

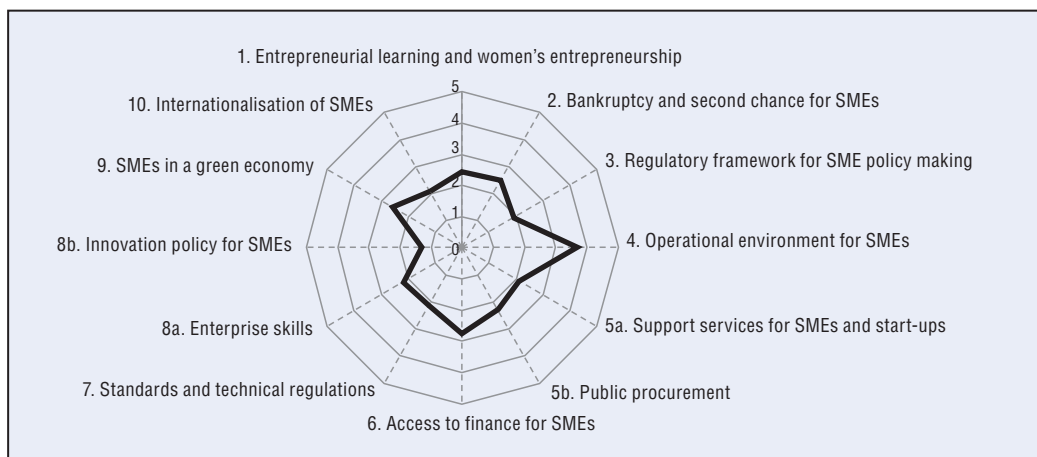
PART III

Chapter 14

SBA country profile: Azerbaijan*

In recent years, Azerbaijan has made significant progress in acknowledging the key role of small business in the diversification of its economy, and in setting up an institutional and legislative framework to address the issues of entrepreneurship. The Small Business Act (SBA) assessment identified the improvement of the regulatory environment as one of its main achievements. There has also been progress in simplification of regulation by reducing the number of days, procedures and costs required to start a business, as well as the introduction of online registration for both individual entrepreneurs and legal entities. Nonetheless, much remains to be done in strengthening horizontal intra-governmental co-ordination mechanisms and creating more opportunities for the small business sector to be involved in the policy-making process through public-private dialogue and its better representation within associations and other advocacy groups.

* This chapter was prepared with the support of the Azerbaijan Marketing Society and Alakbar Mammadov.

Figure 14.1. **SBA scores for Azerbaijan**

Note: The scores for each dimension are calculated based on assigned weights for each indicator (see Annex A for further information).

Overview

This section provides a brief economic snapshot and highlights some recent trends in the business environment. This is followed by a detailed overview of the current situation of the SME sector in Azerbaijan.

Economic snapshot

During 2007-09, the GDP of Azerbaijan grew on average by 15%. As oil production reached a peak, GDP growth was 5% in 2010 and it slowed down to 0.1% in 2011 (EBRD, 2011). According to the State Statistical Committee of the Republic of Azerbaijan, in 2011, oil and oil-related activities accounted for 51.7% of GDP and 92.3% of exports. The reliance of the economy on oil exports represented a buffer against the financial crisis, allowing a GDP growth of 10% over 2008-09. In 2011 the growth has declined due to a decline in oil production. Nevertheless, during the same year, the non-oil sector grew by 9.4%.

The main challenge for the country remains the diversification of its economy away from the oil sector. Significant benefits were derived from the boom in oil revenues after 1994. With the help of the State Oil Fund of Azerbaijan (SOFAZ) a large part of the revenues were invested in grand infrastructure projects and social transfer programmes. However, as the forecasts for oil production are now more pessimistic, the country could ensure its future sustainable development by encouraging entrepreneurial activity in order to create more businesses and jobs in the non-oil related sectors.

Business environment trends

In recent years Azerbaijan has embarked on a number of reforms, improving the business environment and increasing the attractiveness of the country for foreign investors. The main improvements were carried out in areas covered by the World Bank's *Doing Business* report. The country was named the region's main reformer in 2007-08, with positive changes in seven out of the ten *Doing Business Indicators*. In 2007-08, the country made reforms in seven out of the ten indicators and was named the main reformer among 181 countries (World Bank, 2008). With the support of the Azerbaijan Corporate Governance Project, run by the International Finance Corporation (IFC), corporate governance in Azerbaijan has

Table 14.1. **Azerbaijan: Main macroeconomic indicators, 2008-12**

Indicator	Unit of measurement	2008	2009	2010	2011	2012 (proj.)
GDP growth	Per cent, y-o-y	10.8	9.3	5	0.1	3.5
CPI inflation	Per cent, average	20.8	1.5	5.7	8.5	3.5
Government balance	Per cent of GDP	20	6.8	14.3	13.3	11
Current account balance	Per cent of GDP	33.7	23	28.4	26.5	22
Net FDI	USD million	-541	147	113	87	-220
External debt	Per cent of GDP	6.5	7.9	7.5	7.7	8.3
Gross reserves	Per cent of GDP	13.9	12.5	12.4	16.7	16
Nominal GDP	USD billion	48.9	44.3	52.9	64.8	72.2

Note: Data for gross reserves provided by the national sources is significantly different from those provided by IMF. The table shows the IMF data.

