

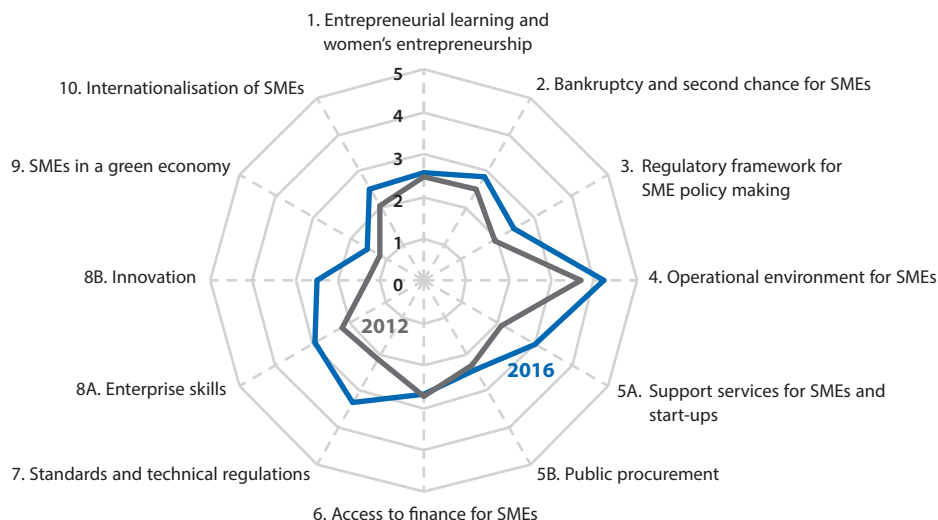
## *Chapter 12*

### **Azerbaijan: Small Business Act country profile**

Azerbaijan has been proactive in reforming its business environment, including the introduction of one-stop-shop company registration and a best practice e-government portal. Financial and institutional support measures for innovation and SME capacity building have been launched since 2012, although a strategic framework for these measures is still lacking. The government is also in the process of drafting legislation to address remaining challenges in bankruptcy procedures, business licencing, access to finance and regulatory impact assessment.

Given the importance of SME development for the country's diversification agenda, Azerbaijan would benefit from a more structured and strategic approach to SME policy, including the development of an SME strategy, co-ordination structure and implementation body. Access to finance remains a significant challenge for SME growth, and key financial infrastructure is still needed to encourage access to bank loans and alternative sources of finance, including capital markets. Finally, existing support measures for SMEs could be strengthened through structured monitoring and evaluation. Support measures could also be expanded; for example, export finance tools would be a useful addition.

Figure 12.1. SBA scores for Azerbaijan



## Key findings

Azerbaijan has paid increasing attention to SME development since the 2012 assessment. The country's heavy reliance on oil exports and resulting exposure to exogenous shocks has pushed economic diversification to the top of the government agenda, galvanising reforms in a number of areas. In particular, government initiatives have further improved the business-enabling environment, and the country has become a top performer in some dimensions of the World Bank's *Doing Business* report (e.g. starting a business, registering property). E-government services have also expanded significantly with the creation of a best-practice government portal. In addition, the SME innovation framework has been enhanced through both infrastructure (e.g. industrial parks, technology parks and business incubators) and financial support (through the creation of a dedicated fund for the information and communications technology – ICT – sector). Furthermore, an intense legislative agenda has been pursued, and draft legislation has been prepared in several other areas, including the establishment of a private credit bureau and a collateral registry, the improvement of the bankruptcy framework, the streamlining of requirements for business licences and permits, and the introduction of regulatory impact assessment. The government also introduced an updated SME definition in June 2015, recognising medium-sized enterprises for the first time, and adding turnover criteria alongside employment criteria.

Azerbaijan's success in implementing business environment reforms is visible in its strong performance on Dimension 4 of the 2016 SME Policy Index, where it receives one of the highest scores in the EaP region. Progress in the development of support tools for SME competitiveness, including in the areas of innovation and internationalisation, is reflected in its higher scores in Dimensions 5a, 8b and 10, although there is room for further improvement. The same applies to the human capital dimensions (Dimensions 1 and 8a), including women's entrepreneurship, which have also seen notable improvements. Continued difficulties in accessing finance explain the limited progress in Dimension 6. SME greening initiatives should be encouraged to improve performance in Dimension 9.

To fully leverage the potential of SMEs for economic diversification, the Azerbaijani government could consider a number of additional improvements to its SME policy framework:

- The government currently lacks a comprehensive strategy to guide SME policy, as well as an effective co-ordination mechanism. Although SME policy is under the domain of the Department of Entrepreneurial Development Policy of the Ministry of Economy and Industry, several different agencies are responsible for developing and implementing policy measures. They work without a formal co-ordination mechanism or an independent structure in charge of policy implementation. A new strategy could also be used as an opportunity to address private sector involvement in a structured manner as well as to promote regular monitoring and evaluation of the several initiatives introduced in recent years.
- Access to finance remains a key obstacle for SME growth in Azerbaijan. According to the Business Environment and Enterprise Performance Survey (BEEPS V – a firm-level survey conducted among 390 enterprises in Azerbaijan in 2013), only 14.6% of surveyed firms had a loan or a line of credit, down from 19.9% in 2009 (EBRD, 2014). This was the lowest share among the 30 countries included in the survey. In addition, only 4.7% of companies reported financing their working capital through banks, while 92.8% financed it through internal funds. This was the highest in the region (EBRD, 2014). While some progress has been made to strengthen the legal framework, some gaps remain: legislation has yet to be finalised and/or implemented governing the establishment of a private credit bureau, movable collateral registry and secured transactions.
- Support measures for innovation and internationalisation have been introduced, but without clear strategies or co-ordination mechanisms. Government policy on innovation should broaden out its currently narrow focus on the ICT sector. Support for internationalisation is also limited to some export promotion, and could be expanded further to include export finance and measures to allow SMEs to benefit from global value chains. The government could also promote a private market for business development services, and could improve transparency and efficiency in the procurement framework, while actively promoting SME participation.

Table 12.1. Azerbaijan: Challenges and opportunities

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Stable macroeconomic environment (e.g. current account surpluses), strong recovery from the global crisis</li> <li>• Expanding non-oil economy (6.9% growth in 2014)</li> <li>• Significant progress in global competitiveness benchmarks (38<sup>th</sup> in Global Competitiveness Index after constant progress)</li> <li>• Extensive e-government infrastructure, strong track record in business environment reforms (one-stop-shops, e-government); favourable environment for business registration and ongoing reforms in other areas (credit bureau, collateral registry, RIA)</li> <li>• Comparatively good infrastructure and service provision (cf. BEEPS data on electricity, water)</li> <li>• Low unemployment, relatively flexible labour regulations</li> <li>• Increased attention to targeted support in business support infrastructure, innovation (ICT fund)</li> <li>• New SME definition introduced in June 2015 with segmentation by size</li> </ul>	<ul style="list-style-type: none"> <li>• SME policy fragmentation among several state programmes without formal co-ordination and lack of a comprehensive strategy</li> <li>• Public-private consultations lack a structured institutional set-up beyond informal co-operation; limited SME involvement</li> <li>• Limited access to bank finance (high collateral, low levels of access, cf. BEEPS); other sources underdeveloped (banking sector holds 95% of total assets); growth in credit mostly to households, consumer credit</li> <li>• Absence of M&amp;E for government support tools</li> <li>• Corruption perceptions are still cited as obstacle for business (cf. BEEPS, Global Competitiveness Index)</li> <li>• Low levels of SME internationalisation despite relatively low customs barriers (new legislation in 2014 and 2015) and AZPROMO's existing activities</li> </ul>

