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of the Republic of Azerbaijan  
dated December 6, 2016



**Strategic roadmap  
for the production of consumer goods in  
Azerbaijan at the level of small and medium  
entrepreneurship**

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# 1. EXECUTIVE SUMMARY

Development of small and medium entrepreneurship (hereinafter referred to as the SME) in Azerbaijan is important to diversify economy, increase competitiveness, employment, meet demand for consumer goods using local resources as well as to ensure economic development. As seen from the examination of the SME contribution to GDP and employment in advanced economics, developing the SME to become the key enabler for sustainable economic development is one of the objectives in Azerbaijan.

“Strategic Road Map for the production of consumer goods at the level of small and medium entrepreneurship” (hereinafter referred to as the Strategic Roadmap) is created as part of a countrywide effort to build a competitive, inclusive and sustainable economy. These actions cover eleven different sectors and the strategic roadmaps for overarching national economy prospects of the Republic of Azerbaijan for each sector. 12 strategic road maps covering national economy and 11 sectors of the economy has been developed in the perspective to implement the tasks set by the Presidential Decree number 1897 dated 16 March 2016 on the approval of “Key directions of the strategic road map for national economy and mains sectors of the national economy”.

The Strategic Roadmap sets the primary policy direction for Azerbaijan in short, medium and long term perspectives for economic reforms and development through the SMEs. This document consists of strategic vision for 2020, long term vision for 2025 and target vision for post-2025. The development strategies and action plan of Strategic Roadmap for 2016-2020 do not only clarify the strategic objectives and targets, but also defines a series of priorities to achieve objectives set for these years, as well as actions to be implemented under each objective, name, key and other implementers, result indicator and implementation deadline of each action. The effective implementation of the selected priorities in the short-term will ensure focused and effective execution, which will lay foundation for further efforts in medium to long term. Furthermore, the Strategic Roadmap will be implemented in communication and collaboration with key non-governmental stakeholders, including domestic and international private sector players.

The followings were set as strategic targets for the development of the SME in the country in order to achieve relevant strategic objectives of the Strategic Roadmap and ensure maximum utilization of available potential:

- to further improve business climate and regulatory framework in the country to increase SME’s contribution to Azerbaijani in the long run;
- ensure efficient and cost-effective access to financial resources to establish sustainable network of the SMEs;
- internationalize the SME activity and increase access to international markets in order to increase currency stocks and bring domestically produced products in line with international standards;

- increase product and service offerings in regional markets with special emphasis on training of skilled labor force and improvement of skills of the SMEs;
- promote innovations to boost competitiveness of the SMEs and strengthen research and development in this field.

Particular attention will be paid to strengthening stimulatory impact of financial and tax policies introducing improved legislative framework governing the SME-related issues, increasing access to financial resources, strengthening technical and information basis, as well as area-based optimal placement of the SMEs in the country, protecting domestic market, developing market infrastructure, introducing “single window” approach for issuance of necessary documents, reinforce joint work among entities representing this sector, etc.

Realization of these strategic targets will require a total of AZN 700 million investments, which is estimated to bring AZN 1 billion 260 million added value and 34,240 employments in the sector.

**Table 1. Investment required and results expected for the actions to be taken under this Strategic Roadmap**

#	Name of the priority	GDP impact in real terms (million AZN, 2020)	Employment (full time equivalent, 2020)	Investment (million AZN)
1.1.	Establish central SME Agency	200	240	10
1.6.	Establish SME-specific special economic zones and clusters	475	23300	630
2.1.	Carry out reforms to address winding-up of and insolvency of business	450	900	–
3.1.	Broaden financial services for international trade transactions of the SMEs and promote foreign direct investments	55	9800	3
3.2.	Create sector-specific export associations	45	–	–
4.1.	Develop business incubators and startup projects, establish model enterprises	35	–	50

**Note 1.** Only the priorities that have GDP impact more than AZN 10 million and create more than 100 jobs are shown in this table. Other priorities are supportive to ensure the achievement of envisioned impact.

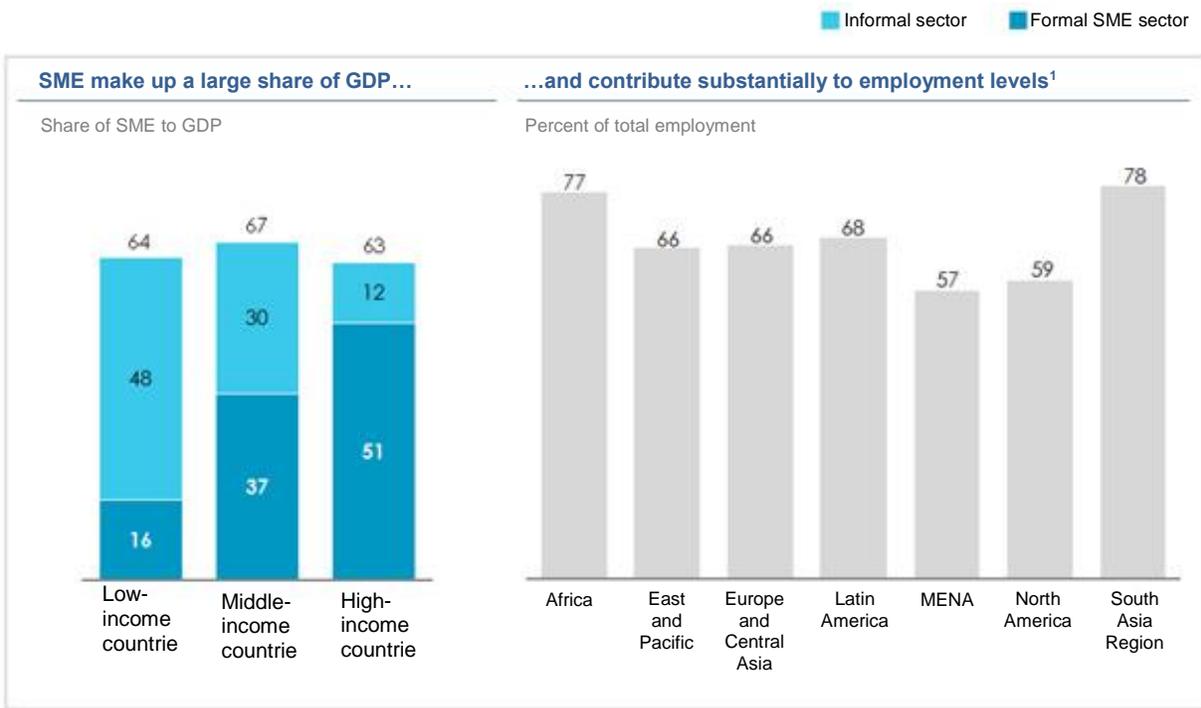
**Note 2.** These figures are provided to give a sense of the priority impact. During implementation, each priority would need a detailed feasibility assessment and clarification of figures.

## 2. GLOBAL TRENDS

Small and medium enterprises (the SMEs) play a vital role in employment and growth of many countries across the world. According to the World Bank data, in high-income countries, the contribution of the SMEs to GDP and employment is over 50 and 60 per cent accordingly. Emerging nations across the world take systematic measures to strengthen economic sustainability, competitiveness and economic activeness. As a result competitive market relations get established, enabling supply and demand balance and stabilization of prices in the market, increase in competitiveness of goods and services offered, effective introduction of economic regulation instruments, economic sustainability and flexible absorption of external impacts. In the light of these reasons, both advanced economies and emerging countries exert multiple efforts to adjust economy to crisis rapidly via the SMEs.

Countries such as the USA and EU Member States managed to achieve significant growth thanks to the development of the SMEs. For example, the SMEs represent 99 percent of businesses in the European Union (EU), where GDP and employment impact of the SMEs is more than 60 per cent. In 2014–2015, the SMEs contributed 58 cents of every euro of added value in the EU countries.<sup>1</sup>

**Exhibit 1. The SME contribution to GDP and Employment (with percentage)**



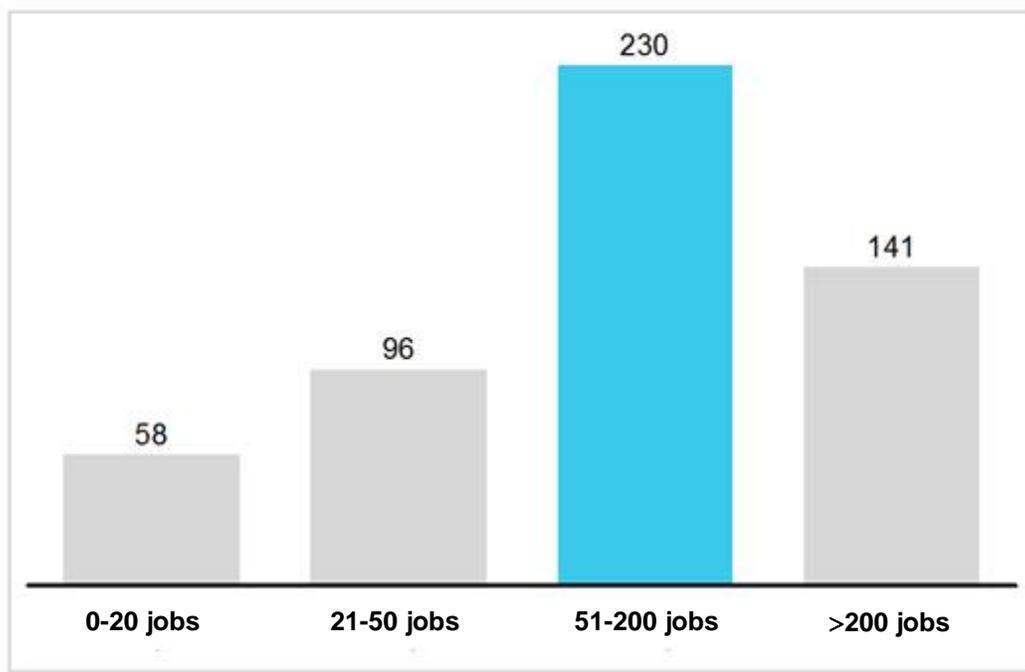
For SMEs with up to 250 employees except North America where it is up to 300 employees

Source: World Bank

<sup>1</sup> Source: Official website of the European Commission

In developing countries, medium enterprises act as main guarantor of employment (Exhibit 2). One of the global trends associated with SMEs, is the effort to ensure sustainability of small enterprises to ensure that they reach the level of medium enterprises. This effort targets to improve sustainability and competitiveness indicators of enterprises.

### Exhibit 2. Employment impact of Medium Enterprises<sup>1</sup>



1. Calculated on the basis of average indicators for 2005-2009 years

Source: "Endeavor" database (include company data from Argentina, Brazil, Chile, Colombia, Egypt, Jordan, Mexico, South Africa, Turkey and Uruguay)

Other SME specific global trends are the followings:

- International practice suggest that the SMEs tend to have limited access to finance as risk factors associated with them are high. Consequently, both advanced and emerging economies tend to introduce special approaches to the SME funding, such as establishment of guarantee scheme, introduction of collateral-free financing mechanism, risk insurance, etc.;
- Countries across the world launch various support measures facilitating the SME integration into global supply chains to support their increased role as supplier of separate components of products produced by trans-national companies. It is now a widespread practice that trans-national companies to procure majority components of their products from small and medium enterprises located in different geographies. It helps the SMEs to become participants of sectors with high added value in global value chain;

- A centralized body serving the SMEs is established in many countries across the world to ensure proper coordination of support of the SMEs and create favorable business environment;
- The SMEs create horizontal and vertical clusters to keep their positions in markets and reduce production costs. So that, through these clusters the SMEs achieve economies of scale through optimization of costs.

### **3. ANALYSIS OF CURRENT SITUATION**

#### **3.1. Current state of small and medium entrepreneurship**

Over the past period of time, Azerbaijan has taken several actions to support the development of entrepreneurship.

Under the “State program for support of small and medium enterprises in the Republic of Azerbaijan (1997 – 2000 years)” and “State Program on Development of Small and Medium Enterprises (2002 - 2005 years)” approved by the Decrees of the President of the Republic of Azerbaijan numbered 610, dated 24 June 1997, and numbered 753, dated 17 August 2002 respectively, were adopted and implemented.

In addition, the following programs contained actions for the development of entrepreneurship, further improvement of favourable business environment, improvement of mechanisms for protection of the entrepreneurs’ rights and statutory interests: the “State Program on reliable food supply of population in the Republic of Azerbaijan in 2008 – 2015 years” approved by the Decree of the President of the Republic of Azerbaijan numbered 3004, dated 25 August 2008 and numbered 3043, dated 15 September 2008 and the “State Program on poverty reduction and socio-economic development in the Republic of Azerbaijan in 2008 - 2015 years”, as well as “State Program on socio-economic development of the regions of the Republic of Azerbaijan in 2014 – 2018 years” approved by the Decree of the President of the Republic of Azerbaijan numbered 118, dated 27 February, 2014 and the “State Program on the development of industry in the Republic of Azerbaijan in 2015 – 2020 years” approved by the President of the Republic of Azerbaijan numbered 64, dated on 26 December, 2014.

April 25 was set as the “Entrepreneurs’ Day” by the Decree of the President of the Republic of Azerbaijan numbered 1988, dated 21 April, 2016 with the goal of increasing the contribution of entrepreneurs to strategic issues such as employment, non-oil export and development of business enabling environment and enhancing overall support to business in the country.

At the same time, the following actions have been implemented: the number of inspections among entrepreneurs have been reduced for two years, number and costs of licenses and permits issued for start to business have been reduced, permit issuing procedures have been simplified, including works on creation of electronic portal were continued, Appeal Councils have been established to protect entrepreneurs’ rights, “single window” system has been introduced for transportation of transit cargo through the country, tax and customs incentives have been introduced for a period of 7 years to increase promotion of investments in the country, electronic-customs services have been further expanded to simplify customs procedures during import-export transactions, number of required documents and procedures have been minimized, “Green Corridor” and other customs inspection mechanisms available in international practice have been introduced for clearance of goods and vehicles, public procurement has undergone improvements, call centers have been established to directly respond to requests of businesses and provide information and consultancy services.

Consequently, the business climate has been further improved in Azerbaijan and the country has received high records for some indicators in the World Bank *Doing Business 2017 Report* (for example, business start-up, registration of property). With the establishment of electronic government portal based on international best practices, public services have been subjected to further expansions. Innovation framework for the SME has been improved via infrastructure (for example, industrial parks, technology parks and business incubators) and financial arrangements (establishment of special fund for information and communication technologies (ICT) sector).

In order to ensure addressability of reforms with direct impact on the development of small and medium enterprises in the country, the criteria of the SMEs were identified by the Resolution of the Cabinet of Ministers of the Republic of Azerbaijan dated 5 June 2015, numbered 215 “On approval of criteria for large, medium and small entrepreneurs”. Under these criteria, 1 percent of legal and physical persons registered in the country in 2015 are large enterprises, while 2 percent are medium and 97 percent small enterprises.<sup>2</sup>

**Table 2. Criteria for large, medium and small entrepreneurs**

<b>Category of enterprises by their size</b>	<b>Average listed number of employees</b>	<b>Annual income</b>
Small entrepreneur	Up to 25 employees	Up to AZN 200,000
Medium entrepreneur	From 25 to 125 employees	From AZN 200,000 to AZN 1,250,000
Large entrepreneur	125 employees and more	AZN 1,250,000 and more

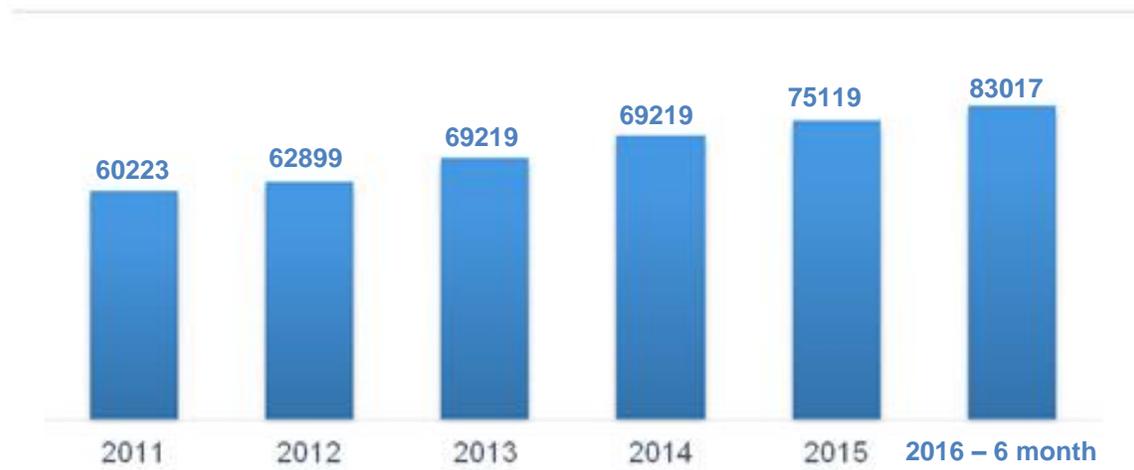
Source: Cabinet of Ministers of the Republic of Azerbaijan

According to records of the State Statistical Committee of the Republic of Azerbaijan, share of small and medium enterprises comprised 5,8 percent in added value and 0.7 percent in total profit, 6,5 percent in annual average number of employees and 9,2 percent in investments made in basic capital. Such data cover legal and physical persons, which are considered as small businesses, and these enterprises account for 83017 units or 79,7 percent of enterprises operating in the country as of 1 July 2016. Besides, majority of small enterprises existed as of the above date provided services in the following areas: trade (31,2 percent), construction (12,1 percent), agriculture (10,7 percent) and others (13,5 percent).