Source: 2011 (data collected from *World Economic Outlook* (IMF), World Bank, National Statistical Agencies and Central Banks).

significantly improved, with a jump from 96th to 33rd position. This has led to increased investment in the country. In 2010-11 a number of reforms were undertaken to improve the judicial system and reduce corruption (EBRD, 2011). The authorities also continue to participate in the Extractive Industries Transparency Initiative (EITI).

Despite improvements in the business environment and a good legislative framework, corruption is perceived to be very high. According to Transparency International, Azerbaijan ranks 143rd in the Corruption Perception Index 2011.¹ Independence and transparency of the judiciary are also factors hindering business development and growth (USAID, n.d.).

SMEs in Azerbaijan

According to data provided by the State Statistical Committee of the Republic of Azerbaijan, in 2011 there were 364 581 registered individual enterprises and 60 223 registered small enterprises. Among these only 185 050 individual entrepreneurs and 38 336 small enterprises were active, representing 94.4% of the total of active entities in 2011 (83.1% and 11.3% respectively). The numbers are based on the definition approved in 2009: all individual entrepreneurs are legally considered to be small enterprises, whereas those registered as legal entities are classified according to the approved definition (see Table 14.2).²

Table 14.2. **Definition of small entrepreneurship in Azerbaijan**

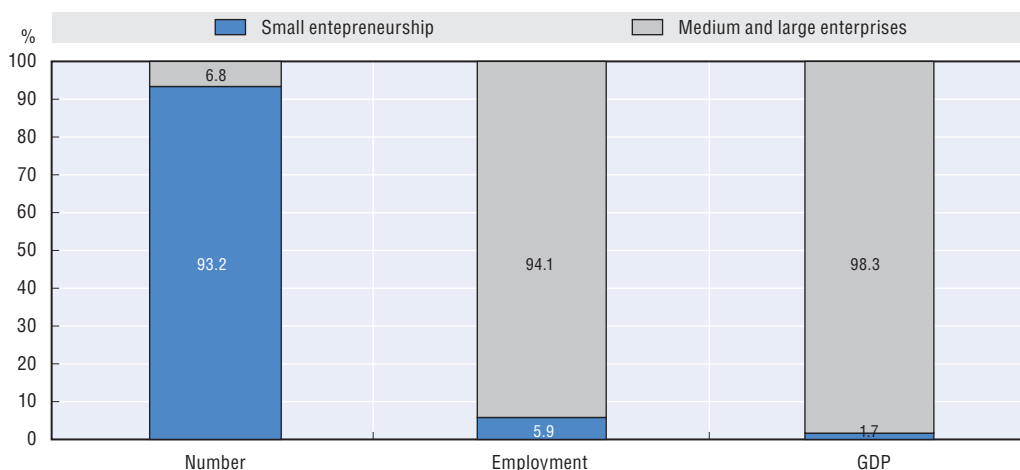
Economic activity	Employment	Turnover
Industry and construction	< 50	≤ AZM 500 thousand (EUR 454.5 thousand)
Agriculture	< 25	≤ AZM 250 thousand (EUR 227.3 thousand)
Wholesale trade	< 15	≤ AZM 1 million (EUR 900.9 thousand)
Retail trade, transportation, service and other economic activities	< 10	≤ AZM 250 thousand (EUR 227.3 thousand)

Source: Decision of the Cabinet of Ministers of the Republic of Azerbaijan, 18 December 2009.

Most small enterprises are operating in low-value added sectors. According to the Statistical Committee of the Republic of Azerbaijan, in 2011 a significant proportion of small enterprises (excluding individual entrepreneurs) were active in wholesale and retail trade (32.5%),³ agriculture, forestry and fisheries (15.2%), construction (13%) and manufacturing (7.9%). The majority of individual entrepreneurs were involved in trade, transport, services and agriculture.

In 2011, more than half of the newly-established enterprises (61.5%) were registered in Baku, 10.3% were registered in Aran, 7.6% in Absheron, and 5.3% in Ganja-Gazakh, revealing significant regional disparities in business activities. Most individual enterprises were registered in Baku as well.

Figure 14.2. **SME sector in Azerbaijan, 2010**



Note: Based on active enterprises; data on employment and GDP do not include individual entrepreneurs.

Source: State Statistical Committee and Ministry of Economic Development.

SBA assessment results

This section outlines the main results for the Republic of Azerbaijan from the 2012 SBA policy assessment of Eastern Partner (EaP) countries. The assessed policy dimensions reassembled and grouped under five wider SME policy areas.

Strengthening institutional and mechanisms for SME policy making

Since 1999, the importance of small entrepreneurship and the need for support for the sector has been acknowledged through reforms aiming to regulate and support small business.

Institutional framework

In 1999, Azerbaijan adopted a number of legislative acts aimed at regulating the development of small entrepreneurship. The Law on Support to Small Entrepreneurship envisages areas of state support for entrepreneurship, such as development of infrastructure, development and implementation of support programmes for small entrepreneurship, ensuring preferential conditions for small entrepreneurship when obtaining financial, material, informational, scientific and technical resources, support in training and retraining of employees, etc. The law also defines criteria for small entrepreneurship that can enable them to benefit from state support.