Table 12.1. **Challenges and opportunities** (*continued*)

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Economic diversification, competitiveness recognised an urgent priorities in Azerbaijan 2020 vision</li> <li>• Major infrastructure projects will help galvanise new growth opportunities</li> <li>• New export programme in development, with a focus on boosting exports of non-oil products</li> <li>• Expanding banking sector; strong capital position of commercial banks; new laws being prepared on private credit bureaus and registry of moveable assets</li> <li>• WTO membership prospects likely to boost trade</li> <li>• Untapped potential in non-oil sectors, e.g. agriculture (5.3% of GDP but 38% of jobs) and manufacturing</li> <li>• FDI in oil &amp; non-oil sectors with potential for SME linkages</li> <li>• Innovative approaches to SME training design and delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Dependence on natural resources results in economic volatility (e.g. Feb 2015 devaluation; oil output expected to decline from 2017)</li> <li>• Exposure to regional dynamics, particularly in the non-oil sectors (e.g. exports to Russia)</li> <li>• Lack of independent implementation agencies in key areas such as innovation and entrepreneurship</li> <li>• Non-oil exports hindered by delays in approximating national standards and technical regulations, limited international quality certification (12.8% vs. 22.6% ECA average – cf. BEEPS)</li> <li>• Existing initiatives in innovation lacking strategy, focused largely on ICT</li> </ul>

## Overview

### *Economic snapshot*

Azerbaijan has been able to maintain high levels of growth since 2001, seeing GDP per capita increase from USD 660 to about USD 7 350 today (World Bank, 2015). The country has recovered strongly from the economic crisis, with a 5.8% GDP growth rate in 2013 (Table 12.2). However, the economy is highly dependent on hydrocarbon exports, which represent 39% of GDP and 92.2% of exports, creating vulnerability to fluctuations in oil production and prices. The steep drop in oil prices which took place in 2014, together with a contraction in Azerbaijani oil output early that year, brought about an economic slowdown, with GDP growth falling to 2.8%. Growth is expected to slow still further – to 1.5% in 2015 according to estimates by the European Bank for Reconstruction and Development (EBRD, 2015). The economic downturn was further compounded by the sharp depreciation of the currencies of some key trading partners, including Russia. The current account surplus consequently narrowed from 21.8% of GDP in 2012 to 15.3% in 2014, and Azerbaijan's real effective exchange rate appreciated by 16.9% in 2014, reducing the competitiveness of its non-oil sectors. Lower commodity export receipts also exercised pressure on the local currency and after selling 27% of its currency reserves to maintain a stable currency, the Central Bank devaluated the manat by 34% in February 2015 to reduce fiscal pressures and restore competitiveness.

The non-oil industry sector has been expanding in recent years, achieving 6.9% growth in 2014 (IMF, 2015). The government has successfully leveraged oil revenues to reduce the poverty rate from 50% in 2001 to 5.3% in 2013. The Azerbaijani economy also benefits from a low level of unemployment (6% in 2014 according to IMF estimates) due to relatively flexible labour regulations (IMF, 2014). Recently, the government has invested in a number of major infrastructure projects to strengthen the non-oil sector and support economic diversification. These include the Trans-Anatolian (TANAP) and Trans-Adriatic (TAP) pipelines, which are targeted for completion in 2018 and 2020 respectively. Growth of the non-oil economy could be further boosted by accession to the World Trade Organization, for which negotiations are ongoing.

The major non-oil tradable sectors in 2013 included foodstuffs and livestock (2.7% of total exports), industrial products (1.1%), vegetable oils and fats (0.8%), and chemical products (0.7%). The biggest international trade partner for Azerbaijan is the European Union (EU); however, Russia and Turkey remain the key partners for non-oil exports (44.6% and 7.5% respectively on average between 2007 and 2011) (IMF, 2014).

Table 12.2. Azerbaijan: Main macroeconomic indicators, 2010-15

Indicator	Unit of measurement	2010	2011	2012	2013	2014 <sup>a</sup>	2015 <sup>a</sup>
GDP growth	Percent, y-o-y	5.0	0.1	2.2	5.8	2.8	0.6
Inflation	Percent, average	5.7	7.9	1.0	2.4	1.4	7.9
Government balance	Percent of GDP	14.0	11.6	3.8	1.4	0.4	-5.7
Current account balance	Percent of GDP	28.4	26.0	21.8	16.6	13.6	n.a
Exports of goods and services	Percent of GDP	54.3	56.4	53.7	48.7	43.3	n.a
Imports of goods and services	Percent of GDP	20.7	24.1	25.6	26.9	26.2	n.a
Net FDI	Percent of GDP	0.6	1.4	1.1	1.5	n.a	n.a
External debt	Percent of GDP	21.3	20.4	17.0	n.a	n.a	n.a
Gross reserves	Percent of GDP	12.1	15.9	16.4	19.6	n.a	n.a
Credit to private sector	Percent of GDP	7.9	17.6	20.1	25.5	n.a	n.a
Unemployment <sup>b</sup>	Percent of total active population	6.0	6.0	6.0	6.0	6.0	6.0
Nominal GDP	USD billion	52.9	64.8	68.7	73.5	74.1	62.2

Notes: **a.** IMF projections; **b.** IMF estimate; latest actual data from 2009.

Source: EBRD (2014), *Transition Report 2014*; IMF (2015), *World Economic Outlook*; World Bank (2015), *World Development Indicators 2015*

### Business environment trends

Azerbaijan has made significant progress against global competitiveness benchmarks. It currently ranks 38<sup>th</sup> in the World Economic Forum's Global Competitiveness Index, up from 57<sup>th</sup> in 2010 (World Economic Forum, 2014). The country has implemented reforms in key areas of the World Bank's *Doing Business* report, such as "Starting a Business" (12<sup>th</sup>) and "Registering Property" (10<sup>th</sup>), although it still ranks only 80<sup>th</sup> overall due to low performance in other areas (World Bank, 2014). The government has also developed an extensive e-government infrastructure, and envisages a further review and simplification of business regulations under the Presidential Decree on Additional Measures for the Development of Entrepreneurship of 3 March 2014. Recent reforms include the adoption of the Law on Protection of Interests of Entrepreneurs and Regulation of Inspections in 2013, which prompted the creation of an online inspection registry to make this area more transparent. The amount of time Azerbaijani business managers spend in dealing with business regulation is one of the lowest in the region, at just 0.2%, compared to an average of 11% across the Europe and Central Asia countries (EBRD, 2014).

However, despite improvements to the business environment, doing business in Azerbaijan continues to be challenging, particularly outside the oil sector. The main obstacles mentioned by respondents to the BEEPS V are practices of the informal sector (30.7%) and access to finance (30.2%), followed at considerable distance by tax rates and licenses and permits (EBRD, 2014). In addition, international benchmark studies suggest that there is room for improvement in perceptions of corruption. For example, in 2013 the country ranked in the 19<sup>th</sup> percentile in the World Bank's Worldwide Governance Indicator for "Control of

Corruption,” compared with a regional average for Eastern Europe and Central Asia of 63. In response to these concerns, the government has launched the “National Action Plans on Promotion of Open Government and Fight Against Corruption (2012-2015)” to increase transparency and accountability in public institutions, and strengthened its anti-corruption legislation. However, reforms remain limited and lack a strategic approach (OECD, 2013).