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<sup>2</sup> Source: Ministry of Economy of the Republic of Azerbaijan

**Exhibit 3. Number of small enterprises (for 2011-2016 years)**



Source: State Statistical Committee of the Republic of Azerbaijan

In addition, official statistics show that small enterprises accounted for 12 percent of legal entities registered in the country as of January 1, 2016, although their contribution to GDP employment and goods (service) production comprised 4 percent, 6.3 percent and 9.6 percent respectively.<sup>3</sup> Apparently, contribution of individual entrepreneurs and small enterprises which account for 99,2 percent of total entrepreneurship in the country is very small. However, share of the SMEs in Azerbaijani economy – GDP, employment and flow of foreign currency into the country could be increased several times. From this perspective, it is worth to note that the share of the SMEs in the future development of the country is very important.

Azerbaijan has strong potential and extensive opportunities to develop the SME and country economy, in general. To reach this potential, it is necessary improve business enabling environment, introduce more cost-effective and effective options for access to financial resources, facilitate small and medium enterprises to access domestic and foreign markets, develop talented and qualified human resources.

Regional and global economic developments emphasize in-depth cooperation between the SMEs and other entrepreneurs, as well as increase of public support. To achieve a well-diversified economy, it is necessary to make several modifications in this specific areas in order to reach full potential of the SMEs. Despite some improvement in legislative framework, there is a room for further improvements. So that, the legislative framework private credit bureau, registry of movable collaterals, regulation of secured transactions need to be improved.

Priorities for the following areas should be identified to provide serious support to entrepreneurship in the country: wider application of unified approach, innovations and international standards with respect to entrepreneurship, including the SME policy, further expansion of financial, consulting and other support mechanisms, creation of monitoring and evaluation mechanisms.

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<sup>3</sup>Source: State Statistical Committee of the Republic of Azerbaijan

Despite measures in support of innovations and internationalization, activities in this specific area need to be deepened to create clear strategy or coordination mechanisms. Currently, public innovation policy continuously introducing much more extensive focus on telecommunication and information technologies sector. In addition, internationalization-oriented support measures need to be expanded to develop financial services for export, as well as facilitate the SMEs to generate more revenues from global value chain.

It is also worth to mention that the development of the SME is an important challenge in Azerbaijan. To achieve this goal, it is necessary to take clear-cut measures targeting macroeconomic policies, development of mindset of Azerbaijani citizens, particularly entrepreneurs and public servants. For this purpose, it is strategically important to implement institutional changes supporting development of the SMEs and create business enabling environment in the country.

### 3.2. SWOT analysis for the SMEs

Strength	Weakness
<ul style="list-style-type: none"> <li>● Existence of legislative framework for the entrepreneurship;</li> <li>● Achievement of significant progress in indicators taken as a basis for global competitiveness;</li> <li>● Ease of starting business;</li> <li>● Constant expansion of the scope of the “electronic governance” system;</li> <li>● Progress achieved in recent years in reforms towards more business enabling environment in the country (“single window” principles, “electronic government” etc.);</li> <li>● Simplified foreign trade rules;</li> <li>● Availability of favorable infrastructure;</li> <li>● Public support of the development of the SMEs;</li> <li>● Relatively cheaper energy prices compared to neighboring countries.</li> </ul>	<ul style="list-style-type: none"> <li>● Targeted policy of the government being implemented based on different criteria with respect to the SMEs;</li> <li>● Public- private partnership and coordination in this specific area not being satisfactory;</li> <li>● Weak contacts among various sized entrepreneurs;</li> <li>● Difficulty in access to financial resources;</li> <li>● Goods and services offered in the financial sector being insufficiently developed;</li> <li>● Weak monitoring and evaluation system to identify impact of public support for entrepreneurs;</li> <li>● Lack of highly qualified professionals;</li> <li>● Poor Business skills, particularly at medium management level;</li> <li>● Weak cooperation between public and private sector and vocational education facilities;</li> <li>● Absence of specialized public organization with coordination function;</li> <li>● Absence of special rules supporting participation of SMEs in public procurements;</li> <li>● Limited number of public authorities and special institutions supporting the SMEs;</li> <li>● Complicated rules for the termination of business;</li> <li>● Limited skills in international trade;</li> <li>● Weak cooperation among the SMEs and enterprises dealing with research and innovation;</li> <li>● Consultancy services not being available for the SMEs;</li> <li>● Difficulty in access to international and regional markets.</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>● Availability of opportunities to increase access to finance, create private credit bureaus and movable collateral registry;</li> <li>● Increase of the use of the SME potential in development of non-oil economy;</li> <li>● Involvement of the SMEs in public procurement and infrastructure projects;</li> <li>● Additional support provided to the SMEs with the expanded use of various international programs;</li> <li>● Creation of centers providing consultancy services and necessary documents for the SMEs from a single space;</li> <li>● Increase of business and vocational education options meeting the requirements of the market;</li> <li>● Establishment of training centers for different specializations based on the “lifelong learning” principle;</li> <li>● Diversification of areas of production and economy;</li> <li>● Availability of potential labor force.</li> </ul>	<ul style="list-style-type: none"> <li>● Impact of possible foreign factors(financial crisis, decrease in demand in international markets, etc.);</li> <li>● poor competitiveness of local SMEs in international markets;</li> <li>● Lack of interest by the SMEs in vocational training;</li> <li>● Introduction of restrictive measures by various countries to access foreign markets;</li> <li>● Difficulties in employment;</li> <li>● Tax benefits offered to the residents of the newly established industrial parks reducing the competitiveness of non-resident SMEs.</li> </ul>

## **4. STRATEGIC VISION**

### **4.1. Strategic vision for 2020**

*The strategic vision of Azerbaijan for the development of the SMEs by 2020 is to achieve further improvement of business environment, simplified access for the SMEs to financing opportunities and trade markets and ensure competitiveness, as well as increased contribution of the SMEs to economic development bringing up their business knowledge and skills.*

#### **Interpretation of the strategic vision**

As a part of the vision for 2020, regulatory framework for SMEs will be improved, institutional reforms will be continued, competitive environment will be strengthened, the SME Agency, the system for obtaining necessary intellectual and technical resources will be established and obtaining necessary permits will be further facilitated. As a result of successful implementation of the planned actions, the SME contribution to GDP and employment will increase by 15 and 20 percent, while the share of non-oil export is targeted to reach 10 percent during this period.

### **4.2. Long-term vision for 2025**

*Azerbaijan' long-term vision for 2025 is to further improve competitiveness of the SMEs, achieve supply of daily consumer products by the SMEs and give rise to significant SME contribution to the country's GDP and employment.*

#### **Interpretation of the long term-vision**

Further improvement of favourable business environment, increased access to funding and international markets and introduction of innovative mindset in all related areas will create favorable conditions for the SMEs in Azerbaijan. This way, Azerbaijani SMEs will make significant contributions to its non-oil GDP and generate opportunities for employment in various high profit sectors.

Thanks to strengthened SMEs, Azerbaijan will increase its economic potential by 2025, which will facilitate fully competitive economy in the country, while developing Azerbaijan into one of the most favorable countries across the world for both local and foreign investors.

Building up on the continuation of existing efforts into improved access to finance for SMEs, appropriate actions will be taken in the country. Domestic investments in the form of ventures funds will be incentivized and necessary mechanisms will be created to attract more foreign direct investment (FDI) into the SME-focused sectors. As a result of the establishment of credit guarantee fund and private credit bureaus, the country will achieve increased financial services and credit resources planned by local and foreign banks for the SMEs, and the most efficient practices of the access to funds will be introduced in the country. Azerbaijan thereby aspires to have a wave of the SMEs increasingly funded by private financial institutions and investors that would catalyze development of its high-value sectors along the value chain in line with the strategic plans.

Simultaneously with strengthening the SMEs by 2025, enterprises will organize themselves into business associations within their respective sectors. Development of business associations will trigger expanded public-private sector dialogue. These associations will help realize priorities by 2025 and beyond within their respective sectors. The Associations will undertake regular analysis, voice over and seek resolutions for problems of enterprises in their sector through the SME Agency. The reforms will ensure the strengthening of the SMEs and have constant contribution to non-oil sector development. The associations existing and to be incorporated in Azerbaijan will, in corporation with other relevant stakeholders, also adapt the local sector standards on quality and operations to the international best practices. Through this way Azerbaijan will strengthen the governance framework and standards around its SMEs which would in turn further attract international investors.

Ongoing industrial zone efforts will be accelerated to further support development of the SMEs, increasing their number and coverage in their respective sectors. Start-up companies will grow into competitive leading business organizations mainly through financial subsidies, improved logistics infrastructure and faster and cheaper access to utilities. Through spreading such simple incentives and convenient solutions to cover more industrial zones, accelerated development of the SMEs will be ensured.

In order to secure stability of this development, quality business trainings will be provided to the enterprises based on international best practices, which will facilitate building the vocational education in line with the needs of the SMEs and development of scientific-technical development of the business sector. It will establish business incubators and accelerators to counsel these start-ups in their business needs, ranging from management training to networking for gaining access to investors. This way, Azerbaijan's innovative start-ups will survive at a higher rate through professional management. For the same purpose, the SME business associations will closely monitor these parks to identify their effectiveness and add value to their respective sectors, and seek for mitigation plans for hindering points, if any.

These innovation initiatives will also be replicated within the industrial parks for universities and vocational educational facilities. Following the training of young generation and already-employed trainees in vocational schools, business and entrepreneurship mindset will be set for these innovative minds. Having already incorporated the entrepreneurship concept into the curricula of its universities, the entrepreneurship spirit and talented graduates from education facilities will further be incentivized to launch their own SMEs within the sectors of their interest. The SME Agency will build a close cooperation with government authorities and education facilities in this area, while attaching special attention to the development of applied sciences.

In 2025, Azerbaijan will develop into a country with favorable competitive environment and highly talented workforce, and constantly developing non-oil economy, which entered into the new stage of public-private partnership. In this context, the SME will become the driving force of the country's economic development and reduce reliance on import from the perspective of consumer goods due to enterprises producing competitive goods and services.

With the implementation of the long-term vision of Azerbaijan for 2025, the SME contribution to the GDP and employment will increase by 35 and 40 percent respectively, while the share of the SME's in non-oil export of the country will reach 25 percent.

### **4.3. Aspirational vision of Azerbaijan post 2025**

*As a part of its post-2025 aspirational vision, Azerbaijan targets to generate at least 60% of its GDP through the SMEs and establish a strong network of local SMEs that integrate into global value chains.*

#### **Interpretation of the aspirational vision**

Increased number and quality of Azerbaijani SMEs will trigger further expansion over the value chain, participating in formation of intellectual values and capturing more of the value domestically. Energy efficiency of the SMEs will be enhanced, while use of alternative and renewable energy sources will be stimulated. Development of the SME network in all sectors will be kept in mind and the SME's contribution to GDP will go beyond 60 percent in the long-term perspective.

Further strengthening of competitive environment in the economy will pave the way for economic effectiveness to become the key economic factor, which will ultimately necessitate the delegation of some works and services from large enterprises to the SMEs. As a result, scope and size of the work of the SMEs will get expanded.

In line with its diversification goal, additional opportunities will be created for increased women participation in the SMEs across all sectors. Specifically, it will explicitly incentivize build-up of women-led companies that will set a best-case example within its region. Through key-note talks and interviews with successful women entrepreneurs, it will widely communicate this priority and target increased awareness around it. This way, Azerbaijan aims to further support increased women participation in the workforce.

Azerbaijan strives for a diversified non-oil economy as its overarching vision beyond 2025, and it targets its SMEs to be the key contributor to this transformation through extended coverage of the value chain. The SMEs will not be only raw material producers, but rather spread over different steps of the value chain to complete this transformation domestically. This way **retainment** of all generated value within the country will be ensured, which will foster development of the SMEs even further. With the gaps in the value chain filled in, more content will be produced locally in various sectors, which in turn will decrease the country's dependency on imports. During this period, in order to stimulate access of the SMEs to alternative and renewable energy sources and ensure transition into "green economy", actions associated with legal framework and financing will be implemented.

In addition to these SMEs spreading into a variety of sectors over different parts in the value chain, few of these SMEs will grow into "local champions", i.e., big-scale commercial enterprises. These companies will meet the local demand in the industry they operate and will even work towards emerging as a regional power for their quality and know-how. The SMEs will pursue attracting foreign direct investment for their operational expansion, and exemplify the best-

practice management for new entrepreneurs eager to launch their own enterprises in these sectors.

In its post-2025 vision, upon meeting domestic demand in their particular sectors, these powerful local enterprises and the vast SME formation will aspire to expand their trading network into the international markets, mainly within the Caucasus region, and to contribute largely to Azerbaijan's exports. Specifically, Azerbaijan targets to increase its share of the SMEs in its foreign trade to 40%. In addition, in the post 2025 period, it is targeted to increase the SME contribution to GDP and employment to 60% and 70%, respectively.

During the next decade, Azerbaijan will manage to realize these envisioned targets through creation of more enabling environment, implementation of various programs and projects addressing the SME development, and specifically through simplification of necessary procedures and ensuring transparency.

## 5. TARGET INDICATORS

The following are estimated following the implementation of priorities in the SME sector:

- Increase SME's contribution to GDP to 15 percent;
- Increase SME's contribution to employment to 20 percent;
- Increase SMEs contribution to non-oil export to 10 percent;
- Increase GDP by AZN 1 billion 260 million in 2020, in real terms;
- Create additional 34240 jobs in 2020.

**The following key performance indicators have been identified for measures towards the development of the SME:**

- Increase the SME contribution to products produced within industrial clusters to 40% ;
- Increase the indicators of pre-court dispute resolution among the SMEs twice;
- Increase recovery rate of the SMEs (from insolvency) to 4 percent;
- Increase the indicators of admission immovable property as collateral by the banks twice;
- Increase the share of leasing transactions in GDP to 2 percent;
- Achieve 5 percent increase in non-oil economy;
- Establish 3-5 model enterprises;
- Establish 5 new business incubators;
- Launch at least 25 startup projects throughout a year;
- Organize special trainings for at least 1000 small and medium entrepreneurs throughout a year;
- Establish 3 innovation-oriented regional clusters.

## **6. STRATEGIC OBJECTIVES**

Strategic objectives in the SME sector are the following:

- Improve more favorable business environment for the SME;
- Increase competitiveness and role of the SMEs in the economy;
- Ensure that all major parts, particularly intellectual part of works and services are provided through the development of the SMEs and consequently the innovations;
- Increase the SME contribution to employment;
- Ensure that key consumer goods are produced by small and medium enterprises;
- Increase share of the SME export in the overall export of the country.

## **7. STRATEGIC TARGETS**

### **7.1. Strategic target 1. Improve business enabling environment and regulatory framework for the operation of the SMEs**

In recent years, Azerbaijan has been taking large-scale measures to facilitate development of sustainable and competitive economy in the country. Significant progress has been achieved in this area as a result of economic reforms, support of businesses operating in the non-oil sector of the economy, and realization of additional benefit and stimulatory policies.

In 2004, Azerbaijan entered a new stage of business development. In 2015, private sector contribution to GDP and employment accounted for 81 and 75 percent respectively. As of July 1, 2016, number of businesses registered in the country was more than 700 thousands.<sup>4</sup>

Suspension of business inspections for two years, as well as the maintenance of unified registry of inspections and prior notification of businesses has had positive impact on the SMEs. Establishment of Appeal Councils under the President of Azerbaijan and in central and local executive authorities will significantly reduce excessive costs, including the court expenses of the SMEs. Main purpose of the introduction of “single window” system at the border, as well as the “Rules of use of “Green channel” and other gating systems for transportation of goods and vehicles through the customs border” approved by the Presidential Decree number 920, dated May 21, 2016 is to simplify export-import transactions and improve components of the SMEs reliant on foreign activity.

However, additional measures need to be implemented to minimize reliance of economy on oil and increase the SME-based competitive production capacity in the coming years.

That is why, further continuation of reforms towards improved business and investment environments has been identified as the key strategic targets, and it will be important to develop public-private relationships, as well as business and investment environments to achieve this goal. Removing illegal interventions and artificial barriers for business, while improving administrative regulations and procedures used in state regulation of entrepreneurship will remain as priority. Besides, Azerbaijan will continue its efforts towards introducing promotion mechanisms and expanding the scope of electronic government services. Development of the SMEs in the country will need further improvement of business and investment enabling climate for both local and foreign investors to bring it into conformity with international best practices.

#### ***7.1.1. Priority 1.1. Establish centralized SME Registry***

##### **Rationale**

Smaller scale of the SMEs and their sensitivity to market changes require more public support to these entities. The SMEs face difficulties in the process of obtaining necessary information, as

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<sup>4</sup> Source: State Statistical Committee of the Republic of Azerbaijan

well as in access to several business services. Analyses demonstrate that the SMEs are less interested in use of business consultancy services as compared to other economic operators, which undermines their competitiveness and sustainability. One of the reasons behind is the lack of interest by the SMEs in consultancy services. Some SMEs start business without knowledge of legislative requirements, business risks and existing situation in the sector concerned, which causes failures. Lack of interest by the SMEs in consultancy services is derived mainly from their unfamiliarity with such services and complexity of access to business consultancy services.

At present, various government bodies provide services to the SMEs within their statutory powers (including, consultancy service, sale and other types of support). However, provision of such services from single center will facilitate more efficient use and development of such services. Establishment of a centralized SME agency in the country is needed in order to separate SME-specific policies from regulatory activities will need.

### **Action items**

#### ***Action 1.1.1: Establish a centralized SME agency***

Establishment of a centralized SME agency in Azerbaijan will be considered as well as its goals, mission and governing principles will be defined.<sup>5</sup> In the initial stage, the Agency will be formed as a board composed of private sector representatives, public sector representatives, local association representatives, and higher-education representatives. Priorities, long and short-term targets, as well as necessary financing mechanisms of the Agency will be developed and necessary resources will be provided to ensure its performance.

The Government will monitor and assess performance of the SME agency, set annual targets plan in the beginning of the year together with the members of the board and monitor level of accomplishment of those targets on an annual basis. The government will hold annual meetings with the board and top management of centralized SME agency to discuss accomplishments, ongoing efforts and existing challenges as well as to set new targets for the next year.