Development of entrepreneurship constitutes one of the priorities of state policy aimed at diversification of the national economy. Currently Azerbaijan does not have a strategy for SME development *per se*, but elements of entrepreneurship support and specific measures have been included in the wider national State Program on Social-Economic Development of Regions of the Republic of Azerbaijan (2009-13), the State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan (2008-15) and in the associated action plans.

The Ministry of Economic Development of the Republic of Azerbaijan is the institution responsible for the development and implementation of policy for the support of small entrepreneurship, and, more generally, has the mission to create a more favourable environment for business development. There is no one agency responsible for SME policy implementation. However, three agencies in the Ministry of Economic Development – the Azerbaijan National Fund for Entrepreneurship Support (providing financial support), the Baku Business Training Centre (providing consulting and training services) and the Azerbaijan Export and Investment Foundation (providing support for finding investors and export activities) – provide support to businesses within the framework of state policy. Another vehicle supporting the development of SMEs in Azerbaijan is the Azerbaijan Investment Company, which supports the development of the non-oil sector of the economy via termed equity injection along with local and foreign co-investors into the greenfield and brownfield projects in Azerbaijan.

Moreover, few statistical data are available on the size and performance of the SME sector. General information is available at the Ministry of Economic Development and the State Statistical Committee, but it is limited to basic data such as number of firms, GDP and employment. Collecting qualitative and detailed data about the SME sector could significantly improve the ability of the public authorities to analyse the sector and adopt relevant support measures.

Legislative simplification and regulatory impact analysis (RIA)

The Ministry of Economic Development reviews business-related legislation on an *ad hoc* basis, through its activities with the World Bank's International Finance Corporation (IFC). The review and simplification of legislation takes place in key priority areas designated by the World Bank's *Doing Business* report, such as starting a business, dealing with construction permits, obtaining credit and other indicators. A more comprehensive approach would require the development of a national regulatory reform strategy and the appointment of key institutions to review the existing stock of laws and regulations.

In Azerbaijan there is currently no legal framework in place for RIA and the SME test. In order to keep the regulatory environment free from becoming overburdened, newly introduced laws and regulations should be subject to a comprehensive impact assessment, and a formal evaluation of potential impacts on the SME community should be carried out.

Public-private consultations (PPC)

Despite several attempts to institutionalise the relationship between the government and business, public-private dialogue in Azerbaijan could be further strengthened. The Entrepreneurship Council under the President of the Republic of Azerbaijan was created in 2002.⁴ Its main purpose is to promote the development of entrepreneurship and, in this regard, to prepare suggestions to the President of the Republic of Azerbaijan.

In 2001, the Cabinet of Ministers of the Azerbaijan Republic, Azerbaijan Trade Unions Confederation and the National Confederation of Entrepreneurs (Employers) of the Azerbaijan Republic signed the Trilateral General Collective Agreement, which stipulates co-operation between the organisations in the areas of social and economic situation in the society, minimisation of social disparity and promotion of living standards of the population. As well, it identifies obligations of the partners to develop mutual co-operation on the basis of social partnership principles and collective bargaining agreements and contracts. Furthermore, the National Confederation of Entrepreneurs (Employers) of the Republic of Azerbaijan has a

partnership agreement with Ministry of Economic Development, Ministry of Finance and other ministries and organisations. Established in 2002, it formally represents the interests of the business community. Annual events, chaired by the President of the Republic of Azerbaijan, are organised with the participation of ministries and other government institutions, as well as entrepreneurs. In addition, annual meetings are carried out to discuss the state programme “Socio-Economic Development of the Regions of the Azerbaijan Republic in 2009-13”, where representatives of both private and public sector participate.

Overall, the role of domestic private businesses and civil society as agents of economic change remains modest in Azerbaijan. Small businesses have little influence and make little contribution to policy making. Despite the abovementioned consultation bodies there are no strong associations or groups representing small businesses that could be actively involved in a policy debate, move forward the interests of small firms and provide feedback on new and existing legislation. As part of the general business culture in Azerbaijan, businesses prefer to deal with their issues individually, rather than delegating the task to representative bodies, which do not have much formal influence.

Establishing a conducive operational environment

Azerbaijan has done significant reforms in the operational environment for businesses by streamlining company registration and establishing e-government services.

Company registration

Reforms to the company registration process have been highly effective in reducing the administrative burden for entrepreneurs and SMEs in Azerbaijan. In particular, the introduction of one-stop-shops under the Ministry of Taxes has significantly reduced the time and cost of registration. As such, according to World Bank’s *Doing Business 2012* report, entrepreneurs are required to spend just eight days and undertake six administrative procedures to register a business in Azerbaijan. In addition, the state fee for registration has been reduced to AZM 11 (approximately EUR 10), and all other related costs (notary fees, bank charges, etc.) amount to AZM 120 (approximately EUR 115).

Substantial progress has also been made in shifting the burden of notification from the entrepreneur to the public administration, with no official requirements for entrepreneurs to register separately with other administrative authorities. However, one-stop-shops do not currently allow for all registration procedures to be completed at one window. Further reforms should aim to reduce or simplify a number of compulsory pre-incorporation procedures, including the need to obtain a lease agreement to confirm the legal address of the company’s permanent governing body.