Economic diversification is one of the top priorities for the government in light of the country’s exposure to shocks in oil prices and output. The “Azerbaijan 2020 Vision” was released in 2012 and focuses on developing competitiveness and export growth in the non-oil sector. SME development could be a key platform to achieve the 2020 Vision target of increasing non-oil sector export turnover to USD 1 000 (approximately EUR 890) per person by 2020. In addition to business environment reforms, the government has focused on infrastructure development, including the establishment of industrial parks and estates and techno parks. The government has also been working with the United States Agency for International Development (USAID) since 2011 to develop a competition code in line with international good practices, although the adoption process currently appears to be stalled.

### *SMEs in Azerbaijan*

Azerbaijan has two separate SME definitions, one that was included in the general legislation in June 2015, and the other used only for tax purposes (Table 12.3). The Tax Code does not define small and medium enterprises per se, but distinguishes between individual entrepreneurs and legal entities. Individual entrepreneurs are defined as physical persons who are engaged in business activities. The majority of small enterprises are registered as individual entrepreneurs (94.5% in 2013). The turnover threshold used in the tax legislation for individual entrepreneurs is currently aligned with that of small enterprises in the general legislation, following the June 2015 amendment.

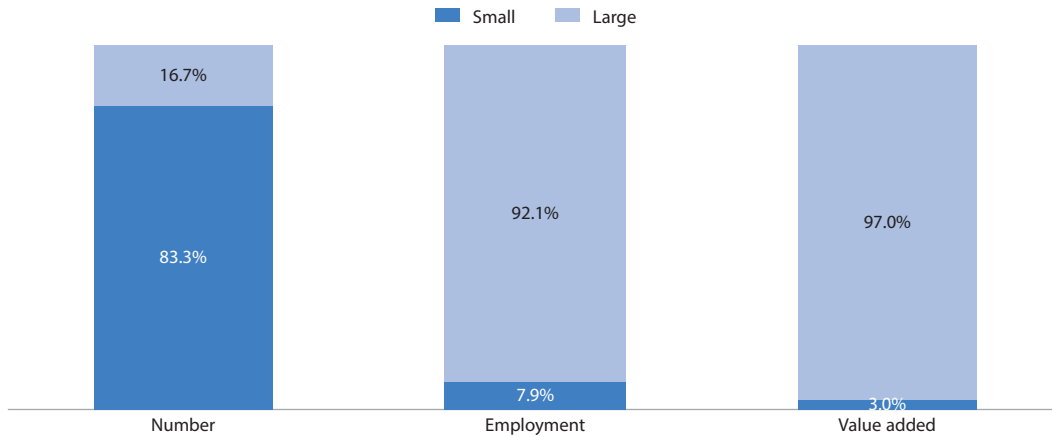
Table 12.3. **Definitions of small and medium enterprises in Azerbaijan**

	Employment		Turnover	
	Definition 1	Definition 2 (for tax purposes only)	Definition 1	Definition 2 (for tax purposes only)
Small	< 25 employees	Self-employed (no hired labour)	< AZN 120 000 (EUR 101 500)	< AZN 120 000 (EUR 101 500)
Medium	< 125 employees		< AZN 1 250 000 (EUR 1 057 500)	

Source: Decision of the Cabinet of Ministers No. 215 of 5 June 2015, Tax Code of Azerbaijan; exchange rates as of June 2015.

While small enterprises accounted for 83% of all companies in 2013, their contribution to value added was only 3% (although this is better than in 2010, when it was just 1.7%) (Figure 12.2). Their contribution to total employment has also increased, from 5.9% in 2010 to 7.9% in 2013. The majority of small enterprises operate in the trading and vehicle repair sectors (32.7% in 2013) (Figure 12.3). The other sectors with a significant presence of small enterprises are construction (23.4% in 2013) and transportation and storage (11.3%). Nearly 36% of all active small enterprises are registered in the capital, with 18.4% in the Aran region and 12.6% in the Ganja-Gazakh region.

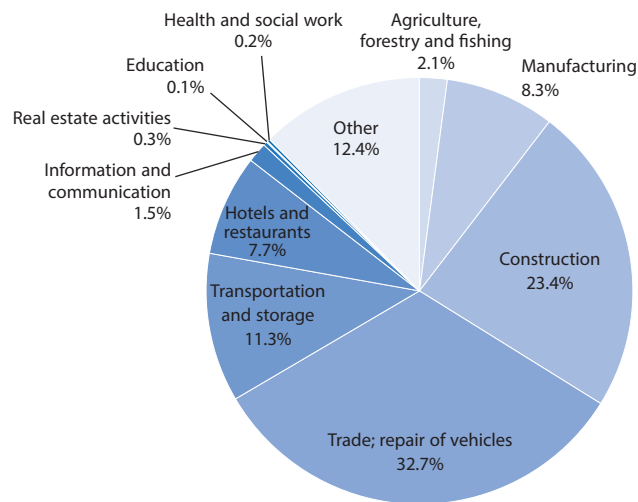
Figure 12.2. Business demography indicators in Azerbaijan, 2013



*Note:* Based on active enterprises using SME definition prior to June 2015; data include both small enterprises and individual entrepreneurs.

*Source:* Azerbaijan State Statistical Committee.

Figure 12.3. Sectoral distribution of SMEs in Azerbaijan, 2013



*Source:* Azerbaijan State Statistical Committee.

## SBA assessment results

### *Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)*

Azerbaijan has taken a number of steps to strengthen the institutional, regulatory and operational environment for SMEs, particularly by easing company registration and developing e-government services. The institutional support for SMEs has also been improved with the establishment of the Department of Entrepreneurial Development Policy under the Ministry of Economy and Industry. However, a comprehensive SME strategy has yet to be adopted to address policy fragmentation, improve inter-agency co-ordination,

and enhance public-private dialogue. An inadequate insolvency legal framework and a cumbersome licensing and permit regime are other outstanding challenges.

### *Institutional framework*

The Department of Entrepreneurial Development Policy in the Ministry of Economy and Industry is responsible for both the development and implementation of SME policy in Azerbaijan. In addition, there are several agencies under the Ministry of Economy and Industry – the National Fund for Entrepreneurship Support, the Baku Business Training Centre and AZPROMO – which also have activities to support SMEs. While these agencies submit periodic reports to the ministry, there is no formal co-ordination platform for other government agencies and departments involved in SME policy (e.g. the ministries of education and justice). A joint co-ordination platform (e.g. a working group or committee) could therefore improve the effectiveness of SME policy making.

The Azerbaijani government does not currently have an SME strategy or programme in place, and the previous programme ended in 2005. The “Azerbaijan 2020 Vision”, which lays out the country’s medium-term strategic framework, highlights the role of entrepreneurship and SMEs in economic development. Entrepreneurial development and related aspects are included in a number of state programmes, such as the Programme on Social-Economic Development of the Regions (2014-18), the Poverty Reduction Programme (2008-15), the Food Security Programme (2008-15) and the Azerbaijan 2020 Development Concept. The development of a comprehensive strategy would be highly desirable to avoid policy fragmentation and improve co-ordination amongst government and non-government actors.

As outlined above, Azerbaijan currently has two definitions for SMEs, one specified in legislation and applicable to nearly all policy areas, and another used exclusively for taxation. The new definition recognises medium-sized enterprises and increases both internal and external consistency by using turnover criteria that are aligned with the existing tax regulations, and employment criteria aligned with the EU SME definition (Table 12.3). However, micro-enterprises are still not defined, and an overlap exists between the two SME definitions due to the use of different employment criteria.