In this direction, government will hold meetings with public institutions, international organizations, education institutions and other to announce establishment of the agency, discuss its roles and benefits. Similarly, the establishment of the SME agency will be announced to the SMEs through official letters, public media, etc. and ensure proper communication of the benefits it will bring to the SMEs as well as discuss the collaboration methods and mechanisms between the agency and the SMEs. A website through which SMEs will have access to ongoing efforts, news, opportunities, etc will be created.

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<sup>5</sup>Note: Actions identified for SME Agency as implementing body, will be implemented by the agency itself if it will created, or by relevant bodies if otherwise.

### ***Action 1.1.2: Build structure of the SME Agency***

The SME agency will consist of permanent departments with enabling roles and delivery units for executing initiatives. Both structural units will report to the board. The liaison system of the Agency will consist of ministries, private sector, local associations and educational entities.

### ***Action 1.1.3: Define duties of the SME Agency***

In cooperation with relevant governmental bodies, the agency's board will create and oversee the implementation of this Strategic Road Map. As such, it will set the agenda, aspirations, KPIs, and priorities for working groups and allocate government funding and resources to those working groups. It also will provide recommendations to the ministries and ensure performance transparency as well as coordination among working groups and delivery units.

### ***Action 1.1.4: Establish SME house***

In order to increase access of the SMEs to various business services and entrepreneurial activities, establishment of the SME house will be considered. The SME house will provide various business services creating their access to required information.

The SME house might include a one-stop shop process center, employment services, a training center, an export-import bank branch, an AZPROMO representative, an international institutions department, an Azerbaijan Investment Company branch, the SME rating agency, and the credit guarantee fund. The agency will be complemented with an online portal for all services including credit applications, training, and cloud tools. Several other countries have established such agencies and can serve as models. Thus, experience of other advanced countries with similar agencies will be used as a model.

The SME house will serve as an information Centre where entrepreneurs will be able to obtain different information related to their businesses (for example, rules of obtaining licenses and permits, available credit opportunities, industrial zones and industrial clusters operating in the country and services they provide). At the same time, the SME houses will provide training-extension services which will be accessible for the SMEs free of charge or under privileged prices. Expert bank will be created in the SME house where information on qualified workforce will be collected. Both the SMEs and qualified experts seeking a job will have free access to this database.

Business consultancy services will be one of the services to be provided by the SME House. The House will serve as a venue where the following services will be provided free of charge or under privileged prices to the SMEs: preparation of business plans, market studies, legal counseling services, accounting and other services. The SME house will also host various workshops, meetings and "round-tables".

Different interview and surveys will be conducted, in cooperation with the centralized SME Agency, among the SMEs from different sectors to identify main servicing areas requiring

improvement. In cooperation with the SME Agency, efforts will be made to ease business enabling environment for the SMEs based on the criteria above.

#### ***Action 1.1.5: Create unified information portal***

In order to increase the SME's access to various information sources, a unified online information portal will be created. The portal will contain different information necessary for the operation of the SMEs, while also enabling them to access legislative framework, business knowledge, expert bank and other information. At the same time, the portal will allow the businesses to obtain useful information on distant education programs, interviews conducted with successful business representatives and other beneficial information.

#### **Expected results and outcome indicators**

The planned SME Agency will serve as an enabler for Azerbaijani SMEs to reach success in their businesses. Purpose of the new agency will be to facilitate increase in the number of the SMEs in Azerbaijan, as well as their contribution to GDP targeted for 2020.

As part of these priorities, Azerbaijan estimates to bring in AZN 140 million direct and AZN 60 million indirect GDP impact, summing up to AZN 200 million in total. This priority also expects to generate 240 new jobs by 2020.

#### **The required investment**

The implementation of this priority would need around AZN 10 million investment by 2020.

#### **The expected risks**

- Incorrect arrangement of the agency's operation.

#### ***7.1.2. Priority 1.2. Improve SME-specific legislative framework and introduce legislative impact analysis***

##### **Rationale**

All countries across the world aim to build perfect legislative framework. Otherwise, it will be inevitable to face difficulties in realization of various targets set by private sector institutions and government bodies.

Sustainable development of entrepreneurship is integral part of the government's economic policies. In recent years, the government took complex measures in support of the improvement of legislative framework, administrative frameworks and public-private partnership relations.

One of the advanced instruments introduced in support of improvement of the legislation is the legislative impact analysis. This system offers a more comprehensive approach to assessment of positive and negative attributes of proposed regulatory and non-regulatory legal acts, while also contributing significantly to analysis of problems. Furthermore, the legislative impact analysis is an instrument, which defines to which extent the government's decisions are adequate and fit well with the efforts to minimize any negative aspects arisen. This system prevents from decisions adopted without proper analysis, and offers possible choices for decision making processes while

also providing relevant bodies with inclusive data. Discussion of the legislation with stakeholders to learn their position, as well impact effect of the legislation on these stakeholders will be an integral part of the analysis. Thus, legislative impact effect is an official procedure introduced as a component of drafting regulatory legal acts, which allows the examination of the position of private sector on impacts of regulatory legal acts once enacted. Proper arrangement of public consultations will ensure efficient legislation, while also enabling the SMEs to access more information on possible impacts of the proposed legislation. So, it is necessary to introduce legislative impact analysis in the country.

### **Action items**

#### ***Action 1.2.1: Introduce legislative impact analysis***

In order to assess impact of countrywide reforms on the SMEs, introduction of legislative impact analysis will be considered. This approach will help to measure impact of existing legislation on countywide reforms while also facilitating efforts to undertake relevant improvements. In view of distinctive characteristics of Azerbaijani SMEs, available best practices will be studied to take relevant measures in the country.

#### ***Action 1.2.2: Create institution to increase support of legislative impact analysis***

In the face of global economic processes across the world and in view of the needs for public consultations when setting government's policies in various sectors, as well as taking decisions at country and regional level and preparing draft of legal acts, opportunities for the establishment of institutional body responsible for carrying out legislative impact analysis, where appropriate, will be studied. Duties of this institution will include the assessment of the drafts of legal acts, as well as ensure involvement of the private sector in the drafting process and issuing commentary and proposals on drafted acts.

### **The expected results and outcome indicators**

With the introduction of legislative impact analysis approach, the country will enter into a new phase with respect to decision making mechanisms. Thus, impacts of regulatory legal acts will be studied more comprehensively, public consultations will be organized and thorough information on possible effects of proposed legislation will be obtained.

### **The required investment**

The implementation of this priority will not need significant investment.

### **The expected risks**

- Difficulties in measuring impacts of legislation on the SMEs;
- Interests of all stakeholders are not ensured (conflict of interests);
- Less interest by public sector in improvement of legislation.

### **7.1.3. Priority 1.3. Deepen public-private partnership**

#### **Rationale**

According to international best practices, public-private partnership is a widely applied approach to ensure participation of private sector in infrastructure projects. Due to large investments required for the implementation of infrastructure projects and limited opportunities of states to provide such financial resources, countries prefer private investment to implement such projects. In this case, private sector finances infrastructure projects and returns them back to state until the invested money is recovered. The World Bank data show that US \$ 52.3 billion has been invested in infrastructure projects in 2015 based on public-private partnership mechanism. Many countries across the world use such mechanism to finance repair and construction of airports, rail roads, sea ports, highways, utilities infrastructure such as electricity, water and gas, telecommunication lines, etc.

Increase of efficiency of economic reforms in Azerbaijan requires close cooperation with private sector, which could be realized based on public-private partnership.

The Law number 177- VQ, dated 15 March 2016, “On the Implementation of Special Financing for Investment Projects in Connection with Construction and Infrastructure Facilities” was important to establish legal framework for public-private partnership. Along with the provisions establishing legal and economic bases for introducing special financial mechanism for construction and infrastructure facilities, the law also introduces a “build – operate – transfer” model, which will enable payment to investors of investment costs (including the receivables) of construction and infrastructure projects, as well as the cost of goods and services such investor provided to consumers or authorized bodies based on procurement method as provided for by agreement. The law also introduced the concept of cooperation assistance, which was defined as financial assistance provided by an authorized body further to an agreement with parties where service fees do not completely or partially cover the expenses incurred by the investor.

At present, in the light of deepened reforms, introduction of various forms of public-private partnership will help decrease investments from public budget and deepen involvement of private sector in social infrastructure projects.

#### **Action items**

##### ***Action 1.3.1: Improve regulatory legal framework for public-private partnership***

Azerbaijan will continue its efforts to improve regulatory legal framework to strengthen public-private partnership. The strengthened regulatory legal framework will consist of an agreement formalizing public-private partnership, approval of the list of relevant areas and other respective forms for public-private partnership in the Republic of Azerbaijan, as well as enactment of other regulatory documents.

***Action 1.3.2: Develop a conceptual document for the development of public-private partnership***

Following thorough analysis, a concept paper reflecting priority areas (utilities, infrastructure, transport, etc.), including the conditions of financing these areas will be developed under public-private partnership mechanism, and will be submitted to respective entities for approval. The Concept paper will also prioritize issues such as involvement of SMEs as implementers to the projects.

***Action 1.3.3: Prioritize the Law of the Republic of Azerbaijan “On the Implementation of Special Financing for Investment Projects in Connection with Construction and Infrastructure Facilities”***

Azerbaijan will take further actions towards efficient introduction of the Law numbered 177- VQ, dated 15 March 2016, “On the Implementation of Special Financing for Investment Projects in Connection with Construction and Infrastructure Facilities” to strengthen public-private partnership in the country.

***Action 1.3.4: Identify minimum share of participation in public procurements for SMEs***

Necessary actions will be taken to ensure wider participation of the SMEs in implementation of government contracts on products and services to be provided for public needs. Best practices will be studied to identify minimum share of participation of the SMEs in public procurements to make appropriate amendments to the existing legislation.

**The expected results and outcome indicators**

Strengthened public-private partnership will enable Azerbaijan to improve legislative framework, as well as develop the concept paper. Furthermore, priority projects for the implementation of public-private partnership projects will be identified, and necessary actions will be taken to facilitate talent development in the country. All these actions will enable the country to finance several projects at the expense of private investments.

**Key performance indicators:**

- Develop a concept paper for the development of public-private partnership;
- Increase share of participation of the SMEs in implementation of public contracts by 2020.

**The required investment**

No significant investment will be needed for implementation of this priority.

**The expected risks**

- Limited participation of the SMEs in implementation of government contracts due to bureaucratic obstacles;
- Less interest by the SMEs in public-private partnership.

#### **7.1.4. Priority 1.4. Improve competitive environment**

##### **Rationale**

Competition is an important precondition to ensure self-regulation of prices in accordance with supply and demand in the market, and to find balance between demand and price. At present, increase of prices by any market player under healthy competition causes consumers to seek other alternatives. Supply of the identical product by other competing market players forces the supplier to reduce prices according to the requirements of the market, which leads to common prices for similar commodities and puts the market mechanism of price generation into action.

Another main indicator of competitive environment is the unlimited number of market participants, as well as ease to enter and exit market. This means that each person shall be enabled to start and wind-up entrepreneurship in accordance with law at any time upon discretion.

Besides, it is required to facilitate real sector's access to financial resources and increase business potential by through the banking sector to remove economic stagnation and accelerate economic development. Continuous use of bank loans by businesses, who wish to preserve their places in market by introducing latest technologies and innovations, as well as increasing productivity and quality under healthy competition requirement will help increase the level of money multiplier, i.e., the economy's capability to generate money.

State Service for Antimonopoly Policy and Protection of Consumers' Rights under the Ministry of Economy of the Republic of Azerbaijan is the body exercising control over antimonopoly in the Republic of Azerbaijan. Preventing monopoly and unfair competition is one of the strategic objectives of the state in economic regulation. In order to further improve competition environment, it is necessary to improve legislative framework and strengthen institutional management mechanism. Currently, Azerbaijan has targeted to take actions in support of export-oriented economy and import substitution. Main target to achieve this goal is to increase competitiveness of local production. Increased competitiveness is possible if the effective competitive environment in the market generates competition pressure. The competition pressure among market participants opens enabling environment for increase of productivity and economic efficiency, as well as wider introduction of technologies and innovations. It is possible to achieve import substitution and export diversification providing liquidity support on economy under competitive environment, which is the only mechanism to facilitate competitiveness of local products and services.

##### **Action items**

###### ***Action 1.4.1: Improve legislation***

In international practice, the body exercising control on antimonopoly takes decision in accordance with the competition principles, and decision on each case is taken independently, without any external instruction. To this end, in accordance with international best practices, adopting legislative acts under single Competition Code will be promoted.

###### ***Action 1.4.2: Conduct institutional reforms***

Preliminary study of the cases of violation of competition legislation and making decisions on cases of discovered violations are two separate areas of activity, which need specialization in the relevant fields. In this respect, based on international best practices, establishment of an independent competition authority in Azerbaijan will be investigated. In order to prevent conflict of interests and subjective cases, the competition authority will be composed of two structural units independent of each other – investigation and analysis department and a council with several members who make decision on respective cases, operate on permanent basis, are appointed with high status and report at the relevant level. Consequently, legitimacy and reliability of decisions taken by competition agency will be ensured when violation of competition legislation is investigated and appropriate decisions are taken.

### **The expected results and outcome indicators**

Implementation of this priority will facilitate improved business enabling environment and stability of prices under free competitive environment, while also increasing product diversity and economic effectiveness. Reforms in the area of competition will create more favorable business environment for the SMEs, which account for 99 percent of total businesses. In addition, these reforms will significantly reduce market risks of foreign investors.<sup>6</sup>

#### **Key performance indicators:**

- The enactment of competition code.

### **The required investment**

No significant investment is required for the implementation of the priority.

### **The expected risks**

- Obstacles caused by large businesses with sufficiently strong position in the market to development of competitive environment.

#### ***7.1.5. Priority 1.5. Improve inspection and licensing mechanisms for operation of the SMEs and continue tax reforms***

#### **Rationale**

In order to protect entrepreneurs' rights and legal interests in Azerbaijan and reduce inspections by various government authorities, the Law of the Republic of Azerbaijan "On Regulation of inspections in the field of entrepreneurship activity and protection of interests of entrepreneurs" was adopted (№ 714 – IVQ, dated 2 July, 2013). The Law specifies issues such as the legitimacy, goals and principles of inspections, powers of inspecting body, risk assessment system, registration of inspections.

The Law, for the first time, specifies issues, such as provision of consultancy services to businesses, setting inspections based on risk assessment system, electronic accounting of inspection and introduction of inspection questions, etc. The law further stipulates that inspections

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<sup>6</sup> Source: The Ministry of Economy of the Republic of Azerbaijan

shall be carried out in accordance with the risk groups. Under the risk methodology, number of inspections in the lower risk groups is reduced to once every three years. In addition, inspecting bodies are required to deliver, in advance, the inspection questions to the entrepreneur through online resources.

At the same time, the Law of the Republic of Azerbaijan “On Suspension of inspection in the field of entrepreneurial activity” No 1410 – IVQ, dated 20 October 2015 was enacted, suspending inspections carried out within the territory of the Republic of Azerbaijan for 2 (two) years.

Systematized measures have been taken in support of the improvement of business and investment enabling environment, as well as development of entrepreneurship. Besides, the Appeal Councils have been established under the President of the Republic of Azerbaijan, as well as at the central and local executive authorities to ensure multi-stage mechanism to review complaints filed by individuals and legal persons, improve appeal mechanisms to upper bodies against the decisions, actions and inactions of central and local executive authorities as specified by the Decree № 761, dated 3 February 2016 of the President of the Republic of Azerbaijan.

It is necessary to continue reforms in the tax system, attach more attention to stimulatory effect of tax and improve tax administration in order to increase mutual trust between taxpayers and tax authorities, increase transparency, create business enabling environment for entrepreneurs and identify real tax potential of the country in line with the continuous development rate of the country economy. One of the significant steps taken to this end, is the Presidential Order No 2257, dated August 4, 2016 “On approval of tax reforms and improvement of tax administration in 2016.” The Order specifies 21 directions of reforms in the field of taxes, which will facilitate compliance of the tax system with the international best practices.

In recent years, serious measures have been taken in support of the issuance of licenses and permits for the SMEs. Some of these fundamental measures include eased license and permits requirements for entrepreneurship, reduction of the number of licenses and permits, amounts of duties, as well as simplification of permits issuance procedures, including the creation of an electronic portal in this area, introduction of “single window” principle for issuance of licenses and permits. Next step to be taken in this direction will include the development of a mechanism for recognition in the Republic of Azerbaijan of licenses issued abroad.

### **Action items**

#### ***Action 1.5.1: Conduct monitoring and assessment of inspections of the SMEs***

In order to reduce number of inspections of the SMEs and increase competitiveness of SMEs, regular monitoring and assessment of inspections will be carried out. In addition, analysis of the impact of inspections of SMEs performance will be conducted to review options of suspension of inspections in the field of entrepreneurship and proposal package will be prepared.

#### ***Action 1.5.2: Introduce optimal and risk-based mechanisms for the conduct of inspections***

Several additional measures and decisions will be taken to improve inspections of the SMEs. First of all, Azerbaijan will further extend introduction of risk-based principles as specified in the

legislation, and the number of inspections will be optimized. As a result, number of field inspections of the SMEs will be reduced and electronic inspection method will be introduced.

***Action 1.5.3: Continue stimulatory tax policies in SMEs***

Tax reforms will be further implemented to improve business enabling environment in Azerbaijan where primary attention will be attached to the SMEs. In order to identify optimal level of tax rates and ensure dynamic development of the SMEs. The Ministry of Taxes will undertake consultations with representatives of the SMEs, business associations and public unions. Tax policy of Azerbaijan will focus on salaries, as well as the promotion of legalized turnover by the SMEs.

***Action 1.5.4: Improve licenses and develop a mechanism for recognition of international licenses***

As a continuation of actions associated with licensing in recent years, electronic issuance of licenses will be stimulated and mechanisms to recognize international licenses and ensure their equivalency in Azerbaijan will be reviewed. Implementation of these actions will offer further favorable environment for integration of the SMEs into the international markets. In addition, recognition of foreign licenses in Azerbaijan will have a direct impact on opening of representative offices, branches and divisions of foreign companies in Azerbaijan, while also increasing the foreign investments.