The Ministry of Taxes has recently made efforts to further increase the accessibility of registration services. In February 2012, it introduced online registration facilities for limited liability companies with domestically raised equity, removing the requirement to notarise documents when registering online. However, the system does not have a solid track record of implementation, and it is not clear whether all stages of the registration process can be completed online.

The silence-is-consent principle has not been introduced to business-related legislation in Azerbaijan. Implementation of the silence-is-consent principle for company registration would reduce delays in the application reviewing process, increase transparency and reduce opportunities for discretionary and informal settlements. These measures were recommended in a study of SMEs in Azerbaijan, published by the World Bank IFC in 2009.

Interaction with government services (e-government)

Electronic filing of tax returns has been available in Azerbaijan since 2006 through the Ministry of Taxes. Online submission of tax returns and online exchanges of tax-related information has led to reduced administrative costs for both the government and the private sector.

The provision of a wide range of e-government services is essential to lower costs, increase transparency and make public services more accessible to SMEs. There is currently considerable scope to develop e-government services in Azerbaijan, allowing for online filing of social security contributions, online reporting of enterprise statistics and online access to pensions, procurement and cadastre. The government is currently working to increase the range of online services available to entrepreneurs under the action plan of the State Program on Development of Communications and Information Technologies in the Republic of Azerbaijan in 2010-12 (E-Azerbaijan). The Ministry of Communication and Information Technology is also in the process of establishing a specialised state agency in charge of e-government, and additional online services such as an online cadastre registry are expected to be introduced by the end of 2012.

Azerbaijan has taken positive steps to further develop infrastructure for e-government. In particular, the recent introduction of an electronic signature system and the establishment of an operational accreditation body (National Certification Services Centre) is a positive step towards enabling direct interaction between SMEs and the government. In addition, developing links and sharing information between the databases of various public administrations can also significantly save time and reduce costs for SMEs.

Bankruptcy procedures and second chance

Bankruptcy and insolvency in Azerbaijan are governed by the Insolvency and Bankruptcy Law 1997 and the Civil Procedure Code 1999. The Insolvency Law scored “low compliance” when compared with international standards in the EBRD’s 2009 Insolvency Sector Assessment project.⁵ The Insolvency Law is deficient in most areas, with the exception of the treatment of creditors since it allows creditors to participate in insolvency proceedings and treats the claims of creditors in each class on an equal basis. Creditors also have adequate opportunity to seek redress from the court on matters with which they disagree.

However, general weaknesses of insolvency proceedings undermine these advantages. Especially problematic are provisions on the avoidance of suspicious pre-bankruptcy transactions, since they fail to provide the necessary details to create a predictable avoidance regime. The law also does not contain provisions requiring the registration or licensing of insolvency administrators, provisions on the appointment or review of insolvency administrators or on provisions on professional work standards, ethical rules or discipline for insolvency administrators.

In practice, the law has rarely been used since its adoption in 1997 due to the lack of trust in the judiciary system and a lack of knowledge on the part of stakeholders and main actors. As a result, Azerbaijan only ranks 95th (out of 183 economies) in the World Bank’s *Doing Business 2012* Index in the indicator “resolving insolvency”, which is lower than the EaP average (80).

Azerbaijan performs slightly better than the regional average on length of time for completion of bankruptcy proceedings (2.7 years against the EaP average of 3.2 years) and

bankruptcy cost (8% of the estate against the EaP average of 14.8%). The recovery rate (cents on dollars) is 29.7. It has gradually been falling over the last nine years from 33.4 in 2004. Discharge from bankruptcy for SMEs is not determined in the legislation. Public authorities could also play a more supporting role with regards to settling debt by treating tax debts as a lower priority.

Facilitating SME access to finance and developing the legal and business environment

Similarly to other countries in the region, bank finance is the main source of external finance for SMEs. However it remains scarce. Other sources of finance, such as leasing and microfinance, have recently increased in importance. The legal framework has particularly improved in terms of cadastre and credit registry. The implementation of a flexible definition of collateral, a registration system of pledge on movable assets and the enforcement of creditors' rights will contribute to the improvement of access to finance for SMEs.

Sources of external finance for SMEs

The low total amount of domestic credit available to the private sector, amounting to only 19.5% of GDP at the end of 2011, significantly restricts access to finance for SMEs. Although lending to SMEs has generally increased, the SME loan portfolio is estimated to account for only about 6% of total bank lending. The banking sector is largely locally owned and the state-owned International Bank of Azerbaijan continues to dominate the market with over 40% of market share. Although 44 banks operate in the sector, the banking system remains segmented and the top five hold 61% of total assets. Since 2005, the regulatory and supervisory framework has improved. The Central Bank of Azerbaijan has continued to seek sector consolidation through a gradual increase in capital requirements. Growth in credit to the private sector, while strong at more than 60% per year up to 2008 albeit from a low level, slowed substantially due to the crisis in 2009-10 (to about 9% in 2010). Non-performing loans have also increased considerably from 2008 reaching 6.4% in 2011. This has further affected bank lending to SMEs.