These shortcomings affect the quality of statistics on SMEs. As the data do not differentiate micro-enterprises it is difficult for policy makers to design policies (e.g. start-ups and subsistence-oriented small businesses) adapted to this segment of the SME universe. Azerbaijan collects both structural and demographic business statistics by size class, including on birth, death and survival rate of enterprises. The State Statistical Committee also publishes an annual yearbook on “Small Entrepreneurship in Azerbaijan”, reporting major trends.

The informal economy remains a challenge for the authorities, with “practices of the informal sector” identified as the biggest obstacle to doing business by 30.7% of the 390 respondents to the BEEPS V (EBRD, 2014). However, as in many other EaP countries, there is no comprehensive approach to addressing this phenomenon beyond general business climate reforms. Neither are there targeted measures in state programmes explicitly aimed at stimulating the transition to the formal sector.

### *Legislative simplification and regulatory impact analysis*

A presidential decree was issued in March 2014 on “Additional Measures for the Development of Entrepreneurship”. This targets the review and simplification of business



regulations in areas relevant to the World Bank’s *Doing Business* report (i.e. registration of business, construction permits, electricity connection for businesses, property registration, corporate governance, export-import procedures and bankruptcy legislation).

Azerbaijan has also developed two “National Action Plans on Promotion of Open Government and Fight Against Corruption (2012-2015)” to increase transparency and accountability in public institutions and public participation in policy making. These include a separate section on improving the business environment. Despite this progress, there is no formal framework for legislative review or guillotine.

Currently, there is no legal requirement to conduct regulatory impact analyses (RIA) in Azerbaijan. According to the Law on Legislative Acts, economic analysis and expert consultations can be conducted before adopting legislation; however, this is rarely done in practice. The Ministry of Justice has developed draft legislation for the introduction of RIA as part of the national action plans on open government and corruption. Its final adoption is still pending.

### *Public-private consultations*

Azerbaijan adopted the Law on Public Participation in 2014. This provides a legal basis for public councils, hearings and consultations, written consultations via the Internet, as well as public consultations on draft legislation organised by parliament. The degree of implementation of this law in practice is unclear. Draft business legislation is also placed on the licenses and permits website ([www.icazeler.gov.az](http://www.icazeler.gov.az); see below) for feedback, although the feedback is not visible to the public. As of June 2015, 159 draft legal acts from 20 state agencies had been posted online. The parliament also posts draft laws and other legislative acts online and provides opportunity for feedback.

Specifically regarding business legislation, the Ministry of Economy and Industry, Ministry of Taxes and other public institutions conduct periodic meetings with entrepreneurs, both in Baku and the regions. “Open door” days and citizen forums are organised, enabling walk-in consultations. Despite these efforts, there is no systematic information and no centralised website on all ongoing and past public private consultations or their outcomes. Public-private consultations (PPCs) are still conducted on an ad-hoc basis and lack a formal framework. There is also no detailed information about PPCs conducted with the participation of SMEs.

The National Confederation of Entrepreneurs, the main organisation representing business interests in the country, has 14 thematic commissions. One of these is on small and medium entrepreneurs and young businessmen, while another looks at co-operation with legislative bodies. The confederation works closely with public institutions, including the Ministry of Economy and Industry under a co-operation memorandum signed in 2010. It organises public hearings, discussions and roundtables with the participation of business community on a range of business-related topics, including the legislative process. However, small businesses have little influence in practice and their participation in PPCs remains limited. The Entrepreneurs Council under the President of the Republic of Azerbaijan, created in 2002, is no longer active.

### *Interaction with government services (e-government)*

Azerbaijan has made significant progress in the development of electronic government and e-services since the 2012 assessment. It now offers an example of best practice for the region and beyond. The Data Processing Centre in the Ministry of Communications

and High Technology is in charge of the e-government and e-signature projects. An e-government portal was created in 2012 and currently offers 463 e-services (although not all of them are fully active), including filing of tax reports and social security returns, company registration, and business licencing. Forty-one state agencies offer e-services. Currently 45% of company registrations are carried out online.

Enterprise statistics can also be filed online using a streamlined single-form reporting process for both individual entrepreneurs and firms. Over 96% of legal entities and 50% of individual entrepreneurs submit their reports online, according to the State Statistics Committee. The databases of 46 public institutions, such as the Ministry of Internal Affairs, State Committee for Property Issues and Social Protection Foundation, are integrated into the web portal for shared access. On the other hand, the business database of the Ministry of Taxes is not always used by other public institutions for the provision of e-services (Transparency Azerbaijan, 2014) although the Ministry of Taxes submits the information to the Ministry of Justice, the Customs Committee and the Statistics Committee.

A smart-card based electronic signature was introduced in 2011 by the Ministry of Communications and High Technologies. Close to 30 000 e-signatures had been issued by the end of January 2015. Most of them were issued to public institutions, around 5 000 to legal entities and 7 000 to physical persons (including individual entrepreneurs). In 2014, the fees for obtaining an electronic signature were lowered to increase access. Along with this, a SIM-card based electronic signature (ASAN-imza) was introduced by the Ministry of Taxes in 2013, allowing mobile access to the tax online platform, as well as to a range of other services on the e-government portal. The service is used mainly by businesses, with 145 000 ASAN-imza certificates issued by March 2015. The government is currently in the process of piloting the digitalisation of the real estate cadastre, which is due to be ready for public access by the end of 2015. This will further strengthen on an already efficient property registration system. According to the World Bank's *Doing Business 2015* report, registering property in Azerbaijan requires just three procedures, takes 8.5 days and costs 0.4% of the property value, well below regional averages (World Bank, 2014). Transferring property was made easier in 2014 with the introduction of an online procedure for obtaining the non-encumbrance certificate. Application for the initial registration (for new property) or re-registration of property (as a result of sale, gift, inheritance etc.) is accepted both online and through ASAN Service.

### *Company registration*

Azerbaijan has improved its company registration procedures significantly, ranking it 12<sup>th</sup> overall on the "Starting a Business" indicator of the World Bank *Doing Business 2015* report (World Bank, 2014). Registration of companies takes three days and is free of charge for individual entrepreneurs. A business can be set up in five days in total, at a cost of just 3.1% of national income per capita. In November 2014, amendments to the legal framework for registration were adopted to streamline procedures and eliminate the requirement for a corporate seal.

Registration for an electronic signature (ASAN-imza) and taxpayer's ID number can be done at the same office and a tax ID is issued immediately (with the tax ID card issued within two business days). The only document required for registration is the state ID card. Registration of both individual entrepreneurs and companies can be done either in tax offices or the State Agency for Public Services and Social Innovation's one-stop shop for public services (ASAN Service Centres). Registration information is sent automatically by the tax authorities to the State Social Protection Fund, eliminating the need for separate registration. In addition, entrepreneurs might need to obtain permits and licenses if required

for their specific sphere of business. All information on business permits and licenses issued by various public institutions is published on a single government website ([www.icazeler.gov.az](http://www.icazeler.gov.az)). However, the licensing permitting system is still cumbersome and subject to considerable discretion (World Bank, 2013). A draft law to establish a general framework for licencing and permitting procedures has been prepared and is under consideration.

### *Bankruptcy procedures and second chance*

Azerbaijan ranks 94<sup>th</sup> in the “Resolving Insolvency” dimension of *Doing Business 2015*. This low ranking is due to its weak legal framework, especially for reorganisation and creditor participation, and a low recovery rate (39.3% compared to an OECD average of 71.9%) (World Bank, 2014).