***Action 1.5.5: Further simplify the SMEs' connection to relevant utilities services***

Further actions will be taken to simplify the procedures for the SMEs' connection to relevant gas, water and electric supply networks, to improve rules for issuance of technical specifications, while also accelerating measures for the introduction of full electronic system for this process.

***Action 1.5.6: Create a single certification system for the SMEs***

Further actions will be taken to improve and simplify certification rules for the goods (works, services) produced by the SMEs. Unified certification system for bodies involved in this area will have significant impact on reduction of additional administrative burden on the SMEs. Further options to have a unified single document combining all certificates and reflecting all relevant information and making single application to obtain such unified document will be reviewed.

**The expected results and outcome indicators**

As a result of the implementation of these reforms, inspections of the SMEs by government bodies will be optimized and more favorable environment will be created for dynamic development of the SMEs. At the same time, number of field inspections of the SMEs will be significantly reduced with the introduction of electronic audit system. Sustainability of tax reforms will further strengthen competitiveness of the SMEs, with particular impact on sustainability of the newly established entities, while also promoting opening of representative offices of foreign companies and creating favorable conditions to attract more investments to non-oil sectors of the economy. Easy and fast connection to utility services will help the SMEs to reduce costs spent for these purposes.

**Key performance indicators:**

- Limited number of inspections by government bodies;
- Optimal tax burden on the SMEs;
- Improved and advanced electronic tax audit;
- Recognition of foreign licenses and establishment of a mechanism to ensure their equivalency.

### **The required investment**

No major investment is required for the implementation of this priority.

### **The expected risks**

- Negative impact of the number and depth of inspections on the SMEs' development;
- Irrelevance of tax policy to interests of the SMEs;
- Less interest by the SMEs to legalize turnover and salary payments.

## **7.1.6. Priority 1.6. Establish SME-specific special industrial zones and clusters**

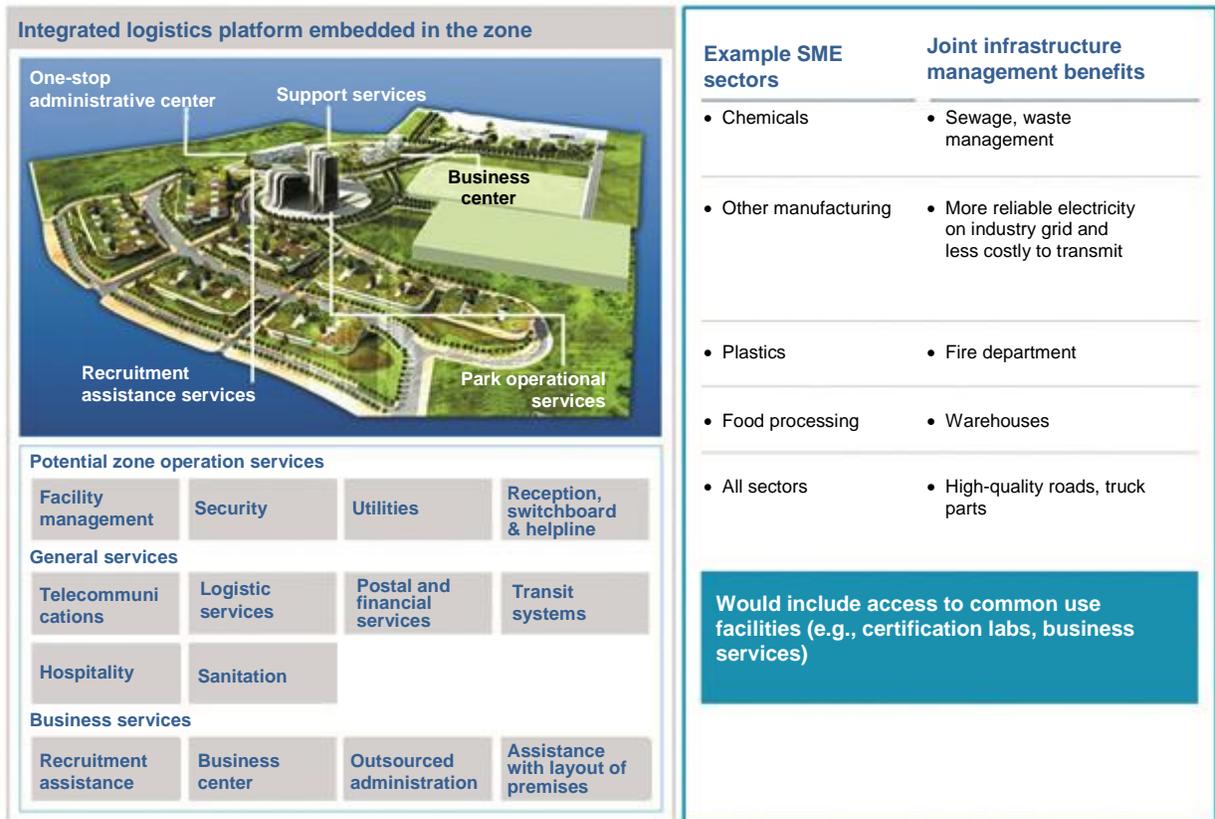
### **Rationale**

The SMEs in Azerbaijan face some difficulties in access to several services, as well as information collected for various purposes. These services include utilities, logistics and business services, access to sector-based statistic information, etc. At the same time, due to the limited number of specialized zones or their location at a greater distance, entrepreneurs bear additional costs when using services (for example, security, utility services, logistic services, etc.), which increases prime cost of products and services causing negative impact on their competitiveness.

The SMEs operating in Azerbaijan could benefit a lot from joint management of infrastructure and access to several services. Services to be provided based on a complex logistics platform built in a special economic zone include the followings:

- Laboratory, testing services, obtaining quality documents, vocational training, etc.;
- Management of enterprises, security service, utility service, reception, switch-board and call center;
- Telecommunication, logistical, postal and financial services, transit services, accommodation and WC services;
- Assistance in recruitment, business center, outsourced management and business consultancy services.

## Exhibit 4. Services provided by the SMEs in a special economic zone



The SMEs representing various sectors could benefit more from the opportunities offered by special zones. For instance, entities operating in the field of chemical industry could involve in a joint management of sewerage and waste water infrastructure, which require considerable spending. Similarly, by using more reliable power network, the entities involved in manufacturing could easily benefit from laboratory and testing services. The SMEs involved in processing of food products could share joint management of storage facilities. In general, all sectors could have access to high quality roads and truck parks. In order to develop the SMEs' integration into global value chain, special zones could be used to build contacts with international companies and institutions involved in foreign direct investments.

In recent years, the government has been implementing sequential and sustainable economic policies based on international practices and national economic development tradition in order to enhance industrial potential, introduce well-diversified and innovative national economy and accelerate development of non-oil sectors. Industrial parks and sites created recently lay the foundation of clustering policy. Sumgait Chemical Industry Park, Balakhany Industrial Park have already started their operation, and the government takes necessary measures to organize Mingachevir and Pirallahi industrial parks. At the same time, establishment of Neftchala and Masalli industrial sites contribute a lot to clustering of small and medium-sized enterprises.

However, these industrial parks and sites have not been built based on voluntary clustering of entrepreneurs but government initiative.

Industrial parks and sites existing in Azerbaijan have been built using public funding. The establishment of special economic zones, industrial parks and sites by the private sector using private capital will be promoted.

The country already has an experience in introducing cluster model in country industry. Although these clusters are created based on vertical industry cluster model and do not cover all cluster-specific qualities, their effectiveness is not at a sufficient level. However, it is worth to mention that necessary promotion works will be carried out in the future to create special economic zones, industrial parks, etc. not only by the public funds, but also by the private sector.

### **Action items**

#### ***Action 1.6.1: Develop business partnership among the SMEs***

Given weak development of business partnership among the SMEs, necessary actions will be taken to strengthen mutual cooperation and enable the SMEs to avail themselves of collective benefits. First of all, proposals on improving legislative basis will be prepared to develop and promote business partnership among the SMEs. Considering strong tendency towards individual development among the SMEs, special awareness-raising works, workshops and trainings will be organized to inform the SMEs on practical advantages of business partnership.

In addition, business partnership initiatives will be widely applied, particularly, in existing and newly created industrial zones and industrial clusters. Strengthening business partnership in Azerbaijan will contribute to the SMEs' development, while also increasing competitiveness of the SMEs and expanding access to foreign markets.

#### ***Action 1.6.2: Create new private industrial clusters for the SMEs based on private investments***

Special surveys and feasibility studies will be conducted to identify needs and requirements for cooperation among the SMEs in the newly created industrial clusters, which will help increase competitiveness of the SMEs in Azerbaijan. Analysis will focus on both vertical and horizontal models of industrial clusters to identify both advantages and disadvantages thereof for the country.

In order to increase effectiveness of industrial cluster mechanism, the areas which have high competitive advantage and can reach maximum outcome within a short period of time using public funding will be identified.

Several measures in support of strengthening the zones established for the SMEs will be carried out in Azerbaijan. These measures include the followings:

- Establish vocational school specialized in a certain field or fields of industry, with the curriculum co-developed with the industrial enterprises (can be set up within industrial zones);

- Establish university training and experiment centers (can be set up within industrial zones);
- Create model factory within the zone;
- Create credit guarantee fund branch, etc.

### ***Action 1.6.3: Improve benefits and incentives granted to residents of industrial clusters***

In the future, the SME Agency will undertake a study for introduction of new benefits for entrepreneurial entities who are residents of existing industrial clusters. As a result, the most useful benefit and incentive mechanisms will be applied in the newly created clusters. The followings steps will be taken under these actions:

- Continue introduction of tax benefit mechanisms and strengthen their effectiveness (profit, income, land, property taxes of legal persons and individuals, as well as VAT for imported equipment);
- Privileged loans for the SMEs;
- Sign bilateral investment treaties for investment projects, execute non-discriminatory policy and introduce joint funding mechanism.

### **Expected results and outcome indicators**

These upgraded services will help the SMEs to develop capabilities in engineering services, create new and innovative products, and form strategic groupings to offer a more complete value chain of services, resulting in higher productivity and enhanced competitiveness of the overall marine and offshore engineering industry.

It is estimated that the implementation of this strategic priority, will bring AZN 265 million direct and AZN 210 million indirect GDP impact (AZN 475 million total impact),. It is also expected to generate 23,300 new jobs resulting from increased number of the SMEs within the established industrial zones.

### **Key performance indicators for this strategic priority:**

- Establish new industrial clusters;
- Strengthen business partnership among the SMEs in Azerbaijan;
- Achieve 40% SME share in revenue within these industrial clusters and achieve increase in terms of goods and employees.

### **The required investment**

For this strategic priority, it is forecasted that AZN 630 million investment is needed in the above industrial zones in Azerbaijan by 2020.

### **The expected risks**

- Ineffective spending of funding allocated by the government;
- Priority areas and proposed activities, including services being set in a form not consistent with needs;
- Little interest by the SMEs in business partnership.

### **7.1.7. Priority 1.7. Expand public-private partnership and strengthen institutions representing the SMEs**

#### **Rationale**

Apart from favorable business environment in the country, it is also necessary to build contacts among entrepreneurs, make their activity much easier, organize networking during crisis periods and govern relationship between public and private sectors. Business associations, chambers of commerce and organizations of employers operate across the world to support activity of business structures, build relationship between private and public sector, raise challenging issues for private sector and remove bureaucratic obstacles.

At present, all 3 types of the above institutions are present in Azerbaijan. The Chamber of Industry and Commerce, business associations, as well as employers' organizations are in operation in Azerbaijan. However, their activity, as well as the legal basis of their activity is not sufficient to build a bridge between the state and the entrepreneurs.

There are more than 90 business associations in Azerbaijan. However, business associations, which operate legally, operate as non-governmental organization do not provide desired contribution to the development of the SMEs and entrepreneurship in general. There are problems associated with issues such as the financial sustainability of business associations, registration of associations as NGOs, failure to fulfill the expected role in public- private partnership, low level of trust to entrepreneurial associations.

Employers union is an entity representing labor and social-economic rights and interests of its own members. Key idea behind the decision of creating these unions was an intention to govern labor activity of people in the country where they live, protect social status thereof, including labor, social and economic rights and legal interests of persons working in production and non-production spheres, as well as those of the retired. However, level of cooperation between employers' unions operating in Azerbaijan and the SMEs is very low.

Primary goal of the government in public-private partnership is to collect correct information on the real state of business, whereas the private sector focuses on directing the governments attention to existing problems and improving business enabling environment reforming the legislative framework of the country.

#### **Action items**

##### ***Action 1.7.1: Improve regulatory framework of public- private partnership***

The existing legislative framework will be analyzed first to strengthen public-private partnership in Azerbaijan, which will help to offer proposals for relevant modifications. These reforms will cover issues such as the legal status, as well as interests of bodies representing entrepreneurs, their interests, building constructive dialogue between public and private sector and other associated issues.

##### ***Action 1.7.2: Strengthen business associations***

First of all, legislative framework, legal status of business associations in Azerbaijan will be studied to prepare relevant proposals. Besides, establishment of business associations with strategic significance for Azerbaijan will be promoted. Mechanisms for establishment of association and their financial sustainability will be prepared and appropriate measures will be taken to strengthen the trust of entrepreneurs to the benefits of such associations.

### ***Action 1.7.3: Expand activity of the chambers of commerce***

The government will review options for establishment of a chamber of commerce for the protection of rights and legal interests of entrepreneurs, as well support measures in each region. The chambers of commerce will serve as a bridge between government and entrepreneurs providing services to members based on international best practices. Relevant measures will be taken to boost the confidence of entrepreneurs in the chambers of commerce, and to provide the chambers with consultative status similar to that in most advanced countries. This will enable consultations of prepared draft laws with chambers and participation of the members of chambers in public councils under government bodies. Main purpose of these chambers will be to increase the SMSs' trust to them and remove all obstacles faced by the SMSs.

### **The expected results and result indicators**

With the implementation of this priority, more advanced steps in support of the regulation of the public-private partnership will be taken, and the public-private partnership will enter a new phase in the country. As a result of the improved legislation, Azerbaijan will ensure full institutionalization of public-private partnership.

### **Key performance indicators:**

- Improve regulatory framework to strengthen public-private partnership in Azerbaijan;
- Increase numbers of institutions representing the SMEs and strengthen their impact on the economy;
- Expand powers and scope of the chambers of commerce.

### **The required investment**

Implementation of this priority does not require major investment.

### **The expected risks**

- Ineffective organization of associations and failure to meet the interests of the SMEs.

## ***7.1.8. Priority 1.8. Improve alternative dispute settlement options among the SMEs***

### **Rationale**

As known, one of the out-of-court dispute resolution mechanisms is mediation. General framework for the development of mediation institute has been specified in the legislation of the Republic of Azerbaijan and its active introduction and integration into the legal space has been

launched since the early years of independence. Today, Azerbaijan needs to strengthen legislative framework for mediation as the out-of-court settlement of disputes in Azerbaijan and further integrate the mediation institute into the legal system. In addition, traditional court review is still maintained by citizens and the role of court system as the guarantor of rights is not fully comprehended.

Direct application to court for resolution of disputes could cause several negative results for business. In this case, parties to the dispute, as a rule, halt the business relationship. Besides, involvement of specialized lawyers to defense process during the review of disputes by court costs high, which causes great difficulties for the SMEs which do not have a separate legal department in most cases.

In international practice, classical court system complements alternative procedures, and the both approaches enable full protection of rights and legal interests of citizens. Such forms of dispute resolution as negotiations as the method for alternative settlement of disputes, negotiations with the participation of intermediary, arbitration, mediation, independent opinion of experts, investigation, conciliatory note, private court, etc. are observed. Depending on the details of a particular case during the settlement of disputes, negotiations are conducted with direct participation of parties, and where agreement is not reached, independent and neutral mediator, i.e., new mediation institute is involved. As a rule, tribunal format is applied during the mediation.

Azerbaijani legislation contains alternative dispute resolution methods, which are currently under-utilized. Both the Labor Code and the Code of Civil Procedure contain provisions on alternative dispute resolution methods. Besides, there are several legal mechanisms associated with pre-court dispute settlement in Azerbaijan. Nevertheless, in Azerbaijan's experience, alternative dispute settlement is not at a desired level. To resolve this problem, necessary legal mechanisms facilitating alternative dispute resolution should be established, promotion mechanisms for alternative dispute resolution should be introduced and necessary awareness-raising works should be conducted among entrepreneurial entities.

### **Action items**

#### ***Action 1.8.1: Prepare draft law on mediation***

Azerbaijan will review the adoption of the law on mediation in order to improve alternative methods for out-of-court settlement of disputes. The law contains issues such as the scope, goal and principles of the law, equality of rights of and cooperation among the parties to mediation, independence and impartiality of the intermediaries, unacceptability of intervention into the mediation procedure, etc.

#### ***Action 1.8.2: Establish Mediation Council***

The establishment of the Mediation Council in collaboration with government agencies will be considered in order to organize and coordinate the activity of the intermediaries. The Mediation Council will be composed of members appointed following the results of the contest organized by

relevant executive authority. A regulation on the council will be prepared to identify powers and operation of the Council.

### **The expected results and result indicators**

#### **Key performance indicators:**

- Reduce out-of-court dispute resolution indicators among the SMEs twice by 2020;
- Adopt a law on mediation to improve alternative methods for out-of-court dispute resolution;
- Establish the Mediation Council.

### **The required investment**

Implementation of this priority will not require significant investment.

### **The expected risks**

- Organize efficient operation of the Mediation Council;
- Lack of information on the operation of the Mediation Council among the SMEs.

#### ***7.1.9. Priority 1.9. Introduce criteria for identification of the SMEs in all support measures and introduce systemized mechanism for statistical data***

### **Rationale**

To ensure that the reforms with direct impact on the SME's development in Azerbaijan reach the target, "large, medium and small entrepreneurship criteria" should be defined. The criteria recognize medium-sized enterprises and increase both the domestic and external adjustment using turnover measures, as well as employment measures adjusted to effective tax norms.