The leasing sector is under development. The Law on Leasing was adopted at the end of 1994. In 2003, the tax regime was made more favourable for leasing activities. Following favourable tax regime amendments in 2003, the country's leasing portfolio increased considerably. Increased competition in the sector has also resulted in the introduction of new products and services as well as some sectoral specialisation. According to the Azerbaijan Association of Leasing Companies, 44% of leasing companies operate in agriculture and 34% in construction. Nevertheless, important problems persist such as inadequate regulation that increases the costs of the leasing transaction for the lessee, the person to whom a lease is granted. The total leasing portfolio accounted for only 0.25% of GDP in 2010, much less than the EU average.

Other sources of external finance for SMEs, such as risk capital and capital markets, are underdeveloped. The Law on Investment Funds was established in October 2010 and regulates risk capital. So far, there are two local investment companies present in the country; the state-owned Azerbaijan Investment Company and the Khazar International Investment Company. Venture capital is virtually non-existent. A difficult business environment and poor prospects restrict private equity activities. In Azerbaijan, the Baku Stock Exchange (BSE) has been operating as a trading and securities market since 2000. The

traded volume consists mainly of government treasury bills and bonds although equities and corporate bonds have increased since 2009. In 2010, the total market turnover represented 9% of GDP.

Public support to SMEs, mainly in the form of subsidised credit facilities, has been available since 2002 through the National Fund for Entrepreneurship Support (ANFES). This support is provided through local banks at a typically subsidised interest rate up to 6%. It offers small amounts of credit (AZM 5 000 to AZM 50 000), medium-sized credit (AZM 50 001 to AZM 500 000) and large credit (AZM 500 001 to AZM 1 million). Although the fund finances larger projects as well, the support system is designed to encourage the development of SMEs operating mainly in agriculture, industrial production, infrastructure and tourism across the country. In 2011, ANFES provided financial support to over 1 643 SMEs mainly in the agriculture sector, amounting to about AZM 138 million (USD 170 million). In addition, ANFES provides start-up funding for special groups such as young entrepreneurs and women.

Microfinance institutions are an important source of financing for SMEs in Azerbaijan. The sector has been regulated by the Central Bank of Azerbaijan since 2010. In 2009, the law was adjusted to permit microfinance institutions to collect deposits to ensure their long-term sustainability. As of August 2011, a number of microfinance organisations have been operating across the country servicing over 200 000 microborrowers. There are also 81 non-banking financial organisations providing microfinance, 12 of which are funded by international humanitarian organisations. According to the Microfinance Information eXchange (MIX), microlending accounted for about 2% of GDP in 2011.

Legal and regulatory environment

The cadastre of land and property is quite efficient because of the limited number of procedures and its low cost of registration. Time spent in the registration process has considerably decreased since 2008. Azerbaijan ranks 9th in property registration in the World Bank's *Doing Business 2012* Index. Even though land registration has considerably increased since 2009, land ownership has not been fully documented and online services are not available.

A Centralized Credit Registry (CCR), used by banks and credit institutions, was established by the Central Bank in 2005. Information concerning a person may only be released upon his/her consent. Debtors may access the registry and, for a fee, banks may consult it in order to assess potential clients. In February 2011, amendments and changes to the Law on Centralised Credit Register were adopted allowing organisations that provide loans (other than banks) to join the CCR. A project developed by the IFC is aimed at improving and implementing a legal framework for the sharing of credit information. It aims to increase the capacity and effectiveness of credit information bureaus and raise the public's awareness about the role of credit bureaus.

While there is no centralised collateral register of pledge on movable assets in Azerbaijan, mortgaged property is registered by the Real Estate State Register Service (ASRERS) after notarisation. Prior to accepting property as collateral, a bank requires documentation from ASRERS providing evidencing that the property in question is not pledged to another creditor. The legal position for taking mortgages (and for taking pledges) remains unclear as do the requirements and procedures for registration. Personal guarantee agreements in connection with small loans are concluded by the guarantors at

the relevant bank. Bank loans with principal amounts above AZM 5 000 (EUR 4 200) are subject to collateral, preferably real estate. Collateral levels remain high at around 200% of the loan amount.

The rights of creditors are protected by the Law on Pledge, adopted in 1998. This legal framework on secured transactions ensures the ability of secured creditors to seize collateral after re-organisation and the fact that secured creditors are paid first out of proceeds of the liquidation of a bankrupt firm. Management does not retain administration property pending the resolution of re-organisation. Further improvements are necessary to effectively enforce creditors' rights and ensure collateral recovery in case of bankruptcy.

Other factors that affect demand and supply of finance

There is no national strategy to promote financial literacy in Azerbaijan, although government awareness has recently increased. A special project related to financial literacy is also being prepared together with the Ministry of Education.

Promoting a culture of entrepreneurship and skills development

Azerbaijan is the only country in the region with a growing young population. Azerbaijan's oil industry still accounts for more than half of GDP, but does not generate much employment. Entrepreneurship is important in terms of employment and is essential for diversifying Azerbaijan's economy. Entrepreneurship is a widespread phenomenon in Azerbaijan and provides a future for many people.

There are many initiatives to support entrepreneurship including through education and training, many linked to each other. Many partnerships, sometimes as the result of formal policy processes and national programmes, encourage dialogue on entrepreneurship and entrepreneurial training issues. There are official steering committees for national programmes such as the National TVET Reform Programme, and the National Programme for Youth which include different public bodies, NGO's and employers and trade union representatives. The nature of such partnerships is rather formal.