Insolvency continues to be governed by the 1997 Insolvency and Bankruptcy Law, the 2001 Civil Code and the 1999 Civil Procedure Code. The Civil Procedure Code was reformed in November 2013 to introduce maximum times for discharge from bankruptcy, and an additional amendment adopted in February 2015 reduces the timeline for the completion of insolvency procedures. These new amendments have reduced the length of a typical insolvency process from 18 to 12 months.

In spite of the 2013 reform, the bankruptcy framework continues to contain a number of weaknesses. According to a 2009 analysis conducted by EBRD, the Insolvency and Bankruptcy Law represents “low compliance” with international standards, and is deficient in most areas, with the exception of the treatment of creditors (EBRD, 2009). Major issues relate to the reorganisation procedures (which are virtually non-existent as the law is generally focused on liquidation), as well as the functions of the insolvency administrators, as the law does not require their registration or licensing. Moreover, there are no provisions for professional work standards, ethical rules, or discipline for insolvency administrators. The law fails to provide for an automatic moratorium on legal proceedings against the debtor once the bankruptcy procedure has been initiated. While the law offers the option of out-of-court settlement in “exceptional cases,” it is unclear if this option is ever used in practice. Further, Azerbaijani law defines insolvency as the inability of a debtor to pay its debts, which means that a viable business with cash-flow problems could be declared insolvent (World Bank, 2013). This problem is further exacerbated by the lack of incentives for post-petition financing. As a result, it is not surprising that the majority of bankruptcy cases result in the business being sold off piecemeal. Finally, there is no separate online open bankruptcy or insolvency registry in Azerbaijan.

More generally, it is unclear whether the existing insolvency legal framework is being widely used in practice. Bankruptcy cases are rarely heard in Azerbaijani courts and in the majority of the cases the debtor reaches an amicable agreement with the creditor.

There are also no state-sponsored mechanisms that would promote a second chance for businesses that want a fresh start. Two-thirds of the 390 respondents to the 2015 OECD company survey found it very or somewhat difficult to resume business after failure, and 42% of respondents cited acquiring finance as the most significant difficulty (see Box A.3, Annex A).

### ***Facilitating SME access to finance (Dimension 6)***

Overall, Azerbaijan has made some progress in facilitating SME access to finance since the 2012 SBA assessment. Major developments include the launch of the Start-up Project and the National Fund for Entrepreneurship Support. However, their impact has yet

to be evaluated. Key remaining challenges are that entrepreneurs generally do not consider banks to be an effective mechanism for financing their businesses, especially because of high interest rates.

### *Legal and regulatory framework*

As noted above, insolvencies continue to be cumbersome. In 2014 the government took a step in the right direction by establishing a working group to develop a comprehensive legal framework for secured transactions, including a registration system for movable assets. While the cadastre of land and property is fully functional in Azerbaijan, it has yet to be digitised. The process is underway, however, as part of the World Bank Real Estate Project. Cadastre information covering the whole country is expected to be available by late 2015. Key recommendations made by the SBA in 2012 were to improve the capacity, coverage and effectiveness of the credit information system and to introduce a private credit information bureau (OECD, 2012). However, these recommendations have not been implemented. Despite the submission of a first draft law on the establishment of a private credit registry, the government has not finalised this law. As a result the public credit bureau continues to be the only source of credit information in the country. It will thus be important to complete ongoing work on the legal frameworks not only for a private credit bureau, but also for a movable collateral registry.

### *Sources of external finance for SMEs (bank financing, non-bank financing, venture capital)*

Access to finance continues to be a major obstacle for SME growth in Azerbaijan. With only 15% of BEEPS V firms using bank credit to finance their businesses in 2014, Azerbaijan lags behind other Eastern partner countries (where the average share of firms using bank credit is 31%). According to the *2014 MSME Access to Finance Demand Survey in Azerbaijan*, the use of loans among SMEs remains low regardless of sector and size (World Bank, 2015). Conversely, 93% of BEEPS V firms reportedly rely on internal funds for working capital, which is the highest ratio in the Eastern partner region. The government's main financial support mechanism for SMEs is through subsidised financing, e.g. through its National Fund for Entrepreneurship Support, the State Fund for Development of Information Technologies, as well as the State Service on Management of Agricultural Projects and Credits, Azerbaijan Investment Company (which provides equity to greenfield and brownfield projects in Azerbaijan) and the Mortgage Fund. For instance, the National Fund provided AZN 295 million (approximately EUR 255 million) in subsidised lending to 5 560 enterprises in 2014. Going forward, an evaluation of existing mechanisms will be important to determine their impact on closing the SME financing gap.

In terms of non-bank financing, Azerbaijan's micro-finance institutions continue to be an important source for SMEs, and their reach is growing. In 2013 micro-finance institutions were estimated to have financed approximately 400 000 SMEs; by the end of 2015, this figure is expected to grow by 50%. However, use of other financing instruments such as leasing and factoring appears to be limited. The World Bank estimates uptake of leasing and factoring to be 4% and 2% of SMEs, respectively (World Bank, 2015).

Venture capital activity in Azerbaijan has grown since the last SBA assessment. The State Fund for Development of IT, established in 2012, provides investments to innovative SMEs and start-ups. In 2014, the Start-up Project was launched to provide entrepreneurs with training to realise their business ideas and make links to potential investors.

### *Financial literacy*

Low levels of financial literacy are a key demand-side obstacle to SMEs' ability to access finance. According to the *2014 MSME Access to Finance Demand Survey in Azerbaijan*, over one-third of Azerbaijan's SMEs do not maintain financial records or conduct future cash flow planning (World Bank, 2015). To address this, the Central Bank has dedicated the month of November of every year to raising financial awareness. It conducted a new financial literacy survey in 2013-14, though its conclusions have yet to be presented. Financial literacy is not an integral part of the school curriculum.

### ***Promoting skills and entrepreneurship development (Dimensions 1 and 8a)***

#### *Lifelong entrepreneurial learning*

The 2016 assessment points to better awareness and understanding of entrepreneurship as a key competence. However, the implications for curriculum reform and the teaching and learning process remain to be addressed. This will require a stronger “internal partnership” (Gribben, 2013) within the formal education system, i.e. a more joined up entrepreneurship curriculum framework from primary right up through secondary, vocational and tertiary education. Linkages between education and the enterprise world are generally good; moving entrepreneurial learning forward should ensure that business plays an integral role across the entrepreneurial learning spectrum. More specifically, thought should be given to how businesses can help schools ensure that young people acquire entrepreneurial experience. This should be set against the youth entrepreneurship provisions of the “Azerbaijan 2020 Vision”.

A specific sub-group could be set up to define entrepreneurial learning outcomes for all levels of education. These could be piloted, evaluated and ultimately integrated into the national curriculum. This group could borrow the model of working groups already established by the Ministry of Education to support the “Strategy for Education Development”. The implications for teaching will need to be integrated into the planning process. While the education authorities will ultimately be responsible for all developments, the interest and support of the Ministry of Economy and Industry in entrepreneurial learning developments is strong, providing an important leverage for putting entrepreneurial learning on the national development agenda.

While there are good examples of entrepreneurship promotion in non-formal learning, these need to be more visible and available for education and training institutions to learn from, including schools, colleges and universities within the formal education system. The vocational education and training (VET) system in particular stands to benefit from experience of certain VET organisations providing self-employment and start-up support. Schools careers guidance services will also need to upgrade their provision to include entrepreneurship as a career option (Loughran, 2014). The information and support provided should dovetail with wider SME advisory services.