Classification of the SMEs based on various criteria and use of different approaches by government bodies have negative impact on reforms to reach the target, as well as the quality of statistics associated with this sector.

Availability of reliable and detailed statistic data is one of the important preconditions for deep analysis and reliable projection of economic situation, as well as for the preparation of development plans and programs.

A special expert group should be created to develop this area and prepare recommendations on improvement of the SME-specific state statistical system in the short run.

### **Action items**

#### ***Action 1.9.1: Apply the SMEs identification criteria to all support measures***

One of the goals of the SME Agency is to organize coordination of SME-specific information and reports based on unified principles. These principles will ensure a single approach to reports and calculations by relevant government bodies, as well as compliance of the calculation of economic indicators of the SMEs with international standards. Existing criteria for identification of the SMEs

will be kept in mind in line with their development rate, and where necessary, proposals will be prepared to improve these criteria.

***Action 1.9.2: Introduce standardized approach to SME-specific statistical data***

The SME Agency, in cooperation with the State Statistical Committee of the Republic of Azerbaijan and other relevant government bodies will ensure compliance of the statistical data on the SMEs with the latest criteria specified by the Cabinet of Ministers. State Statistical Committee of the Republic of Azerbaijan will draft and approve the table of information required for the SMEs, while also ensuring the compliance of all information to be prepared in the future. Experience of other countries and international organizations will be used for this purpose.

**Expected results and result indicators**

The implementation of this priority will entail support measures carried out on the basis of single principles, which will ultimately ensure compliance of development dynamics of this area with international standards. Consequently, the accuracy of information related to the development of the SMEs will be more accurate and effectiveness of efforts targeting such accuracy will be increased. Also, development of the SMEs will be reflected in the improved employment indicators.

**Key performance indicators:**

- Ensure that support measures associated with the SMEs are formed based on unified principles;
- Maintain statistic figures based on unified principles, increase precision in calculation of data;
- Increase efficiency of the SME-specific policies.

**The required investment**

Implementation of this priority does not require a significant investment.

**The expected risks**

- Classification of the SME-specific criteria in various forms;
- Statistical data not reflecting the real situation of the SMEs and limited access to such data.

**7.2. Strategic target 2. Ensure cost-effective and efficient access to financial sources for the SMEs**

Currently, the SMEs in Azerbaijan are also supported by a number of funds providing financial support, including:

**The National Fund for Entrepreneurship Support (NEF).** The NEF provides preferential loans to entrepreneurs including soft loans from the state budget. 97 percent of the loans are small loans representing 9 percent of the total lending value. To date, the NEF has supported 12,500

enterprises with an average loan size of USD 47,000; the majority of these loans go to agricultural production and processing businesses. A big portion of these loans were allocated to agricultural production and processing activities.<sup>7</sup>

**Azerbaijan Investment Company (AIC).** AIC also supports the development of sectors outside oil and gas through equity injections along with local and foreign investment. It invests in companies by providing venture capital and taking equity stakes of at least USD 1 million. AIC's portfolio is diverse and includes heavy industry, agriculture, logistics, equity sub-funds, and food processing.

**Azerbaijan Export & Investment Promotion Foundation (AZPROMO).** In addition to promotion and training, AZPROMO funds the SMEs' participation in international trade fairs. It also provides funds for non-oil and gas SMEs to seek financial backers.

**Azerbaijan State Service on Management of Agricultural Projects and Credits.** Using loans with 2 percent interest from the Azerbaijan State Service on Agricultural Products and Credits, agent banks are encouraged to issue concessional loans to entrepreneurs and farmers that add no more than 5 percent additional interest. As a result, these small and midsize business owners in Azerbaijan are able to get loans at annual interest rates of 7 percent or less.

**Azerbaijan's State Fund for Development of Information Technologies under the Ministry of Communication and Information Technologies of the Republic of Azerbaijan.** Launched by the Ministry of Information and Communications Technology, this fund supports high-tech start-ups with grants of up to AZN 300,000.

Furthermore, Azerbaijani SMEs face difficulties in access to financial resources, and this difficulty is further increased by limited domestic financial sources and reliance of the SMEs on foreign financial markets. However, it is easy for the SMEs to attract funding from foreign financial markets due to several reasons. Lack of information, technical problems, expensiveness of foreign resources make the SMEs prefer primarily domestic options.

In Azerbaijan, access of physical and legal persons to financial markets is lower than other region countries (Exhibit 5).

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<sup>7</sup> Source: Ministry of Economy of the Republic of Azerbaijan

**Exhibit 5. Access to financial markets in Azerbaijan** (*Share in GDP, with percentage*)

	Domestic credit to private sector	Volume of equity operations	Volume of bond operations
Western Europe <sup>1</sup>	107	67	61
Turkey <sup>2</sup>	75	50	26
Eastern Europe <sup>3</sup>	71	11	-0
Russia <sup>4</sup>	59	12	12
Kazakhstan <sup>5</sup>	34	2	4
Azerbaijan <sup>6</sup>	20	1	7

1. London Stock Exchange and German Stock Exchange (United Kingdom and Germany)

2. Istanbul stock exchange

3. Athens Stock Exchange and Warsaw Stock Exchange (Greece and Poland)

4. Moscow Stock Exchange

5. Kazakhstan Stock Exchange

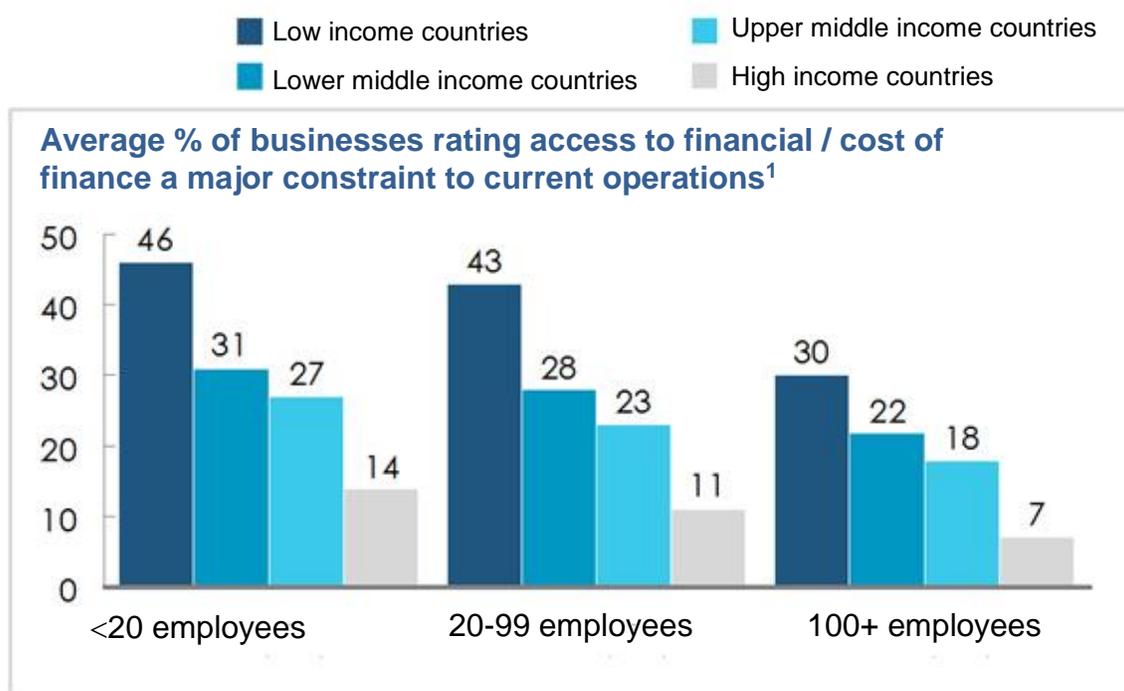
6. Baku Stock Exchange

Source: Central Bank of the Republic of Azerbaijan, Financial Markets Supervision Chamber, stock exchanges of respective countries

Access to finance is the most important potential growth catalyst for Azerbaijan's SMEs. In a 2014 survey, 51 percent of Azerbaijani SME owners cited access to finance as the most important obstacle to business growth. In comparison, a similar survey found that access to finance was cited as the biggest obstacle to growth by 31 percent of SMEs in Greece, 12 percent in both Ireland and the Netherlands, and 6 percent in both Germany and Austria.<sup>8</sup> Access to financial resources is relatively lower in low income countries (Exhibit 6).

<sup>8</sup> Source: European Central Bank, Survey of possibilities of enterprises to access financial resources in Eurozone

**Exhibit 6. Indicators of access to world-wide financial resources <sup>1</sup>(with percentage)**



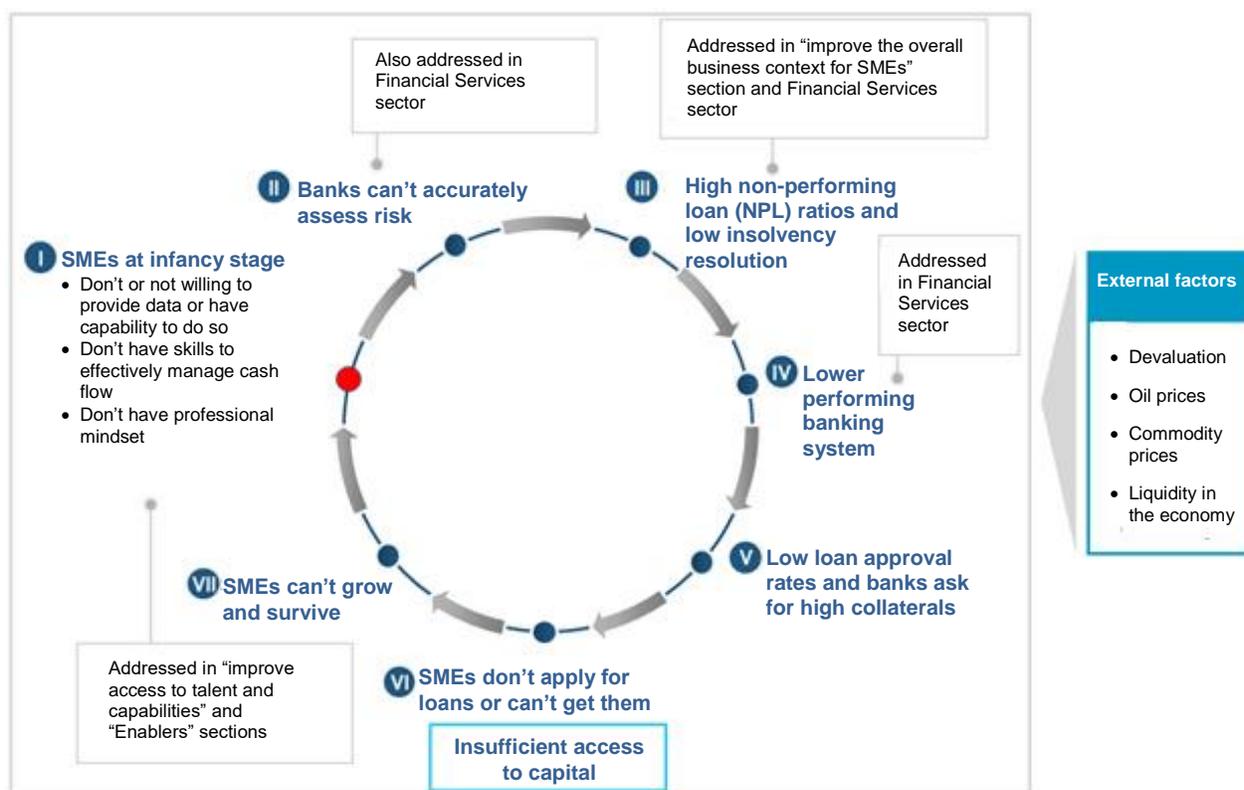
1. Average indicator of the SMEs, which consider access to financial resources or financial costs as the main obstacle (countries were assessed equally within the country to calculate overall average indicator)

Source: World Bank

At the infancy stage, the SMEs often lack critical capabilities such as data collection. Many also don't have the skills to effectively manage cash flow or lack a professional mind-set. Because of these shortcomings, banks can't accurately assess risk; the SMEs that do receive loans lead to higher non-performing loan (NPL) ratios; and due to low insolvency resolution, overall performance of the banking sector decreases. As a result, banks are less willing to provide loans to the SMEs, leading to low loan approval rates and high collateral requirements. The SMEs don't apply for loans or can't get them, and they are, therefore, unable to grow and survive. Several external factors, including devaluation, oil prices, commodity prices, and liquidity in the economy, also play a role in perpetuating this cycle.

## Exhibit 7. A potential to expand access to financial resources

### Exhibit: Addressing a chain of dependencies in the overall system could expand SMEs' access to finance



Other issues related to access to financial resources are covered by the "Strategic Roadmap on development of financial services in the Republic of Azerbaijan".

#### 7.2.1. Priority 2.1. Conduct reforms to solve winding-up and insolvency issues

##### Rationale

Banks in Azerbaijan are often hesitant to loan to the SMEs in comparison with the larger corporations. Reason for this is the higher risk profile of the SMEs and low success rate in recovery of loans. Such approach to allocation of loans to the SMEs signals a potential threat for Azerbaijan to ensure sustainable SME development.

Compared with OECD high-income countries, Azerbaijan's current post-insolvency recovery rate is low (see exhibit). Azerbaijan's current recovery rate is 39.6 cents on the dollar, which is far short of OECD high-income countries' 73 cents on the US dollar. It is necessary to strengthen regulatory framework and reforms in this field. Two-third of 390 respondents participated in a survey conducted by OECD in 2015 found it difficult to recover business after failure, whereas 42 percent of respondents indicated the access to financial resources as the most significant difficulty.

The strength of the insolvency framework is measured by a scale of 16 points. OECD high-income countries average a 12.1 score, Europe/Central Asia countries average 9.9, and Azerbaijan 7.5. Azerbaijan’s existing weak framework leads to long court proceedings as well as perpetuates the cycle of banks being less willing to lend to the SMEs.

### Exhibit 8. Comparative analysis of insolvency indicators



1. It includes evaluation of commencement of proceedings, management of debtor’s assets, reorganization proceedings and creditor participation.
2. Europe and Central Asia (Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Uzbekistan, Poland, Romania, Russia, Serbia, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine)

Source: World Bank; Ease of Doing Business report 2016

Azerbaijan is ranked 86 for “winding-up business” indicator in Doing Business 2017 report. In order to improve this indicator, it is necessary to improve legislative framework, particularly the legislative provisions on reorganization, participation of creditors and lower payout ratio.

It is also necessary to improve the level of consistency of the Law of the Republic of Azerbaijan “On Bankruptcy and insolvency” (No 326-IQ, dated 13 June 1997) with international standards. Main problems are associated with reorganization procedures (since the Law concentrates on liquidation, in fact, reorganization procedures are not addressed), as well as the functions of property administrators (the Law does not require their registration or licensing). The Law does not specify automatic moratorium for court enforcement officers against debtor once insolvency procedures are commenced. Although the law offers out-of-court settlement options in exceptional cases, this option is not used in practice. Since there is no incentive after the funds are granted, the problem gets more severe, and gradual sale of commercial enterprises occurs in majority insolvency cases.

At the same time, no separate or bankruptcy registry exists in Azerbaijan. Necessary improvements need to be done in order to give the second chance to entrepreneurs who wish to restart the business.

## **Action items**

### ***Action 2.1.1: Review establishment of specialized insolvency courts for the SMEs***

Azerbaijan has several options to improve insolvency recovery rates by further strengthening legal processes and bodies.

In order to accelerate court review of insolvency issues, Azerbaijan will review options to create specialized insolvency courts for the SMEs. This body will be responsible for settlement of bankruptcy issues among the SMEs, banks and other creditors. For this purpose, the relevant bodies will be granted rights to assess viability of the SMEs, facilitate discussions and negotiations between parties, helping to restructure debts for viable SMEs and ensure quick procedures for liquidation and foreclosure of non-viable firms.

These specialized bodies would be organized as a department of existing commercial courts with experienced judges who could deal quickly with insolvency cases. Its activities would include mostly pre-determined rehabilitation and restructuring schemes for viable firms in order to avoid burdening courts with excessive number of cases. The specialized courts would also feature simple and short procedures to ensure quick and efficient liquidation of non-viable SMEs. Both debtors and creditors would be able to initiate proceedings in the specialized courts, and the courts would be able to appoint executives, trustees, and administrators for the rehabilitation process and debt restructuring.

### ***Action 2.1.2: Study insolvency problems of the SMEs and monitor the implemented activity***

Relevant bodies will coordinate with the banks, other credit institutions and the SMEs in order to identify the main challenges they face, while the SMEs experience insolvency issues. In this direction, relevant information will be collected and the main challenges will be identified through conducting interviews and surveys with banks and other creditors as well as organizing several meetings with participation of players involved from each side. Those sectors which have largest proportion of insolvency issues over the number of companies in that sector will be identified to seek for respective root causes.

### ***Action 2.1.3: Improve insolvency-related legislation and create bankruptcy registry***

Creation of online bankruptcy or insolvency registry will be reviewed to improve insolvency procedures, as well as issues associated with the second chance. Reorganization procedures, as well as functions of property administrator will be further improved within the creation of the registry. In addition, professional work standards, ethic norms and disciplinary rules of property administrators will be created. Relevant amendments will be made to the Law of the Republic of Azerbaijan "On Bankruptcy and Insolvency" to bring the procedures in line with international standards. These improvements will also cover possibilities for out-of-court settlement of disputes. Establishment of registry will further grant the second chance to entrepreneurs willing to restart the business.

### **Expected results and result indicators**

As a result of this priority, fair settlement of the SMEs' problems will be improved. According to preliminary calculations, Azerbaijan estimates to bring in AZN 450 million GDP impact in real terms. The implementation of this priority expects to generate 900 new jobs.