More engaging and interactive co-operation can be found at the level of projects and donor activities that are based on informal and local arrangements or linked to a specific lead actor. Examples of these are the Adult Education Association, established in 2008, and the co-operation between vocational education and training schools and colleges and local entrepreneurs, or bilateral co-operation within the framework of EU-funded and bilateral education projects.

There is a clear need for defining roles and functions in entrepreneurial learning (EL) policy partnership, bringing together public and private stakeholders, encouraging the dialogue aiming at structured a lifelong EL policy framework – to reinforce common efforts. Although there are examples of initiatives by public and private partners as described above, there is no dedicated partnership mechanism for monitoring the development of entrepreneurial learning, for advising on policy improvement measures or for the exchange of good practice. Some existing institutional structures at the national level could consider bringing EL issues onto their agenda (e.g. the National Entrepreneurship Support Foundation, the Small and Medium Entrepreneurship Development Agency and Regional Entrepreneurship Centres).

Thanks to contributions from the Ministry of Education and the Committee of Women, Children and Families, the self-assessment for Dimension 1 on the policy framework for

entrepreneurial learning was completed. A positive development in the education system is that entrepreneurship, together with other core skills, is now integrated into a new national curriculum, introduced in 2007, for all general education students in Azerbaijan. The curriculum is being introduced gradually, and has so far only reached primary school pupils. Under the banner of life skills these pupils are introduced to entrepreneurship. For secondary school students the topic of life skills has become a compulsory extra-curricular part of the existing curriculum which is compulsory, but where students are not assessed. This initiative of the Ministry of Education is drawing on best practices in the Russian Federation and Kazakhstan.

Another example of good practice is an employer engagement manual that has been developed with the support of the British Council to assist schools in being more entrepreneurial in dealing with local companies. The Ministry of Education has also established an electronic network that provides information on courses, including entrepreneurship education for schools and for a wider public. With the support of the World Bank project Social Protection Development (approved in 2008), the State Employment Service is developing new working methods including active support to clients for establishing SMEs. Clients are trained on how to defend a business plan and how to obtain financial support. Information is available publicly on the web as well as through the distribution of brochures. The Baku Business Training Center has been working with the German development agency, GIZ, on developing entrepreneurship courses and drawing on German experience. The State Employment Service has integrated and adapted the internationally tried and tested ILO modules Start Your Own Business and Know about Business⁶ and is exchanging information and experience on self-employment programmes with the employment service of Ukraine.

The participation of women in entrepreneurship in Azerbaijan is still below the level of some of the other countries, but Azerbaijan is catching up through a series of measures to promote women's entrepreneurship. The state systemically supports gender equity in Azerbaijan by implementation of state programmes, establishment of the State Committee on the Issues of Family, Women and Children, "engendering" various parts of national legislation, *e.g.* employment and education, and active co-operation with international organisations and networks to support gender equity programmes and policies. Government support measures in particular cover increasing women's self-employment and engagement of women in business activity. These measures are also co-ordinated by the State Committee on the Issues of Family, Women and Children. There are a number of successful examples of holding public events, training programmes jointly organised by civic interest groups and the government in Azerbaijan, both in the capital and in the regions. A recent development at the national level is the establishment of the Union of Women Entrepreneurs which contributes to policy partnership for enhancing women's opportunities as contributors to national growth and competitiveness. It is important to continue these efforts to establish a structured social dialogue and national partnership, adoption of targeted national policies and dedicated programmes to support the entrepreneurial activities of women and raise society's awareness of women's entrepreneurship as an important economic and growth objective.

The area of non-formal learning is also developing. The Adult Education Association, already mentioned, brings together private and public actors. The Baku Business Training Centre provides different types of training courses in different parts of the country, based on a regular local Training Needs Analysis. The State Employment Service provides support

through open youth clubs to activate young jobseekers to work towards employment. This includes self-employment. Twice a year the employment initiative, First step in career, is announced on TV. Internet TV YURD (www.yurd.tv) regularly reports on entrepreneurship initiatives. The state employment service is running a programme with the support of the World Bank Social Protection Development, for people who want to start their own business. NGOs are also active in providing entrepreneurship courses throughout the country, particularly for specific target groups such as displaced persons. There are TV programmes covering the good practices of small businesses: for example, “Quality Sign”, “Village Hour” (on farmers’ experiences) and entrepreneurship courses are advertised.

The Ministry of Education oversees the quality of education and training, and has started an ambitious programme for the accreditation of public and private providers. On the practical level, preparations for a national system for the quality assurance of training programmes are still at an early stage, although the Baku Business Training Centre has established clear principles for quality assurance of the courses it is delivering by insisting on trainers with international certification and the systematic evaluation of courses. Various international programmes have their own built-in quality assurance instruments. ILO’s courses, Start your business, Improve your business, etc., are adapted to international standards although their coverage is limited. Training of trainers (ToT) has been implemented to ensure the quality of courses organised in co-operation with international partners: some examples are a ToT programme with GIZ (2010-11); ToT within the framework of co-operation with ILO (three courses on starting, organising and developing a business) and a number of short-term courses.