Higher education has a critical role to play in building a competitive and innovative economy. Strategic steps should be taken to ensure that all university graduates have access to entrepreneurial learning. While there are excellent examples of university-based incubators, a system-based approach is necessary to ensure that entrepreneurial learning is available across all faculties, at all universities. This requires dialogue among the higher education community, key ministries, businesses and other stakeholders (e.g. student and teacher associations).

### *Women's entrepreneurship*

Women's entrepreneurship receives considerable policy coverage, spanning regional development, employment and economic development. The Ministry of Economy and Industry, in co-operation with the employers' organisation (ASK), co-ordinates planning and good practice developments.

The official data on women's businesses gathered by the national statistics office is particularly important. Broken down by sector of activity, this baseline data provides an excellent opportunity for evidence-based policy analysis (the lion's share of women entrepreneurs operate in agriculture, trade and services). Such analysis can help ensure that women are engaged in the country's wider competitiveness drive. While the national statistics office may not necessarily elaborate on the data, key ministries (e.g. those responsible for the economy, employment, innovation and regional development) and other interest groups (e.g. employers' associations or development organisations) could add to this data. This would create a more robust source of policy intelligence to support women's entrepreneurship, including training, mentoring services and access to finance.

There are very good examples of targeted training support for women entrepreneurs and prospective entrepreneurs by the regional training centres, such as on developing a business plan, financial literacy, quality management and accessing micro-finance. This training effort could be reinforced through a more systematic focus and annual review of developments, including data and emerging good practice. This could be linked back into the policy arena, to ensure that both data and good practice shape and improve women's entrepreneurship policy. In this regard, ASK's Women's Commission could assume a more policy advocacy role. A further incentive to engage more women entrepreneurs in the economy would be a dedicated women entrepreneurs ambassadors' group that could eventually link into a wider European network (Bekh, 2013).

### *SME skills*

Azerbaijan has a clearly identifiable range of organisations supporting SME training. These include the Baku Business Training Centre (BBTC) and its seven regional offices, the National Fund for Entrepreneurship support, the Export and Investment Promotion Foundation and ASK. SME surveys administered through BBTC's regional network help identify training needs, while financial support from the Ministry of Economy and Industry aids in the design and delivery of training.

While start-up training is well developed, data capturing the training provision by the various training organisations (e.g. public employment services, BBTC, NGO service providers) still need to be reconciled to give a more comprehensive picture of start-up training support. Meanwhile, the National Fund for Entrepreneurship supports training for enterprises with growth potential. Better data on training for growing SMEs, and particularly SMEs with export potential, will help the policy effort to build a more competitive and diversified economy (Lasku & Gribben, 2013).

BBTC has a well-developed online training facility. This allows SMEs across the seven administrative regions to access online training in areas such as business planning, start-up and e-trade. A good monitoring system allows policy makers and the BBTC network to track training developments, including e-training activity by region and gender participation (approximately 25% of those using the online training services are women).

### *Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)*

Since the 2012 assessment, Azerbaijan has improved its support services for SME competitiveness with the introduction of a pilot incubator project and regular training organised by BBTC. There has also been progress in strengthening the institutional support for innovation, and three technology parks have been established along with new funding sources for the ICT sector. Reforms to public procurement have been slow, with little progress in the development of e-procurement and other areas. Finally, greening policy has been developed further with the adoption of the risk-based diversification of environmental regulation, although SME-targeted policies are still lacking.

#### *Business information and services*

Azerbaijan lacks a strategic, targeted approach to support services for SME development. It also lacks a specific action plan for business support services, although such services are provided free-of-charge by the Ministry of Economy and Industry through the BBTC. Established in 2007, BBTC is fully funded through the state budget and has offices in seven regions. These organise training courses on a wide range of topics, such as starting a business, developing business plans and investment projects, logistics, green agriculture, insurance in agriculture, export markets, marketing and management. Distance learning is also available. In the second half of 2014, 144 training courses for entrepreneurs were held.

In 2014, the BBTC launched a pilot business incubator for start-ups, which is expected to be rolled out to a number of rural regions, plus the industrial and technology parks. Also in 2014, the Azerbaijan Economic University established a business incubator to develop entrepreneurial skills among students.

Progress has also been made in the provision of business information to entrepreneurs with the launch of several new websites by the Ministry of Economy and Industry. For instance, the new [www.biznesinfo.az](http://www.biznesinfo.az) website provides general information on business related topics, while the first e-trade business portal in the country ([www.b2b.az](http://www.b2b.az)) connects businesses by distributing information on products and services to potential buyers and providing free market access. The website of the Ministry of Economy and Industry has a section on entrepreneurship providing information about support programmes, starting a business, subsidised loans, and business opportunities (<http://economy.gov.az>).

Despite the growing number of websites created to help businesses, resources are somewhat fragmented and could be consolidated into a single e-portal. More can also be done to increase awareness of the value and potential benefits of business development services. According to the BEEPS V, only 3.5% of surveyed enterprises in Azerbaijan had hired an external consultant during the previous three years (EBRD, 2014). More generally, targeted initiatives (e.g. voucher schemes, matching grants) could help grow the private market for the provision of business support services.

Other actors are active in providing business support infrastructure. These include donors, such as the German development co-operation agency GIZ, which facilitates business study tours; and the EBRD's Small Business Support Programme, which has helped over 700 enterprises since 2003. NGOs are also active. The Entrepreneurship Development Foundation (EDF) has developed an information resource allowing entrepreneurs to access information on current legislation; state support programmes; international experience; business statistics; development indices; surveys; e-books and brochures.

However, despite the progress in provision of support services to businesses, 79% of SMEs surveyed by the OECD in 2015 were not aware of any services provided by the government to support small businesses.

### *Public procurement*

Azerbaijan has made modest progress in upgrading its public procurement framework since the previous assessment. New amendments to the legislation create the necessary regulatory conditions for the full introduction of an electronic procurement system. The Public Procurement Agency runs a helpdesk for SMEs and provides regular training in Baku and the provinces, although these do not focus specifically on SMEs.

While the possibility of cutting tenders into lots is not stated in the legislation, it is common practice in the majority of procurement procedures. Contracting authorities may allow companies to submit joint bids. It could not be verified whether there is a law governing late payments to contractors or legal provisions to ensure proportionate qualification levels and financial requirements for SMEs. There are no provisions governing late payments to contractors, and discounts for local material and workforce, if applied in practice, do not allow best value for money, which could lead to increased public spending and reduced competition.

Azerbaijan needs to establish an independent review body that is detached from the regulatory body for public procurement to avoid potential conflicts of interest. Electronic procurement should be further developed in line with the reformed legislation – currently full tender documentation can only be obtained in person from the contracting body and for a fee.

### *Innovation policy*

Innovation by SMEs remains very low in Azerbaijan, with none of the companies surveyed by BEEPS V reporting any R&D expenditure in the previous three years. Product and process innovation is similarly limited; with only 2.1% firms surveyed having introduced a new product and 2.8% a new process in the previous three years (EBRD, 2014).