#### **Key performance indicators:**

- Establishment of specialized courts for SME insolvency issues;
- Ensuring necessary conditions for the recovery in insolvency process with the establishment of online insolvency or bankruptcy registry;
- Increase recovery rate for the SMEs by 4 percentage points to best-practice levels.

### **The required investment**

Implementation of this priority will not require major investment costs. Nevertheless, as a result of these measures, the SMEs will have better access to financial resources.

### **The expected risks**

- Incorrect assessment of the SMEs' needs on insolvency issues and little effectiveness of activities implemented.

## ***7.2.2. Priority 2.2. Establish SME Credit Guarantee Fund***

### **Rationale**

When raising funds, local SMEs tend to use offerings of lending organizations. Securities market, which is widely spread across the world, is not extensively used in Azerbaijan among the SMEs.

In addition, investment in SMEs is very limited. World Bank Doing Business Annual Report, which reflects the assessment of ease of business enabling environment shows a decline in access to loans among Azerbaijani entrepreneurs. According to the Doing Business 2017, Azerbaijan was ranked 118 among 189 countries for ease of access to loans. Although the country was ranked 15 among 183 countries for ease of access to loans in 2010, this position fell down to 46 in 2011, 48 in 2012, 53 in 2013, 99 in 2014, 104 in 2015 and 118 in 2016.

SME loan rejection rates are currently high in Azerbaijan; in 2016, for example, more than a quarter of agriculture loans were rejected, and more than 36 percent of loans to micro businesses were rejected.<sup>9</sup>

The reasons behind these high rejection rates vary, but they paint a specific picture. There are several assumptions that underlie their reluctance to extend credit products to the SMEs, including:

- The SMEs are a very small part of the economy and the segment is growing slowly;
- The SMEs are risky with limited data available for risk assessment, and available data are not reliable;

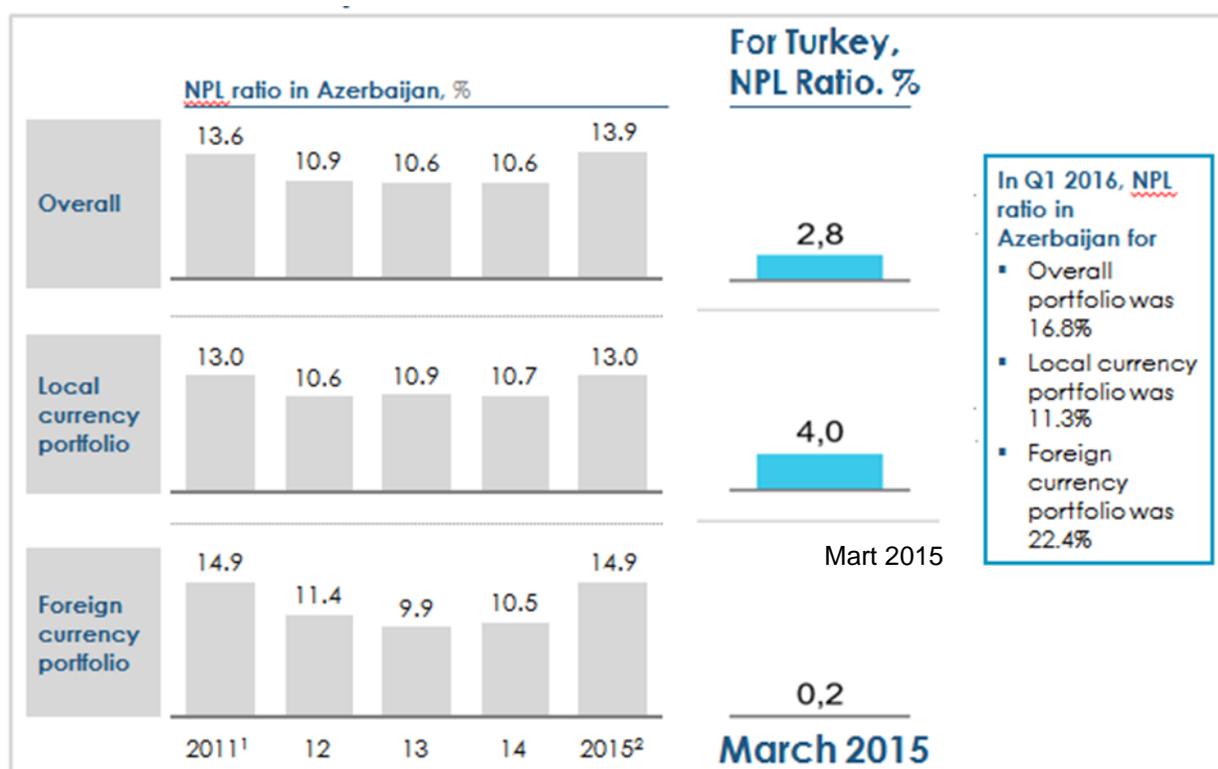
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<sup>9</sup> Source: World Bank

- Serving the SMEs is costly, as the SMEs require a very detailed underwriting mechanism similar to corporate accounts due to the high risk. Furthermore, the SMEs are not open to using online channels and instead are mostly serviced through branches and call centers;
- There are limited conflict resolution mechanisms in place, and there is a problem with the reclaim of collateral.

While some of these reasons—namely the unimportance of the SMEs to the economy—are a fallacy of *perception*, there is some evidence to support the opinion that the SMEs are risky investments. NPL ratios for all Azerbaijan businesses increased in 2015 and the first quarter of 2016 (see exhibit). In the first quarter of 2016, Azerbaijan’s overall portfolio NPL ratio was 16.8 percent while the NPL ratio in the local currency portfolio was 11.3 percent and the NPL ratio in the foreign currency portfolio was 22.4 percent.

**Exhibit 9. Ratio of non-performing loans (NPL)**

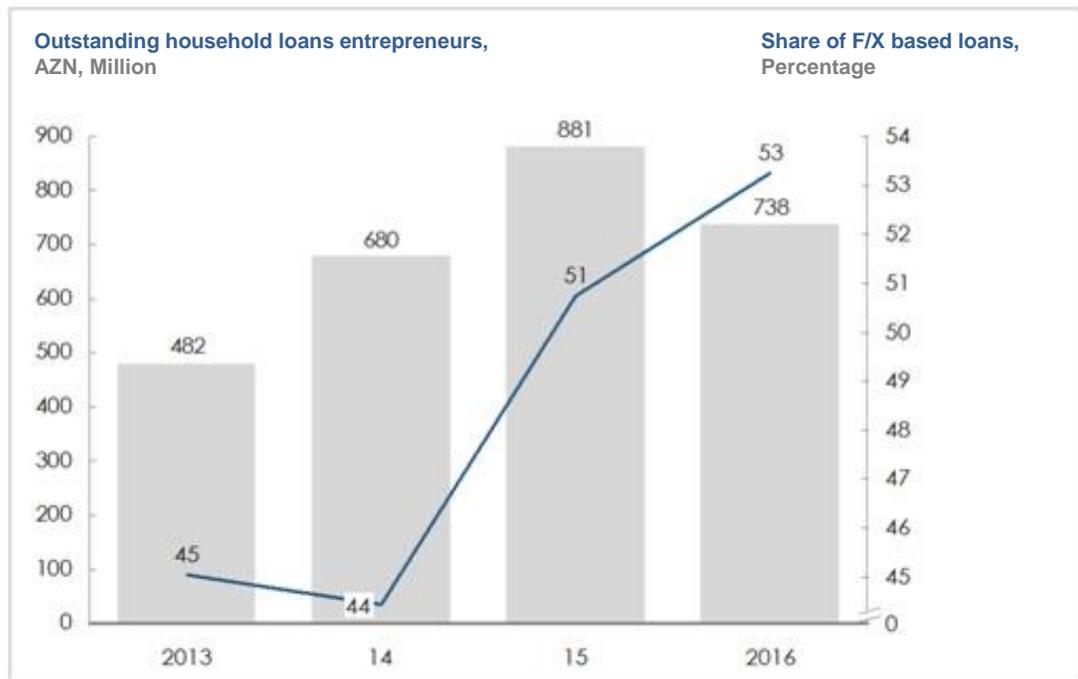


1. High NPL ratio is mainly driven by IBA.
2. Excluding portfolio extended to “Agrarcredit” CJSC

Source: Central Bank of the Republic of Azerbaijan, Financial Markets Supervision Chamber

In response to these rising NPL ratios (as well as other factors, such as the devaluations of the AZN), banks are reducing their outstanding loans and increasing the share of foreign exchange-based loans in their portfolio - leaving the SMEs in search of loans with local currency.

## Exhibit 10. Loan portfolio of banks in Azerbaijan



Source: Central Bank of the Republic of Azerbaijan, Financial Markets Supervision Chamber

High interest rates for loans are among the factors limiting SMEs' access to credit products.

Currently, the risk of lending to the SMEs in Azerbaijan cannot be properly assessed for several reasons. For one, the SMEs do not have or track a robust data set. The data they do track is not often willingly shared. And the large size of the informal economy also acts as a disincentive to seek or grant funding.

In order to have effective mechanisms for access to financial resources, special bodies could be established for the SMEs in Azerbaijan. Credit Guarantee Fund would be one of these institutions. Besides, the need for establishment of SME rating agency will be considered and relevant measures will be taken if the establishment of this body is found relevant.

### **Action items**

#### ***Action 2.2.1: Establish Credit Guarantee Fund***

Establishment of SME Credit Guarantee Fund would cause reduction in financial risks of small and medium enterprises. For this purpose, credit guarantee options will be studied. The fund would provide full coverage of export-oriented loans for the SMEs, limited coverage for domestic market loans starting with medium enterprises, and expansion to micro-SMEs in the long-term. These loans would be in local currency, as opposed to the fact that most of the existing banks prefer providing only F/X loans for the SMEs. The fund would be piloted in high-value-adding sectors such as machinery and agro-processing. Individual SME selection criteria would be strict

initially, giving priority to data-rich, registered companies, companies with strategic plans, and companies with high SME rating.

The SME Agency will coordinate with all the interested parties the ongoing efforts and action plans, and will ensure improvements in access to finance for the SMEs. It will hold semi-annual meetings with participation of the Ministry of Economy, Azerbaijan Entrepreneurs Confederation, the SMEs, banks and other interested parties to discuss existing challenges and complications and action plans to overcome those challenges. It will constantly assess improvements in access to finance for small and medium enterprises and inform society about the results through mass media channels.

### ***Action 2.2.2: Increase financial literacy of the SMEs***

Studies will be conducted to increase financial literacy of the SMEs, to identify needs of entrepreneurs and take regular measures in this direction. The actions include special training programs organized free of charge and with privileged prices with the involvement of local and international consultants. At the same time, the SME Agency will cooperate with banks to promote non-financial services (for instance, marketing, management, sale, etc.) are provided by banks for the SMEs.

Existing training and education possibilities will be used during the organization of events, while also promoting the establishment of new training centers where advanced methodologies will be used to ensure efficiency of training courses. Experience and technical assistance of international organization operating in this direction will also be used to increase efficiency of events.

### **Expected result and result indicators**

As part of this priority, export activities of the SMEs operating in Azerbaijan will be easily financed, which will ultimately increase access to foreign markets.

All priorities offered as part of the strategic target on cost-effective and efficient access of the SMEs to financial resources comprise a part of the complex actions, thus the impact of these proposals are covered under priority 2.1.

As a result of increase in financial literacy of the SMEs, competitiveness will be increased, which will also contribute to the level of adequate utilization of financial resources.

### **The required investment**

Implementation of this priority does not require major investment costs.

### **The expected risks**

- Due to less favorability of guarantee terms, the SMEs showing less interest;
- Limited operation of Credit Guarantee Fund in the regions.

### **7.2.3. Priority 2.3. Improve activities related to property issues and increase access to finance**

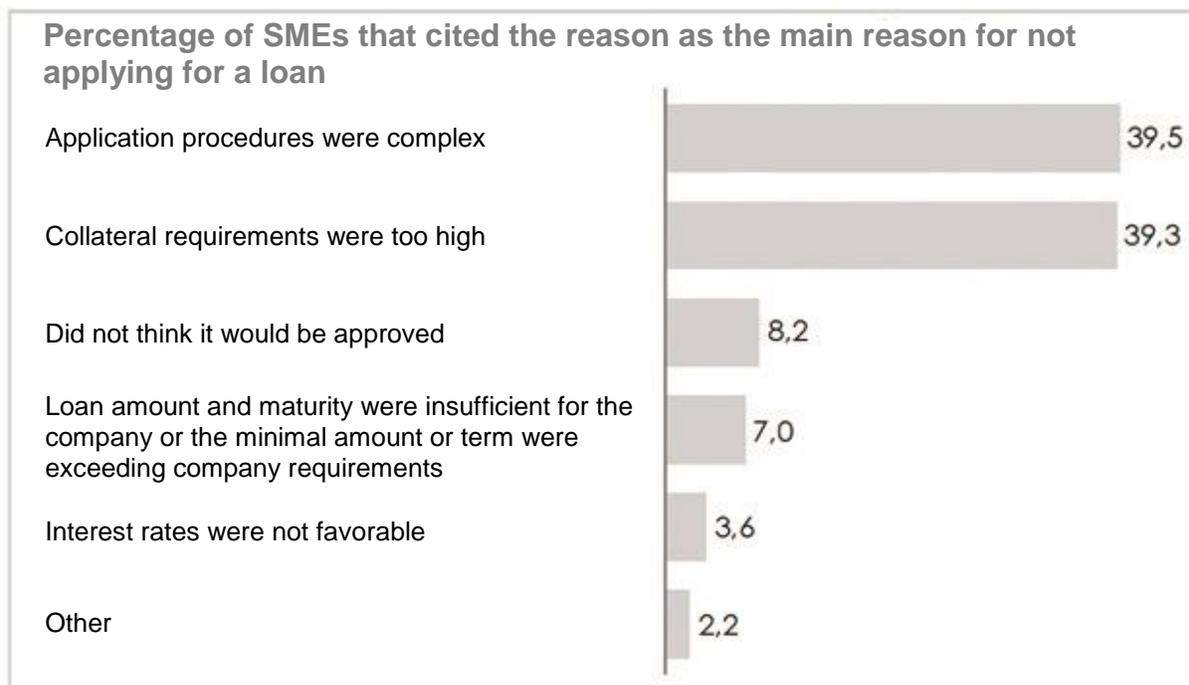
#### **Rationale**

Lack of unified system for registration of movable assets in Azerbaijan, particularly, the SMEs suffer from limited opportunities to obtain loans creating security interests in movable property. Along with the creation of movable collateral registry, this system also needs to identify the level of superiority of collateral. According to the World Bank data, in total 22 percent of assets of the SMEs in Azerbaijan represent land and immovable property, whereas debtor obligations account for 34 percent and machinery and equipment 44 percent. Land and immovable property represent 73 percent of collateral, while immovable property accounts for just 27 percent. Azerbaijani banks prefer immovable property as collateral, which cause serious restrictions for entrepreneurs as majority of the SMEs are unable to meet lending requirements of the banks.

Many SMEs are unwilling or unable to apply for traditional collateralized loans due to a lack of immovable assets such as land. While Azerbaijani law permits the creation of security interests in both moveable property and immovable property, in practice banks rarely provide financing secured by moveable property except for such property as vehicles, ships, and securities.

Results from a survey of small and midsize business owners in Azerbaijan suggest that the SMEs would be more willing to apply for loans with lower collateral requirements and less complex application procedures. Of the SMEs asked to identify their main reason for not applying for a loan, the top two responses were that application procedures are too complex or collateral requirements are too stringent.

**Exhibit 11. Reasons why the SMEs do not apply for loan (in terms of percentage)**

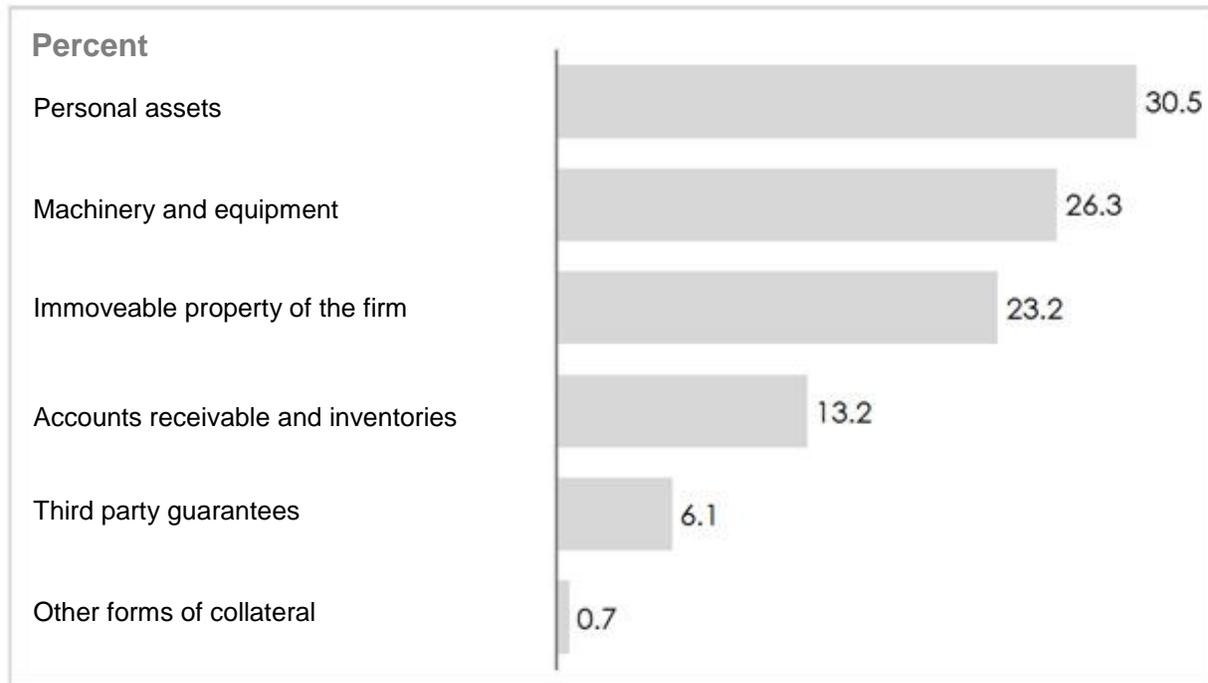


Source: World Bank Report on Access to Finance for Micro, Small and Medium-sized Enterprises in Azerbaijan

The high collateral requirements are particularly challenging for Azerbaijani SMEs given that collateral is most often in the form of personal savings. According to the same survey, personal assets represent the collateral on 30.5 percent of existing loans in Azerbaijan<sup>10</sup>. This means that in practice, business loans are often personal loans to business owners—which can create a deterrent for many business owners.