No data are available for training on start-ups. State support for training, infrastructure development and information and business-consultation services for growth enterprises is carried out within the general framework of SME development. There are no special policies dedicated to the support of growth enterprises, but specific evidence must be collected on the provision of training and business advisory services to growing enterprises so that financial and training support can be further tuned to the specific needs of enterprise growth in the country. A significant step in improving access to training opportunities was made in 2012 with the introduction by the Baku Business Training Centre (BBTC) of online training for SMEs. Two distance learning courses on Potential Exports Markets and Production of Organic Agriculture Products have been offered through BBTC, which has benefited more than 80 entrepreneurs from four regions of Azerbaijan.

Enhancing SME competitiveness

Business information and services

In Azerbaijan, business services are provided by both government agencies and through donor-funded programmes. The BBTC, established in 2007, operates under the Ministry of Economic Development and provides basic business information, consultancy services and training to businesses. It has six regional offices throughout the country. The BBTC also co-operates with the German International Cooperation Agency (GIZ) in the area of management training and provision of courses. The National Fund for Entrepreneurship Support complements its microfinancing with business services and support in the preparation of business plans. The Azerbaijan Export and Investment Promotion Fund provides support to firms in finding partners, and conducting analysis of potential export markets. Unfortunately, there is no information on the effectiveness of these activities and it is not clear to what extent small business benefits from these services.

Public support is complemented by donor-funded programmes such as Turn Around Management (TAM) and Business Advisory Services (BAS), an initiative of the EBRD that provides easier access for SMEs to consultancy services and international expertise. The World Bank, within the framework of the Second Agricultural Development and Credit Project, has supported, among other components, the establishment of regional advisory services for farmers. These services give farmers easier access to rural business and agricultural support such as information and advisory services.

Small businesses or entrepreneurs can obtain access to business information at the regional offices of BBTC as well as at business information centres within the framework of donor-funded programmes. A specialised website for businesses (www.biznesinfo.az) offers business-related information, including how to do business, current legislation and a list of businesses registered on the website, sorted by the types of services they provide. The website focuses on news, rather than on legislative developments or practical information on how to conduct a business, but it does have a question and answer communication tool. The web portal of the Ministry of Economic Development (www.economy.gov.az) also provides useful information to small businesses and entrepreneurs.

In Azerbaijan, there are no special initiatives that provide business support to start-ups, but they have access to the same services as other firms. According to government sources, in 2011 the BBTC provided 1 237 consulting services for start-ups and businesses across the country. Business incubators are only now being considered.⁷

Public procurement

Public procurement in Azerbaijan is regulated by the Law on Public Procurement which was adopted in 2001. Even though there is no special mandatory rule regarding the cutting of tenders into lots, the latter is reported as widely used. The legislation facilitates joint tenders and evidence of implementation is reported by the State Public Procurement Agency.

There is no separate legislative framework for combating late payment. The law does not discriminate against foreign economic operators. Buyers are required to set a proportionate qualification level and financial requirements, but there is no information as to the level of implementation of this rule.

Information on public procurement opportunities is centralised at national level and is free of charge on the website: www.tender.gov.az. The e-procurement system is not yet fully operational; only basic information on tenders is provided in an electronic format, but progress is ongoing to introduce e-procurement.

Innovation policy

Innovation policy in Azerbaijan is developed and implemented by the Ministry of Communications and Information Technologies, Ministry of Economic Development and the Azerbaijan National Academy of Sciences. However, innovation does not feature as a central focus of the policies and programmes developed by these institutions. The development of a comprehensive innovation strategy, with clear information on implementation plans, budgetary allocations and timelines for completion, is a necessary first step to enhance innovation and technology transfer in Azerbaijan. Greater collaboration and co-ordination across public institutions are also needed to develop an efficient and coherent approach to innovation policy and to avoid any overlap of policy actions. Currently, a law on innovation activities is being prepared by the Ministry of Economic Development.

A number of pilot projects and schemes to provide support for innovative enterprises are currently in place in Azerbaijan. For instance, the Ministry of Communications and Information Technologies is in the process of establishing Regional Innovation Zones, which will provide SMEs with access to technology parks and innovation centres focused on the ICT sector. The National Academy of Sciences has also established a Science Innovation Center in Baku to support the innovation process and technology transfer from abroad. However, participation in collaborative research projects by the private sector remains limited. Strengthening links between publicly funded R&D institutions and the private sector would lead to greater knowledge sharing and partnerships between research centres, SMEs, and other key stakeholders.

In recent years, the government of Azerbaijan has established a number of funds to support the development of scientific and entrepreneurial ventures. Financial support for innovative entrepreneurs and SMEs is available through the Science Development Fund and the National Fund for Entrepreneurship Support. However, such financial support schemes are limited in scope, and SMEs would benefit considerably from a broader range of funding schemes. Active policy measures may also be used to introduce a wider range of innovation support services, including business planning, consultancy services and technical assistance.

Green economy

The national programme on Environmentally Sustainable Socio-economic Development (2003-10) approved by the order of the President of the country dated 2003 identifies environmental measures taking into account also the interests of SMEs.

