the implementation of important projects in the transport and energy sectors. In total, 385 rehabilitation and development projects covering various areas were implemented in the liberated territories during 2025. Of these projects, 56 were related to transport infrastructure, 78 to water management and land reclamation, 7 to defense and law enforcement, 177 to the social sphere, 19 to the energy sector, and 48 to other areas. These projects aim to ensure the socio-economic development of the regions and accelerate the return of the population to those areas [7; 8].

It is predicted that by 2030, employment opportunities in the Karabakh economic region will increase significantly and approximately 150 thousand new jobs will be created in total. The main part of this increase will be provided by the development of various economic directions. Thus, it is planned to create up to 5 thousand new jobs in the Agdam Industrial Park, 15-17 thousand in the agricultural sector, 1.5-2 thousand in the mining industry, 1.5-2 thousand in the tourism sector, and 10-11.5 thousand in the small and medium-sized enterprises [9]. Positive dynamics have also been recorded in small business entities. The number of small businesses, which was 182 in 2023, reached 197 in 2024, and 248 in 2025. Thus, an increase of 66 units occurred in this category over two years. In particular, the increase in the growth rate between 2024 and 2025 indicates that the development opportunities of small businesses are expanding and more entrepreneurs are starting to expand their activities. The

number of medium-sized enterprises has also increased consistently. While there were 71 medium-sized enterprises in 2023, this figure increased to 107 in 2025, an increase of 36 units. The expansion of medium-sized enterprises creates conditions for the formation of more sustainable business structures in the region in production, services and other economic sectors.

In the context of the Great Return, the development of entrepreneurship is not limited only to an increase in their number. One of the main goals is the formation of an entrepreneurial ecosystem in the Karabakh economic region, stimulation of the activities of small and medium-sized enterprises, efficient use of local resources and the creation of new economic value chains. The natural resources, fertile lands, water resources, mineral deposits, rich forest fund and favorable geographical location of the Karabakh economic region allow the development of entrepreneurship in various directions [10]. In particular, the processing industry, agriculture, agrarian industry, logistics services, green energy, tourism, construction industry, information technologies and digital services are considered promising development areas of the region. Assessment of the potential of the Karabakh economic region shows that agriculture occupies a special place in the development of the region. The creation of free economic zones in order to increase investment attractiveness in these areas can also be beneficial [11]. By using world experience in such zones, it is possible to organize entrepreneurial activity more efficiently [12]. Residents registered in free economic zones also have certain opportunities for transferring high technologies [13].

The development of the digital economy is considered one of the main features of the new economic model of the Karabakh economic region [14]. Within the framework of the "smart city" and "smart village" projects, high-speed internet, digital public services, electronic payment systems and artificial intelligence-based management technologies are applied. The Karabakh economic region has been declared the "Green Energy Zone" of Azerbaijan. The solar energy potential of the region is estimated at approximately 7200 MW, and the wind energy potential is more than 2000 MW [15]. This creates an opportunity for the formation of a new market for entrepreneurs operating in the field of green energy.

The development of the tourism sector is considered one of the future directions of entrepreneurship. The rich historical heritage of Karabakh, natural landscapes, mineral waters, forests, mountain tourism opportunities and cultural monuments allow the development of various types of tourism. The rich historical and cultural heritage of Shusha, Khojaly, Agdam and other territories, mountain, health and ecotourism opportunities can create conditions for an increase in the flow of tourists to the region. Hotels, family-type guest houses, restaurants, tourism companies, transport services, production and sales centers of handicraft products also allow for the expansion of entrepreneurship. As a result of the development of the tourism sector, new employment opportunities are formed in Karabakh, the level of employment of the population increases and a positive impact is exerted on the economic indicators of the region, especially the growth of gross domestic product.

Also, SMEs get the opportunity to join various areas of activity related to tourism infrastructure, which creates conditions for strengthening the local entrepreneurial environment. The development of tourism in interaction with such sectors as agriculture, transport, services and crafts acts as one of the main factors accelerating the socio-economic recovery of Karabakh [16, p.98].