<sup>10</sup> Source for data is World Bank

**Exhibit 12. Loan collaterals (with percentage)**



Source: World Bank Report on Access to Finance for Micro, Small and Medium-sized Enterprises in Azerbaijan

### **Action items**

#### ***Action 2.3.1: Improve legislation on encumbered movable collateral***

Azerbaijan will review preparation of draft law on principles of determining whether movable asset is encumbered. At the same time, draft amendments to existing legislation will be prepared.

#### ***Action 2.3.2: Create registry of movable collateral***

To improve access of the SMEs to financial resources and increase acceptance rate of movable collateral by banks to issue credit to the SMEs, establishment of the registry of movable collaterals will be considered. The registry has the potential to improve the acceptance rate of moveable collateral by banks by providing centralized transparency on the SMEs' assets to financial institutions, thus giving more confidence to banks that a given asset isn't collateralized elsewhere. The registry will also allow banks to select better collateral for which there is a market for reselling and possibly also allow easier moveable asset sales in the event of insolvency.

#### ***Action 2.3.3: Improve organization of auctions for sale of movable and immovable properties***

In order to simplify procedures for sale of movable and immovable assets of the SMEs, organization of auctions will be further strengthened to help interested parties receive advance information on auctions, assets to be sold by these auctions and take measures in support of

transparency of the information, while also ensuring online access for the SMEs to this information.

### **Expected results and result indicators**

Lower collateral requirements will lead to increase in loan applications and progress in positive evaluation of loan application. As a result of above measures, acceptance rate of movable collateral by banks will increase twice.

Once fully operational, this registry will provide more confidence to banks in using moveable assets as collateral.

Creation of registry will cause increase in lending while also playing an important role in resolving problems specific to this area. Specification of rights of the SMEs on property will incentivize investment in this area paving a way for access to financial resources.

### **The required investment**

Implementation of this priority does not require major investment costs.

### **The expected risks**

- Accessibility and transparency of data on movable and immovable assets not being provided in the centralized registry;
- The SMEs, as well as financial institutions not being able to benefit from this service.

#### ***7.2.4. Priority 2.4. Develop leasing and alternative financial instruments (forward, futures, option, swap, factoring, etc.) market to ease access to finance***

### **Rationale**

Leasing is widely used in advanced economies as one of the instruments of investment in economy. 25-30 percent of investment in those countries is made via leasing transactions and 80 percent of new products are produced using equipment taken for lease. As one of the main instruments supporting development of entrepreneurship, leasing combines several elements such as bank loans, rent and investment. Share of leasing in total investment comprises 30 percent, while total share of leasing transactions in GDP is about 2-6 percent.<sup>11</sup>

While Azerbaijani legislation on leasing has been effective since early 90s, it experienced development beginning from 2003. Up to double increase per year has been observed in portfolio of leasing companies during 2003 – 2008 years, although the leasing companies faced decline since 2008 with the suspension of some benefits and privileges. In 2008, ratio of leasing portfolio reached US \$ 200 million, which however fell by US \$ 150 million in 2010 – 2011. Main problem of leasing markets in Azerbaijan is the lack of funds faced by leasing companies. Limited scope, portfolio and capitalization rate of leasing companies decreases attractiveness of this area for foreign investors. At present, more than 30 companies in Azerbaijan have been specialized on

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<sup>11</sup> Source: Ministry of Economy of the Republic of Azerbaijan, Azerbaijan Industry Portal

leasing, and the total leasing transactions of these companies is about AZN 200 million, which accounts for 0.5 percent of the GDP.<sup>12</sup>

According to analysis, local SMEs could use leasing as one of the state-of-the-art investment tools to purchase latest machinery and equipment and renew the outdated ones. Simplified requirements for leasing of machinery in current stage of the development of national economy would act as one of the methods of public support provided to industry in Azerbaijan. Although some types of these financial instruments are introduced to the financial markets of Azerbaijan, increase in their number will trigger financing of the SMEs using these instruments. In this regard, it is necessary to expand the use of existing alternative financial instruments, examine options for creation and use of the new instruments.

### **Action items**

#### ***Action 2.4.1: Develop a law on leasing***

In order to increase leasing in Azerbaijan, first of all, the development of unified law will be considered. The new law will enable leasing services provided by leasing companies. Based on the new law, relevant regulatory framework will be formed to create favorable environment for operation of leasing companies.

#### ***Action 2.4.2: Regulate leasing activity and introduce benefits***

To achieve further growth in leasing market, benefits will be introduced and new regulation mechanisms will be identified. In addition, additional benefits will be considered to introduce to the sectors with special value for the country. These benefits will enable the stimulation of the use of leasing services by the SMEs as a source of alternative financing.

#### ***Action 2.4.3: Expand use of alternative financing instruments (forward, futures, option, swap, factoring, etc.) for financing of the SMEs***

Under the financial system of Azerbaijan, efforts will be made to study options for use of alternative financial instruments, mechanisms and application prospects thereof. Besides, proposals will be prepared to expand use of existing financial instruments. Furthermore, the SMEs will be incentivized to use financial instruments such as forward, future, option, swap, factoring as alternative and cheap financing sources.

### **Expected results and result indicators**

As the result of the above measures, interest of local and foreign investors in leasing market and alternative financial sources such as forward, future, option, swap, factoring, which will facilitate local SMEs to expand financing options. With the development of leasing market, share of leasing transactions in GDP will rise by 2 percent and 4 percent in 2025.

### **The required investment**

Implementation of this priority does not require major investment costs.

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<sup>12</sup> Source: Ministry of Economy of the Republic of Azerbaijan, Azerbaijan Industry Portal

### **The expected risks**

- Limited source of financing for leasing companies;
- Limited experience on alternative financial sources;
- Limited awareness of the SMEs on alternative financial sources.

### **7.3. Strategic target 3. Internationalization of the SMEs and increase of access to foreign markets**

Share of non-oil sector of Azerbaijan in total export is very small, accounting just for 13,8 of total export.<sup>13</sup> Majority of enterprises exporting non-oil products are large enterprises, which testifies to the small share of the SMEs in the export. In advanced economies, small and medium-sized enterprises have a significant share in export. At the same time, SMEs play exceptional role in producing goods capable to substitute import. Development of local production among the SMEs contribute to improvement in the payment balance of the country, preventing currency flow from the country, as well as reducing reliance on export. Access to foreign markets is important not only for the export of goods from Azerbaijan but also for access to advanced technologies and involvement of experts. Currently, AZPROMO is the organization, which helps Azerbaijani SMEs reach international markets. AZPROMO contributed to increase in export transactions made by the SMEs operating in non-oil sector of the country. However, according to statistical data, the SMEs still have a small contribution to export. In 2013, only 2 percent of small enterprises in the country were involved in foreign export activity, compared with 30.5 percent in Turkey, and 1.0 percent of medium enterprises export, compared with 51.2 percent in Turkey (Exhibit 13).

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<sup>13</sup> Source: State Statistical Committee of the Republic of Azerbaijan

### Exhibit 13. Export potential of the SMEs

Non-oil exports Percentage of GDP, 2014		% of Small Enterprises that export		% of Medium Enterprises that export	
Georgia	16.9	Turkey	30.5	Turkey	51.2
Kazakhstan	8.6	ECA <sup>1</sup> regional average	15.0	ECA <sup>1</sup> regional average	25.6
Russia	8.2	Ukraine	11.7	Ukraine	19.9
Iran	6.5	Moldova	10.3	Georgia	15.2
Azerbaijan	2.1	Georgia	2.9	Moldova	12.2
Nigeria	1.7	Azerbaijan	2.1	Azerbaijan	1.0

1. Europe and Central Asia (Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Uzbekistan, Poland, Romania, Russia, Serbia, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine)

Source: UN Comtrade, World Bank, Enterprise Surveys

In 2014, non-oil export of Azerbaijan accounted for 2,1 percent the GDP. Of Azerbaijan's current non-oil exports, the bulk is currently sent to Turkey, Iraq, and Russia, with limited exports to the country's eastern and southern neighbors.

## Exhibit 14. Current state of Azerbaijan's export



Source: UN Comtrade Database

There are also opportunities to develop the SMEs' access to domestic market. The main lever that will be used in Azerbaijan in short term is leveraging public sector procurement to support SME development. As discussed in National Economy chapter of this roadmap, Azerbaijan will take actions to ensure the SME development is considered as a dimension in public procurement process. The SME will remain key driver to trigger growth in non-oil sector. Main target for the future of Azerbaijan's economy will be to reduce reliance on oil export through diversifying the economy.

### **7.3.1. Priority 3.1. Expand financial services for international trade deals of SMEs and promote direct foreign investments**

#### **Rationale**

Continuous reforms are being carried out towards simplifying international trade deals by SMEs, increasing export-oriented financial opportunities and promoting investments. On 21 May 2016, the President of the Republic of Azerbaijan signed the Decree № 920 on Rules for use of "Green Corridor" and other gating systems for the transportation of goods and vehicles across the customs border. The Decree aims to introduce more flexible and transparent customs clearance for international trade transactions and develop bureaucrat-entrepreneur relationship based on modern management principles, identify level of threat using automated electronic information system based on results of risk assessment, further optimize application of customs control in accordance with import-export procedures.

In addition, a mechanism for financing promotion of export products and the refund support was created by the Decree № 811, dated 1 March 2016 of the President of the Republic of Azerbaijan to stimulate export of non-oil products, increase production and export of competitive non-oil products, as well as access to traditional and new markets, and expand business enabling environment in this field.

Apart from the above mentioned, “Rule for issuing investment promotion document” was approved by the Decree № 745, dated 18 January 2016 of the President of the Republic of Azerbaijan on “additional measures for promotion of investments” to facilitate investors to benefit from privileges set forth by the Tax Code and the Law on Customs Tariff of the Republic of Azerbaijan.

A limited number of export-oriented financial products are currently available to SMEs in Azerbaijan. An analysis of products offered in Azerbaijan shows that SMEs can obtain two types of support products at present: pre-export and post-shipment credit mechanisms. Additional export financing products observed in other countries include:

- an overseas trade fairs grant, which provides grants to exporting companies to attend trade fairs;
- short-term export credit insurance, which covers losses due to commercial risks;
- local and international factoring, which offers management of debtor obligations and financing mechanisms based on these debts;
- documented transactions such as letter of credit and bank guarantees – these transactions refer to financial instruments, which protect both exporters and importers from several risks.

Apparently, the number of financial products offered by banks to finance international trade deals is very limited in Azerbaijan. Some banks do not offer services such as documented letter of credit, international bank guarantees, international factoring. As a result, it causes financial shortcomings for international trade deals, in particular effective implementation of export transactions by SMEs.

With the development of varieties and quality of services used for financing of international trade, entrepreneurs are able to increase revenues from international transactions.

### **Action items**

#### ***Action 3.1.1: Supply SMEs with relevant financial services of international trade transactions***

The most important problems faced by SMEs during international trade transactions will be identified; reports on steps necessary for solution of these problems will be prepared and the experience of countries succeeded in the particular area, as well as the database of AZPROMO will be used.

### ***Action 3.1.2: Support SMEs in compliance with international standards and requirements***

Practical support will be provided to SMEs to increase compliance of products exported by SMEs with relevant standards and requirements.

In addition, opportunities created by various intergovernmental treaties and partnership agreements will be widely promoted among SMEs to ensure that they benefit from existing opportunities. Relevant government institutions, AZPROMO and SME Agency will select pilot areas based on several criteria, such as strategic significance for the country, competitiveness, economic value, etc.

In order to increase competitiveness of the SMEs, they will be given a transition period to introduce new technical regulation. During this transition period, producers will gradually apply the new requirements in their own production processes, and the existing standards will remain in force during this period. During the voluntary introduction period, producers will be educated regularly, while also receive trainings and consultancy services free of charge, which will facilitate them to understand and apply requirements of the new technical regulations.

Extension of grants and privileged credits to producers applying new technical regulations will be reviewed. As a result, production of much safer and higher quality products will be promoted in the country. Additional details on compliance with the international standards are covered by the “Strategic Road Map on national economic perspectives of the Republic of Azerbaijan”.

### ***Action 3.1.3: Provide support to SMEs in attracting direct foreign investments***

Special attention will be placed on attracting direct foreign investments in SMEs in Azerbaijan. Besides, mechanisms and opportunities will be studied to attract investments. In this regard, efforts will be made to organize direct meetings (B2B) with potential investment sources and companies. Problems of SMEs in the field of attracting foreign investments and latest technologies will be studied regularly to assist them in market studies, preparation of business plans and access to statistical data. Within the support to SMEs in attracting direct foreign investments, experience and potential of local and foreign organizations will be used.

### **Expected results and result indicators**

As the result of implementation of this priority, in 2020, it is estimated to bring in AZN 35 million of direct and AZN 20 million of indirect GDP impact in real terms, which totals up to AZN 55 million. It is expected to generate an employment growth of 9800 persons in 2020.

In general, international trade, as well as export-related instructions and financial products will bring additional export opportunities to SMEs and also increase their share in export. Thus, SMEs will be equipped with better resources to access international markets.

### **The required investment**

The implementation of this priority until 2020 will require AZN 3 million investment in the initial stage.

## **The expected risks**

- local banks are unable to supply SMEs with financial products and services necessary for international trade and export;
- SMEs are less competitive in international markets;
- less interest in SMEs by foreign investors;
- insolvency of SMEs as the result of improper management of financial risks associated with international trade.

### **7.3.2. Priority 3.2. Establish sector-based export associations**

#### **Rationale**

SMEs have relatively limited financial, technical and human resources, as well as capabilities for access to foreign markets compared to large companies. Sequential measures are taken to resolve these shortcomings. Mechanisms have been developed to organize export missions to foreign countries, explore foreign markets and promote marketing activities or brand building, such as establishing a "Made in Azerbaijan" brand, promote obtaining certificate and patent in foreign countries necessary for export of local companies. Currently, efforts are being made to create unified database of goods produced in the Republic of Azerbaijan.

One of the most effective means in this direction would be strengthening efforts and opportunities to organize themselves into business associations within their respective sectors. The associations would provide useful and necessary services to SMEs promoting preferential and favorable use of these services among SMEs. There will also be a need to promote export of small and medium-sized enterprises in several industrial areas in order to increase export indicators of SMEs and diversify the export (so that more non-oil products are covered by export) in Azerbaijan. For implementation of this initiative, it is necessary to establish export associations for separate sectors, in particular pilot sectors.

#### **Action items**

##### ***Action 3.2.1: Develop export associations***

Sectors widely represented by SMEs will be selected as pilot sectors to build export associations. Export opportunities of SMEs in identified sectors will be assessed through analysis of potential export markets and competitive advantage of SMEs in those markets.

With the help of SME Agency and AZPROMO, export associations for pilot sectors will be formed and participation of SMEs in those associations will be incentivized in Azerbaijan in. The initial focus will be on midsize SMEs with a higher share of exports. Participating SMEs will also benefit from enhanced competitiveness in foreign markets, and market research and legislative data in target markets.

The associations' main activities will vary by individual sector need but can include several export-oriented collaborations among SMEs, including raising awareness via seminars, trainings, and courses; international trade promotion and selling and buying missions; registration of export products ; promotional activities and brand building; participation in local and international events

and fairs; ; market research about stores and warehouses, target markets, and existing legislation in those markets; project-based research and development support; and centralized database management.

To provide sustainable funding, taking a certain percentage of all export products sold through associations as a service fee will be considered. Individual promotion projects will be directly governed by the export associations.

Going forward, annual meetings with participation of the export associations, AZPROMO, SME Agency and representatives of other relevant agencies will be held to discuss performance of the associations, existing challenges and relevant ways to improve further.

### **Expected results and result indicators**

As part of this strategic priority, it is estimated to bring in AZN 45 million direct GDP impact. It is not expected to generate any employment impact.

#### **Key performance indicators:**

- Achieve 5 percent increase in non-oil export.

### **The required investment**

This strategic priority would not require any significant investment.

### **The expected risks**

- Limited share of SME in export;
- Proposed services are less compliant with demands of SMEs;
- Misuse of opportunities offered by export associations.

## **7.4. Strategic target 4.1. Increase knowledge and skills of SMEs, accelerate introduction of best practices**

In recent years, several measures have been taken to increase awareness, knowledge of business methods and in general, realization potential of business activities of entrepreneurs. The Business Education Center under the Ministry of Economy of the Republic of Azerbaijan organized different trainings and workshops for entrepreneurs tailored to needs of entrepreneurs. Increased tendency was observed in the participation of entrepreneurs in various events organized in the regions of the country. In addition to trainings, multiple awareness raising events were organized in Baku and regions. The Business Education Centre opened branches in 7 cities and regions of the country (Ganja, Gazakh, Yevlakh, Goychay, Lenkaran, Sheki, Khachmaz).

Furthermore, Baku Business Centre located in the National Seaside Boulevard offered opportunities for small and medium-sized enterprises to participate in exhibitions and conferences, organize opening and presentation ceremonies and business meetings and join international events attended by foreign investors. In order to increase capacities of SMEs operating in the regions, Guba-Khachmaz Regional Development Centre has operated under Baku Business Centre since 2013. Guba-Khachmaz Regional Development Centre offers entrepreneurs necessary equipment to organize exhibitions and business meetings. Besides, a

business incubator has been opened in the Regional Centre to develop young entrepreneurs where programs in support of knowledge and capacities of young entrepreneurs are being implemented.