The Ministry of Ecology and Natural Resources (MENR) provides methodological support with the objective of greening of the SME activities. Furthermore the “Centre for a cleaner production and energy efficiency” is operating, which aims to create conditions to increase the energy efficiency and introduction of “Cleaner Production” concept in production, agriculture and households.

Information on environmental problems as well as the results of environmental monitoring are provided by the mass media and the continually updated web page of the MENR. MENR promptly responds to requests of SMEs on these issues. During visits to SMEs, representatives of the MENR regularly provide information about available environmental management systems (EMS). The government provides information on the EMSs to SMEs, but no support measures are in place for SMEs to apply for certification. Currently, approximately 100 SMEs have an ISO 14001 certificate.

Export promotion

Export promotion activities in Azerbaijan fall under the responsibility of the Azerbaijan Export and Investment Promotion Agency (AZPROMO), which was established by the Ministry of Economic Development in 2003. The agency’s primary role is to increase non-oil foreign direct investment and to expand the non-oil export capacity of the country. Close co-operation with the private sector allows the organisation to act both as an advisor and as a government agent in implementing new business initiatives. The agency provides support to firms in finding partners and conducting analysis of potential export markets. The agency provides the following services: trade information, marketing support, information supply, consultancy and legal advice, facilitation and logistics support, as well as training. The website *b2b.az*, established with the support of GIZ, allows the firms, specifically small ones

that do not have access to information and business networks, to find business partners. In 2011 the agency also covered costs for the participation of firms in various exhibitions in Germany, USA, France and the Russian Federation.

The target group of the agency is both the existing and new exporters, and is selected based on the specific characteristics of the business and its potential for attracting investment or exporting, independent of the firm's size. No information is available on the number of small businesses supported.

An Export Promotion Programme (2011-13) was adopted by the Cabinet of Ministers in 2011. The action plan envisages the improvement of the legislative framework related to exports, strengthening the co-ordination of export policy by AZPROMO, encouraging production of quality goods for export, improving the export infrastructure and the system of quality control, and finally, export promotion and increasing awareness of entrepreneurs about export opportunities. The implementation of the action plan is co-ordinated by the Ministry of Economic Development.

Single Market opportunities

Azerbaijan has taken very limited steps towards accession to the World Trade Organization (WTO). This is a prerequisite for the EU to consider starting negotiations on a free trade agreement.

The national system of technical regulations, accreditation and standardisation represents a serious constraint for SMEs, as Azerbaijani national standards do not comply with international or EU standards. A new law on standardisation has been drafted on WTO principles, but is yet to be adopted.

The way forward

Based on the SBA assessment, Azerbaijan could consider the following steps to ensure continuing progress in the area of SME development:

- **Improving the institutional framework and intragovernmental policy co-ordination** is crucial for a more effective policy for the development of entrepreneurship. A strategic approach towards SME policy development, covering a larger number of issues, including both horizontal and targeted support, could further optimise the work of public institutions in the area of entrepreneurship support. They could then co-ordinate their various efforts in order to avoid overlap and to ensure that all crucial areas affecting SMEs are addressed.
- In order to improve the overall institutional framework and to ensure the enforcement and effectiveness of the policies promoted by the government, emphasis should be placed on **horizontal co-ordination between the ministries and agencies** involved in SME-related issues. In this way, links could be made between initiatives and projects and overlaps could be avoided.
- Azerbaijan could benefit from directing **public business support** (business services, export promotion activities, trainings, etc.) **towards entrepreneurs and small business**, as a source of new business ideas and opportunities for diversification of the economy. In particular, the definition of entrepreneurship could be broken down into smaller categories, so that various sizes of SMEs are targeted based on their specific characteristics, needs and challenges.

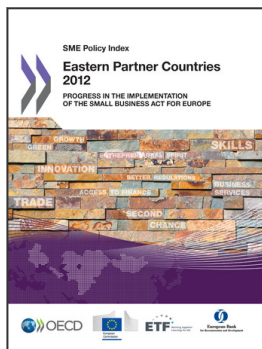
- **Improvement in the capacity, coverage and effectiveness of credit information system** would help to overcome information asymmetries, and establishing a central collateral registry would improve sources of collateral. This would significantly improve the ability of SMEs to access bank lending. Further improvements in the legal framework that ensure creditors' rights (to allow secured creditors to ask for creditor consents when a borrower files for re-organisation) and effective enforcement of collateral in case of borrower default are important for encouraging bank finance to SMEs.

Notes

1. <http://cpi.transparency.org/cpi2011/results/#CountryResults>.
2. For new start-ups, the criteria for classification during the first year of operation are based on the number of employees only, while for individual entrepreneurs (individuals involved in business operations without establishing a legal entity) it is based on the annual turnover.
3. Including car and motorcycle repair.
4. The Entrepreneurship Council under the President of the Republic of Azerbaijan was created based on the Decree of the President of the Republic of Azerbaijan, No. 475, dated 27 August 2002. The regulation of the Entrepreneurship Council was adopted based on the Decree of the President of the Republic of Azerbaijan, No. 867, dated 2 May 2003 (http://e-qanun.az/files/framework/data/1/c_f_1286.htm).
5. www.ebrd.com/pages/sector/legal/insolvency/insolvency_sector.shtml.
6. www.ilo.org/empent/Projects/WCMS_143382/lang-en/index.htm.
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