There is no comprehensive national innovation policy in place in Azerbaijan. Instead, innovation policies are scattered across a number of state programmes and policy documents, such as the “Azerbaijan 2020 Vision”, the “National Industrial Strategy 2015-2020”, the “National ICT Strategy of the Republic of Azerbaijan 2014-2020” and the “National Education Development Strategy 2013-2020”. A number of government agencies and structures are implementing or supporting the implementation of state innovation initiatives, including the Ministry of Economy and Industry, the Ministry of Communications and High Technology, and the National Academy of Sciences. However, no formal co-ordination arrangements have been established and, in practice, the various initiatives do not appear to be co-ordinated. The development of an innovation strategy could resolve policy fragmentation, improve monitoring and evaluation of existing initiatives, and improve inter-agency co-ordination. An innovation law is being drafted at present but policy guidance and concrete action plans are likely to be needed to ensure effective implementation.

Despite the absence of an overall strategy, Azerbaijan has introduced a number of initiatives to boost innovative entrepreneurship, although most of them are focused on the ICT sector and appear to target enterprises in general, not just SMEs. In 2012 the Ministry of Communication and High Technologies of the Republic of Azerbaijan



established the State Fund for Development of Information Technologies (the ICT Fund), with activities financed entirely from the state budget. The fund has a supervisory board with representatives from four ministries and three NGOs (the private sector as such is not represented). It supports innovative ICT projects in several ways:

It distributes concessional loans through authorised banks with a maximum 5% interest rate. Loans can be small (from AZN 10 000 to 50 000 for up to three years), medium (from AZN 50 000 to 500 000 for up to five years) or large (from AZN 500 000 to 5 000 000 for up to ten years).

It provides equity and venture capital for the development of new projects, technologies, software and equipment, as well as for commercialising innovations.

It awards grants – mainly to SMEs – for the development of software products, innovative infrastructure projects, and development of e-services. The maximum duration of the grant project is 36 months. In the two first selection processes (up to January 2015), the ICT Fund awarded only small grants ranging from AZN 10 000 to AZN 12 000 to 30 companies in each round, although the maximum potential size of a grant is AZN 300 000.

Azerbaijan has also made significant progress in developing physical infrastructure for innovative companies. Two ICT technology parks are currently under construction in the Pirallahi Islands and in Mingechevir. Once finalised (between 2016 and 2018), they will provide tax benefits to hosting companies, including start-up projects that are receiving grants from the ICT Fund. While construction continues, the Pirallahi techno-park's incubator is already working in Baku. It groups 35 projects selected for ICT Fund support from 120 applicants. They also receive technical support from private IT companies. The first university-based technology park was established in 2013 at Qafqaz University. Its aim is to produce advanced technological products through scientific research in non-oil sectors. It also aims to increase collaboration between universities and the private sector. More generally, under the newly-approved “National Industrial Strategy 2015-2020”, the Ministry of Education is expected to create innovation centres in the country's universities in 2016-17, with the support of the private sector. Significant efforts have also been directed to developing industrial parks. Regulations were adopted in 2014 and the Ministry of Economy and Industry is currently building four industrial parks and one industrial estate focusing on chemicals manufacturing industries, aluminium and metal transformation, light industry, ship construction, and non-oil industry and processing. When operational, these parks are expected to provide concessional loans and training and consultancy support to the participating SMEs.

Despite the above progress, innovation initiatives would benefit from a broader focus on innovation across industries and sectors (as opposed to ICT exclusively) as well as more emphasis on technology transfer, commercialisation of innovations, and closer innovation networks, including research institutes, which remain almost non-existent at present. In this connection, the Azerbaijan National Academy of Sciences, which plays a leading role in the co-ordination of R&D activities in the country and receives most of its funds from the state, has recently announced plans to create a National Innovative Centre by transforming its Scientific Innovation Centre into a technology transfer platform.

### *Green economy*

Environmental policies in Azerbaijan remain focused on the large industrial sector, while the SME dimension is neglected. The “National Industrial Strategy 2015-2020” pays particular attention to the observance of high environmental standards during the

establishment of new enterprises and the use of energy-saving technologies. However, it does not target SMEs.

The Ministry of Ecology and Natural Resources is starting to implement risk-based diversification of environmental regulation: the draft Law on Environmental Impact Assessment allows for the differentiation of environmental impact assessment (EIA) and permitting requirements for enterprises according to their environmental impact, sector and type of economic activity. However, no further reforms are envisaged in this area.

There is a policy to encourage the establishment of eco-industrial parks in order to attract entrepreneurs and investors interested in green business, especially the recycling industry. This involves various exemptions from corporate, land, real estate and value added taxes. Balakhani, the first eco-industrial park, was established in 2011 and currently hosts three companies, but has not been replicated elsewhere.

Limited financing for green investments is available. In 2014, the EBRD lent USD 5 million to Demirbank to finance energy efficiency projects in Azerbaijan. The facility will be used for on-lending to qualifying corporate and individual customers for industrial and residential energy efficiency projects and equipment.

### ***Supporting SME internationalisation (Dimensions 10 and 7)***

Azerbaijan is in the process of developing a new export promotion programme as part of the government's broader economic diversification efforts. SMEs could also benefit from the introduction of support measures to insert themselves into global value chains, as well as the development of export finance. Although Azerbaijan has made progress in aligning its legislation with international best practices, reforms to its conformity assessment and market surveillance are necessary to upgrade existing systems.

#### *Export promotion and integration into global value chains*

International trade in Azerbaijan is dominated by large, often state-owned, enterprises with only 2.1% of small and 1% of medium sized enterprises exporting directly or indirectly (EBRD, 2014). This share of exporting companies is the smallest of all the Europe and Central Asia countries covered by BEEPS. Shortage of working capital is a key problem; 68.2% of Azerbaijani companies use their own or family resources to finance exports. This is the highest figure among Eastern partner countries participating in a 2014 survey conducted by East Invest (2014). Only 20.5% of respondents use commercial banks.

The World Bank's *Doing Business 2015* report ranks the country at 166<sup>th</sup> place for ease of trading across borders due to the large number of documents required (9) and length of export process (27 days, compared with an ECA average of 23.6) (World Bank, 2014). However, a Resolution of the Cabinet of Ministers and a Presidential Decree, adopted in July 2014 and July 2015 respectively, are expected to reduce the number of documents required to clear customs and promote the use of e-customs services.

AZPROMO is the leading agency in charge of promoting international trade opportunities among local businesses, including SMEs. It is a joint public-private initiative established in 2003 by the Ministry of Economy and Industry with operational autonomy and reporting directly to the Minister. Its annual budget is about EUR 1 million and all its services are offered free of charge.

AZPROMO's core activities include export training, product and producer catalogues, promotional events (e.g. business forums, B2B meetings) and funding company

participation in international trade fairs. In 2013, AZPROMO and GIZ jointly prepared and published a detailed export manual (*Instruction Book for Exporters*) covering specific issues related to exporting to the EU. In December 2014, AZPROMO also established the Exporters Club, in which SMEs make up 25-30% of members. The major function of the club is to support manufacturers in exporting Azerbaijani products to foreign markets and establish a platform for communication between non-oil exporters. However, none of the SMEs surveyed by the OECD in 2015 were aware of government programmes to encourage companies to export to or partner with international companies.

Currently, AZPROMO, the Ministry of Economy and Industry and GIZ are developing a new export promotion programme targeting all industries and enterprises operating in Azerbaijan. SMEs are one of the focus areas. The new programme is expected to pay particular attention to building the capacity of AZPROMO itself. The aim is to improve its effectiveness and to scale up and develop more sophisticated export promotion services, such as market intelligence, match-making and linkages, policy advocacy and co-operation with other international trade and investment promotion agencies.