The sharp increase in income in 2025 is associated with the expansion of tourism infrastructure in Karabakh, the launch of new accommodation facilities, an increase in visits to the region and the activation of entrepreneurial entities. In general, tourism is one of the important sectors that brings high income and allows the investments to pay off in a short time. This sector has a significant impact not only in terms of economic development, but also on the formation of the state budget, the improvement of cities and villages, the protection of historical and architectural heritage, as well as the expansion of small and medium-sized businesses. In this regard, the development of tourism in the Karabakh region is currently of particular importance [17].

A comparative analysis of credit investments in Karabakh for 2020-2025 shows that the volume of financial resources allocated to the region has steadily increased from year to year. If in 2020 the volume of credit investments amounted to 57.1 million manat, in 2021 this figure increased to 252.5 million manat. Thus, in just one year, credit investments increased by approximately 4.4 times. In 2024, credit investments increased to 473.3 million manat, an increase of 68.3 million manat or 16.9% compared to the previous year. At this stage, the completion of a significant part of infrastructure projects and the creation of new production and service enterprises further expanded entrepreneurs' access to financial resources. In 2025, the volume of credit investments reached 526.5 million manat. For the maximum efficiency of the complex, systematic and sustainable measures implemented by the state in Karabakh, the transparency and purposeful use of financial resources used should be kept in the spotlight [18, p.37]. This is considered one of the important steps in terms of the development of entrepreneurship.

Logistics and transport services also play an important role in the regional economy [19]. Modern highways, railway infrastructure and international airports accelerate the integration of the region with domestic and foreign markets. This leads to the expansion of export potential, increased trade turnover and the creation of new entrepreneurial opportunities. The role of human capital in the development of entrepreneurship should be particularly emphasized. Expanding vocational training programs, developing entrepreneurship education, creating business incubators, forming a startup ecosystem and strengthening university-industry cooperation can accelerate the development of innovative entrepreneurship. At the same time, the opportunities for the formation of competitive non-oil and gas sectors of the economy in the region will increase [20].

It should be noted that in the context of the State Program, ensuring the development of human capital in the liberated territories has been identified as one of the main priorities. For this purpose, it is envisaged to form a social service infrastructure covering the fields of health, social protection, education, culture and sports, as well as schools and preschool educational institutions, and expand its

material and technical capabilities. It is also planned to ensure access to modern standards of healthcare and education services for the population returning to and settling in the region, and to restore and reconstruct cultural and sports facilities. In addition, it is aimed to improve the social well-being and quality of life of the population through the implementation of active self-employment programs to increase employment, as well as the establishment of rehabilitation institutions [21]

In general, the main positive factors affecting the development of entrepreneurship in the region are the high level of state investments, legal and institutional support, tax incentives, modern transport infrastructure, the operation of international airports, green energy projects, an open economic environment for foreign investors, human capital, and others.

Conclusions

The analysis shows that the Great Return program has radically changed the economic development model of the Karabakh economic region and created new opportunities for the development of entrepreneurship. Large-scale investments implemented by the state, a favorable business environment, tax and customs privileges, the creation of industrial parks, the implementation of the green energy concept and the development of logistics infrastructure make a significant contribution to the realization of the region's economic potential. At the same time, the complete elimination of the mine threat, the formation of qualified human capital, expanding access to financial resources and supporting innovative entrepreneurship should be one of the main priorities in the coming period. The future development of the Karabakh economic region will depend not only on state investments, but also on the formation of a strong private sector and the creation of a competitive entrepreneurial ecosystem.

Based on the results of the current analysis, the implementation of the following recommendations is considered appropriate:

- Expansion of long-term and low-interest credit mechanisms for entrepreneurs operating in the Karabakh economic region.
- Creation of agro-industrial clusters and increasing the number of agricultural product processing enterprises.
- Development of tourism routes and stimulation of attraction of private investments in this sphere.
- Further improvement of services for foreign investors on the basis of the "one-stop shop" principle.
- Application of special privileges for financing of green energy and green business projects.
- Formation of Karabakh products as a national brand and expansion of their access to export markets.
- Acceleration of implementation of large infrastructure and production projects through wide application of public-private partnership mechanisms.

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