Despite progress in export promotion measures, there is a notable absence of financial support mechanisms for exporting SMEs in Azerbaijan. While exporters benefit from some reductions in customs duties and other fees, export finance is underdeveloped. In January 2014, the President of Azerbaijan announced plans to develop a system of incentives and benefits for exporting companies, although the details of the support measures remain to be seen.

Finally, there are currently no specific government programmes to support SME integration into global value chains in Azerbaijan or to promote linkages between FDI and local enterprises.

### *Standards and technical regulation*

The State Committee for Standardization, Metrology and Patents of the Republic of Azerbaijan (SCSMP) is responsible for implementing state policy in the sphere of technical regulations, standardisation, metrology, conformity assessment, accreditation, quality management and protection of industrial property.

At the moment Azerbaijan's major policy goal is to modernise its standardisation system by transforming existing mandatory standards into technical regulations and voluntary standards, as well as to harmonise Azerbaijani standards with international standards. In 2013, the Standards Institute was restructured into a Standardisation and Certification Institute. It has a broader remit now, including managing a standards database and national technical committees. Draft legislation is currently being developed on standardisation that is in line with EU principles and WTO regulations.

The new law on accreditation was adopted in 2014. However there are still gaps in the law; amendments to this primary legislation are foreseen in order to bring it in line with EU *acquis*. To address these gaps a new EU twinning service to support accreditation is currently being prepared.

With regard to legal metrology, the law on uniformity of measurements was enacted in 2013 and is deemed to be in line with EU requirements. A new law on accreditation was adopted in 2014 and is also in line with the EU *acquis*.

Draft legislation on technical regulations is being developed with the support of the EU Twinning project, and sectoral legislation in priority sectors is in the draft stage.

With regards to conformity assessment, there is still a state monopoly on the recognised conformity assessment bodies, and the current legal framework related to market surveillance does not appear to fully comply with the EU *acquis*.

## The way forward

The 2016 SBA assessment suggests the following as priorities for Azerbaijan to continue improving its SME policy framework:

- **Improve the institutional framework for SME policy making by adopting a strategy or similar policy document** which identifies priorities and concrete actions over the medium and long term. This document could outline the creation of a dedicated SME agency in charge of implementing the policies formulated by the Department of Entrepreneurial Development Policy. It could also introduce structured frameworks for co-ordination amongst all ministries and agencies active in SME policy, as well as for dialogue with the private sector.
- **Prioritise the adoption of the series of draft key laws and regulations which address existing shortcomings.** These include a clear set of rules and guidelines on RIA, and the streamlining of licenses and permits.
- **Reform the legal framework for both bank and non-bank sources of finance** to address bottlenecks in SME access to finance. Completing key pieces of legislation (e.g. on facilitating the establishment of a private credit bureau, the movable collateral registry and legal reforms regarding secured transactions) would fill the gaps in the country's financial infrastructure. Innovative approaches could encourage banks to lend to SMEs, including the establishment of a credit guarantee scheme and improvements to current support schemes. Finally, emphasis could be placed on capital market development as an alternative to bank finance.
- Reinforce the Working Groups of the Strategy for Education Development to include entrepreneurial learning. A dedicated group could be formed focusing on **developing entrepreneurship as a key competence** at all levels of formal education, piloting and evaluating it before mainstreaming it into the curricula. Training and mentoring for high-potential women entrepreneurs should be increased. Enterprise skills can also be developed through a more joined-up SME training intelligence framework to support policy development, monitoring and evaluation.
- **Increase SME competitiveness by strengthening the monitoring and evaluation of existing initiatives on innovation, capacity building and export promotion.** A more strategic approach is needed to ensure that innovation support measures being introduced by the government are coherent and effective. The narrow focus on the ICT sector should be broadened to take in the full framework for innovation, including developing institutional linkages between academia and the private sector. The government could also strengthen general support to SMEs by promoting a private market for business advisory services. One approach could be to co-finance SMEs using these services. Developing trade finance and promoting quality upgrading in the non-oil sector could support the government's export diversification efforts. Further reforms are also needed to the public procurement framework; the establishment of an independent review body detached from the regulatory body for public procurement is a priority to avoid conflicts of interest.

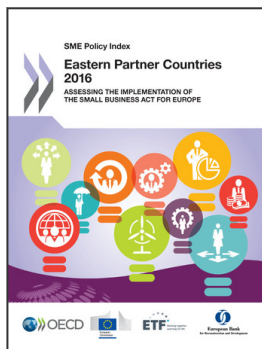
Table 12.4 outlines a potential policy roadmap to guide SME development policy over the short, medium and long term, based on the findings of the SBA assessment.

Table 12.4. Azerbaijan: Roadmap for policy reforms

Policy recommendations (priority reforms in bold)	Timeline (short, medium, long term)
<b>1. Strengthening the institutional, regulatory and operational environment</b>	
• Consider the adoption of a comprehensive SME strategy/programme, potentially including a SME implementation agency	M/L
• Finish ongoing work to develop a RIA framework; as well as improved frameworks for licenses and permits	S
• Revitalise Entrepreneurs Council or introduce formalised PPC platform	S/M
• Improve statistics collection; develop targeted programmes for economic formalisation	S/M/L
• Introduce M&E systems in existing support programmes to evaluate impact on SMEs, improve access to information for potential applicants	M
• Reform the insolvency legal framework to improve access for creditors, introduce incentives for post-petition financing	S/M
<b>2. Facilitating SME access to finance</b>	
• Complete ongoing work on the draft legal frameworks for a private credit bureau, movable collateral registry and secured transactions; consider regulation on leasing	S/M
• Continue capital market development under current state programme, including potential stock exchange platform for SMEs	M
• Consider innovative approaches to supplement collateral requirements; evaluate direct support by National Fund for Entrepreneurship Support	M/L
<b>3. Promoting skills and entrepreneurship development</b>	
• Upgrade entrepreneurial learning developments within the Strategy for Education Development to include (a) a dedicated working group on entrepreneurship key competence development across all levels of formal education; and (b) a developed monitoring and evaluation framework (formal and non-formal entrepreneurial learning)	S/M
• Establish a national dialogue between government, business and the higher education community and student representative organisations (e.g. national symposium) to determine issues and options for more strategic development of entrepreneurship in higher education	S
• Build on already good institutional developments supporting women's entrepreneurship in particular through more developed data and intelligence focusing on high-potential women's entrepreneurship	S/M
• Establish focus groups comprising managers/owners of growing businesses in key sectors to determine training support requirements for onward sharing with public and private sector training providers	S/M
<b>4. Enhancing SME competitiveness</b>	
• Improve support to grow a business development support market (e.g. consultant database, voucher programmes); introduce single web interface for SME support	S/M
• Develop a comprehensive innovation strategy that encourages ICT uptake in all sectors of the economy relying on locally developed ICT skills and offer targeted SME support measures (for example ICT innovation vouchers)	S/M/L
• Promote SME participation in public procurement by establishing an independent review body and publishing all procurement information electronically	M/L
• Provide regulatory and financial incentives for SME "greening"	M/L
<b>5. Supporting SME internationalisation</b>	
• Develop and implement targeted support measures for exporting SMEs, including an enabling environment for trade finance (export credit schemes)	S/M/L
• Increase compliance of national technical regulations and standards with international and EU standards; support SMEs to comply with standards	S/M/L
• Develop targeted programmes to foster FDI-SME linkages (e.g. matchmaking schemes, knowledge transfer)	M/L

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