On the other hand, AZPROMO serves SMEs to increase their capacities through coordination with foreign investors and organization of international exhibitions and conferences. Business incubation and other support measures have been proposed to increase skills of entrepreneurs in industrial and high technologies parks and industrial sites established in the country.

Apart from the above mentioned, knowledge and skills of Azerbaijani SMEs do not meet modern standards and need to strengthen efforts in this direction. SMEs operating in the country, particularly the ones that are located in the regions differ in terms of their training needs and modern business skills compared to large companies operating in Baku. This difference is slightly observed in advanced economies where various support measures have been taken. SMEs in Azerbaijan lag behind their foreign partners in terms of international accounting standards and introduction of corporative management. Without a modern accounting and management system, access to foreign financial markets is less likely to happen.

Another important problem is lower level of entrepreneurship mindset and spirit and less interest by women in small and medium-sized entrepreneurship. Given that mechanisms for support of startups in Azerbaijan are not widely spread, realization of innovative initiatives faces obstacles.

#### ***7.4.1. Priority 4.1. Develop business incubators and startup projects, create model factory***

##### **Rationale**

Business incubators play significant role in development of SMEs. Adequate organization of the work of business incubators contributes to the reduction in the level of unemployment especially among young people, development of regions and promotion of innovations. Besides, favorable conditions are created for implementation of startup projects within business incubators.

Business incubators are spread all over the world and present various types of services to entrepreneurs depending on the country, as well as the profile of incubators.

Significant steps have been taken to create business incubators in Azerbaijan. The business incubators in the country have been provided with necessary technical infrastructure. Besides, business incubators providing training and consultancy services have been also created in Azerbaijan. However, number and scope of these incubators need to be increased.

According to the international best practices, support services of business incubators include the followings:

- Consultancy services;
- Training services;
- Mentorship;
- Mediation;

- Organizational services, etc.

Types of these services, as well as the importance thereof for SMEs vary in terms of the stages of incubation period.

Another option capable to contribute development of SMEs is the creation of the model factory. The model factory in Azerbaijan would serve as the necessary platform for experiential learning among SMEs. Model factories are used to showcase best practices and capability building within a realistic factory environment, often with a focus on lean manufacturing. The model factory to be created would offer a broad training curriculum, including line transformation from "current state" to "future state;" cover all building blocks of a lean production system; provide active qualification through the concept of "seeing, listening, doing."

International examples demonstrate that a typical model factory can serve 25 companies per quarter with a typical training-delivery program. The cycle begins with building awareness of the factory among business owners. The initial lectures to the group may take two days and include an introduction to the theory of lean practices and an explanation of their principles (Exhibit 15). Another three to five days could then be spent on experiential learning sessions at the factory, involving trial and demonstration in the factory. This intensive week could then be followed by six months of transformational learning, where the participants return to their own factories for trial and improvement. They could be assisted with ongoing help by lean consultants making on-site visits. Even after the formal process is complete, the participants could continue to embed lean practices into the company on-boarding process to ensure sustained success.

## Exhibit 15. Example on one-day experiential learning schedule

 Hands-on exercises including

### Objectives

- Excite people about the power of lean manufacturing;
- Become familiar with basic lean tools;
- Generate an understanding of the transformation approach

### Participants

- CxOs
- Managers
- Change leaders

### Agenda

Time	Topics	Objectives	
08:30–09:00	Welcome / intro to factory	Warm-up, get to know agenda and factory	
09:00–09:45	Introduction to lean	Develop basic lean knowledge	
09:45–10:45	"Leading to see" shopfloor visit	Identify waste / variability / inflexibility in production	✕
10:45–11:00	<b>Break</b>		
11:00–12:00	Current-state value stream mapping	Understand how to draw the current-state value stream of a process in production	✕
12:00–12:45	Standardized work	Learn about the power of standards and how to set them up	
12:45–13:30	<b>Lunch</b>		
13:30–14:30	Future-state shopfloor visit	Observe improved operation	✕
14:30–15:30	Performance management	Learn how to establish sustainability and continuous improvement	✕
15:30–16:30	Building a lean culture	Learn about the influence model to generate the necessary culture	✕
17:00	Conclusion and wrap-up		

There is a potential to deliver hardware faster and at lower cost by leveraging idle factories and infrastructure in Azerbaijan. Examples of successful model factories from around the world will guide the development of this initiative.

In addition, several measures have been taken in support of startups, and several institutions and funds have been established to invest in the startups. The State Fund for Development of Information Technologies under the Ministry of Communication and High Technologies would be an example. Besides, the ministry implements "Startup Azerbaijan" project. The main goal of this project is to improve investment climate in ICT sector, discover the best internet and ICT projects and assist innovative ideas to become successful businesses.

## **Action items**

### ***Action 4.1.1: Establish a model factory for SMEs to benefit in Azerbaijan***

A pilot model factory available for the industry players will be built in Azerbaijan. In this direction, Azerbaijan will analyze international model factory examples and decide on the sector, size, location and personnel of the model factory. The government will evaluate post-Soviet idle plants and decide on the most applicable candidate for model factor (if no suitable assets found, the government will consider new location). A team responsible for realizing the project will be appointed. The funding method of the model factory (private companies vs. public) will also be decided, and supplier to build / operationalize the model factory will be determined through a tender. This factory will serve as a platform for building practical capacities of SME employees.

Establishment of the model factory will be communicated to the companies in selected pilot sector, and workshops will be arranged to inform companies in selected pilot sector about advantages and benefits of model factories and share international best examples with them.

The establishment of a model factory in an industrial zone where SME density is highest will be provided in Azerbaijan, with a pilot project potentially located in Baku area. The initial goal will be to build a 1,000-square-meter factory that can serve at least 100 SMEs annually, facilitate the involvement of international experts who will provide training for SMEs, and improve those companies' lean manufacturing capabilities.

Setting up such a factory will be achieved from initial planning through hardware delivery and installation to the first staged training. Stakeholders will include industry associations, private institutions, universities and other interested parties. Funding will be sought from the public budget, sponsors, and SME admission fees.

Companies that use the model factory will be constantly coordinated with and their feedback will be obtained. Semi-annual meetings will be held with the companies and their opinion about the usefulness of the model factory, as well as suggestions for improvement will be obtained. The companies will also be asked to submit quarterly reports on the results of lean practice operations they implement based on the model factory experiments and compare those to benchmarks to assess the effectiveness of the model factory.

### ***Action 4.1.2: Develop business incubators***

Business incubators will be strengthened and creation of new incubators will be analyzed to identify further steps. SME agency and relevant government bodies will work closely to prepare and submit special reports on creation and effectiveness of business incubators, as well as analysis and ways of solution of obstacles to development of such incubators. Further options and potential steps will be evaluated to form financial and benefit mechanisms of business incubators and undertake relevant changes in the legislation. Funds of the public budget, donations of donor organizations, as well as the funds of local and foreign investors can be used to identify business incubators. An efficient cooperation will be built among business incubators,

industrial clusters and high technologies parks to create an opportunity for startups, which have a potential to develop and successfully operate in business incubators, to become a resident of these industrial zones. A relevant financing mechanism will be reviewed to facilitate access of startups participating in business incubators, as well as other startups, to initial financial resources.

Interested parties and consultants will be involved to improve management mechanism of business incubators. Management procedures and training modules will be developed for business incubators. Besides, management councils will be identified, and effectiveness and transparency will be ensured in the operation of business incubators and in the process of involvement of SMEs. Special services will be offered to participants of business incubators, where necessary, trainings will be provided. At the same time, needs for social-oriented business incubators will be examined to take initiatives for creation of such incubators.

#### ***Action 4.1.3: Support startup projects***

Startup projects would play a role of a platform for initiators willing to start a business and realize new ideas while also serving as an example for local SMEs. Necessary efforts will be made to build close cooperation among startup projects and existing, as well as future industrial zones, industrial clusters, business incubators, various government bodies, high and secondary professional schools. Further steps will also be taken to improve financing mechanisms of startup projects and facilitate involvement of private sector, donor organizations and different financial institutions in the financing. Various projects will be reviewed with an objective of developing startups.

#### **Expected results and result indicators**

Opportunities provided by model factory and business incubators will increase competitiveness of SMEs, while also enhancing the efficiency of production, which ultimately will strengthen the sustainability of SMEs.

As part of this strategic priority, Azerbaijan estimates to bring in AZN 20 million direct and AZN 15 million indirect GDP impact, summing up to AZN 35 million in total. Implementation of this priority is not expected to generate any measurable and significant employment impact.

#### **Key performance indicators:**

- Establish at least 3 -5 model factories until 2020;
- Establish at least 5 new business incubators annually until 2020;
- Launch at least 25 startup projects each year.

#### **The required investment**

This strategic priority would need an investment around AZN 50 million until 2020. Feasibility studies will be conducted during implementation of the measures to identify investment requirement precisely.

### **The expected risks**

- Less effectiveness of business incubators;
- Less interest demonstrated by SMEs in these projects.

### ***7.4.2. Priority 4.2. Increase training and education options for SMEs, accelerate introduction of best practices***

#### **Rationale**

The expansion of Azerbaijan's SMEs depends on the provision of an adequate pool of workers with the necessary talent and capabilities as well as the improvement of the existing management practices. The existing SME workforce needs additional financial literacy and business management skills in order to think and plan strategically, prepare financial statements, and engage in other critical business tasks. In addition, SME founders and owners need upgraded entrepreneurship skills to stimulate innovation driven growth.

It is impossible to consider effective development of SME without talented workforce. There are some difficulties in the field of business education and vocational training, which cause problems in access to talent for SMEs. At present, there is a need to continue reforms in the field of vocational training in order to develop SMEs and increase employment level. In this regard, it is necessary to accelerate works in this direction and increase attention to vocational training. Talent problem is particularly obvious at mid management level. For this purpose, it is of vital importance that training and education needs of SMEs are adequately identified, vocational education and training facilities prepare talent fitting well with the requirement of labor market, including SMEs and promote entrepreneurship mind-set among people.

A World Bank analysis found that among SMEs across industries in Azerbaijan, there is room for improvement in several business management and financial reporting skills.

## Exhibit 16. Corporate management practices of SMEs



Source: World Bank Report on Accessibility to Finance for Small and Medium-sized Enterprises in Azerbaijan

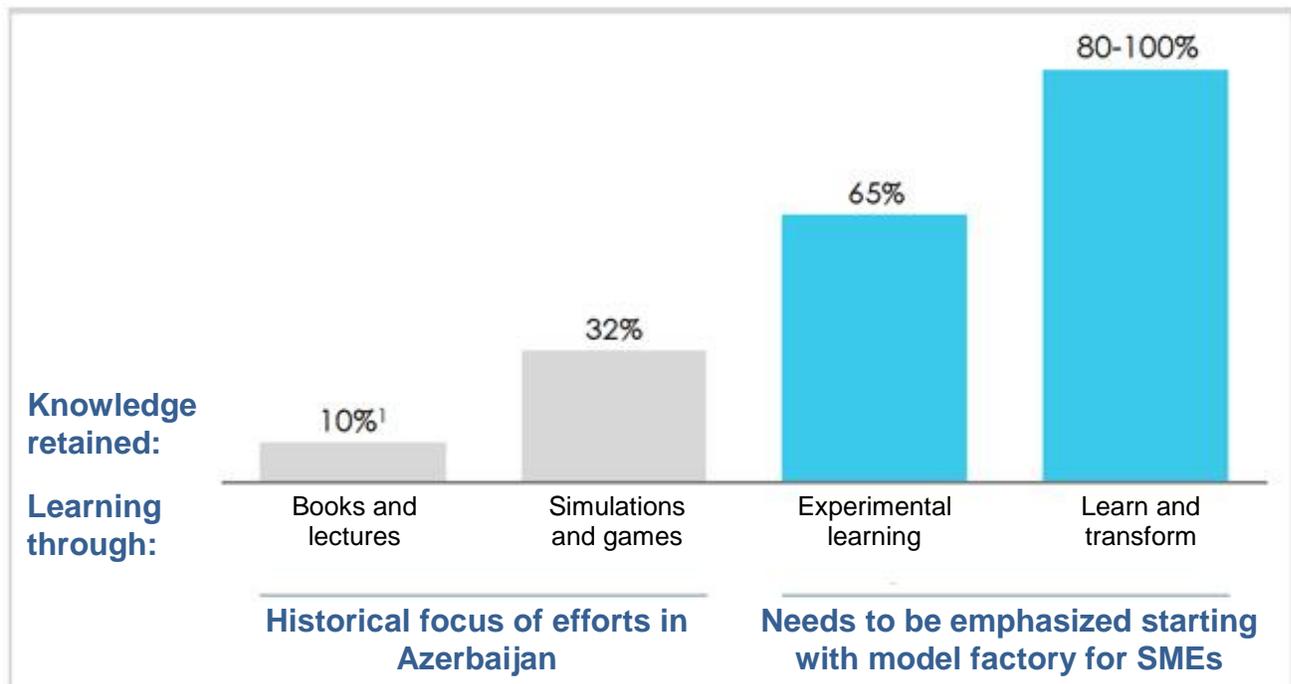
There are many avenues through which to pursue entrepreneurial talent and skill development. One option is university-SME partnerships, which combine technical research with practical application by a SME. Such an arrangement could be handled by providing funding from the National Entrepreneurship Fund and the new SME agency and assigning university professors to designated SME projects. Another option is to increase the number of entrepreneurial courses in the curriculum in high schools and colleges. Multiple institutions in Azerbaijan currently offer trainings to SMEs:

**AZPROMO.** AZPROMO organizes business forums, exhibitions, and seminars for entrepreneurs.

**Baku Business Training Center.** Baku Business Training Center aims to develop entrepreneurship through on-campus and online training programs, with a focus on youth entrepreneurship.

While Azerbaijan's historic efforts have focused on books, lectures, simulations, and games, best practices suggest that such training should be paired with "learning through doing"—an experiential approach to learning that has been shown to increase knowledge retention compared with other methods.

## Exhibit 17. Training capacities of SMEs



1. Number determined in concrete example by teaching small, simple information elements to 3 groups  
 Source: Whitmore, Coaching for Performance, 2002, IBM and UK Post Office research

Introduction of International Accounting standards in SMEs is an important issue to ease access of SMEs to securities market and financial markets thanks to foreign investors. Availability of transparent and modern accounting system at enterprises is one of the factors influencing investment decisions of foreign investors. Transparency in all spheres of the activity of enterprises is one of the integral parts of modern management system, and complex measures need to be taken to achieve this goal.

Another important aspect of transparency is related to introduction of corporate management standards. Widespread corporate management in enterprises of advanced economies reduces vulnerability to market shocks and accelerates development of capital market.

### **Action items**

#### ***Action 4.2.1: Identify training and education needs of small and medium- sized enterprises and prepare training materials***

SME agency will study training and education needs of SMEs with the purpose of increasing competitiveness of these enterprises. Special commercials and awareness raising materials will be prepared to ensure more active involvement of SMEs in the training programs. Special surveys, as well as deep analysis of SMEs' problems will be conducted to properly identify training needs.

Besides, proposals will be prepared to adjust education system to the needs of SMEs, as well as the requirement of modern realities, and the education system will be built in accordance with

market requirements. Later, SME agency will prepare training materials leveraging international best practices.

***Action 4.2.2: Study labor market- specific needs of small and medium enterprises and undertake necessary improvements***

Opportunities driven from labor market will be studied to ensure talent needs of SMEs in a more effective way, package of proposals will be prepared and improved in collaboration with relevant government bodies to remove gaps. For small and medium-sized enterprises, special trainings on labor legislation will be provided and memory books will be prepared and demonstrated on websites of relevant institutions. At the same time, special talent pool reflecting information on qualified workforce will be created within the SME agency, the SMEs will be enabled an access to this information.

***Action 4.2.3: Coordinate the activity of vocational educational facilities with SMEs***

SMEs' contacts with enterprises involved in vocational education will be built to improve the quality of the vocational education and address needs of SMEs for qualified workforce. At the beginning, the Ministry of Education and the SME agency will collaborate to study important aspects in terms of talent development. At the same time, close cooperation will be built with industrial zones, industrial clusters, model factories and business incubators in order to increase vocational education to a new level. Under this cooperation, relevant measures will be taken to arrange internship of vocational school students.

***Action 4.2.4: Ensure "life-long learning" options for SMEs***

Activity of existing institutions offering suitable services will be coordinated and strengthened in order to increase skills of small and medium- sized enterprises. As noted previously, along with theoretical trainings, practical trainings for various sectors will also be provided for entrepreneurs where effectiveness of such trainings and the needs of SMEs will be in the forefront. Benefits of post- education trainings for entrepreneurs will be identified regularly to make necessary modifications. For this purpose, opportunities created by existing training and education facilities will be widely used and new facilities will be created, if needed.

***Action 4.2.5: Stimulate SMEs to introduce International Accounting Standards***

Efforts will be made towards introducing International Accounting Standards among SMEs. At initial stage, medium- sized enterprises will be promoted to introduce these standards.

***Action 4.2.6: Strengthen introduction of corporate management standards***

Measures in support of strengthening the introduction of corporate management standards will be taken in Azerbaijan. These measures will focus on the increase of knowledge and skills of SMEs while also enhancing access to financial resources through introduction of corporate management standards.

### **Expected results and result indicators**

Access to talent will further increase SMEs' competitiveness playing exceptional role in the increase of knowledge and capabilities of these enterprises. Implementation of this priority will not have direct measurable GDP and employment impacts.

#### **Key performance indicators:**

- Provide special trainings for at least 1000 small and medium- sized enterprises per year until 2020;
- Create special talent pool for SMEs.

### **The required investment**

Implementation of this priority will require around AZN 5 million investment until 2020.

### **The expected risks**

- Training and education needs are improperly identified;
- Level of the proposed training and education is low and does not meet the requirements.

#### **7.4.3. Priority 4.3. Promote entrepreneurship mindset**

##### **Rationale**

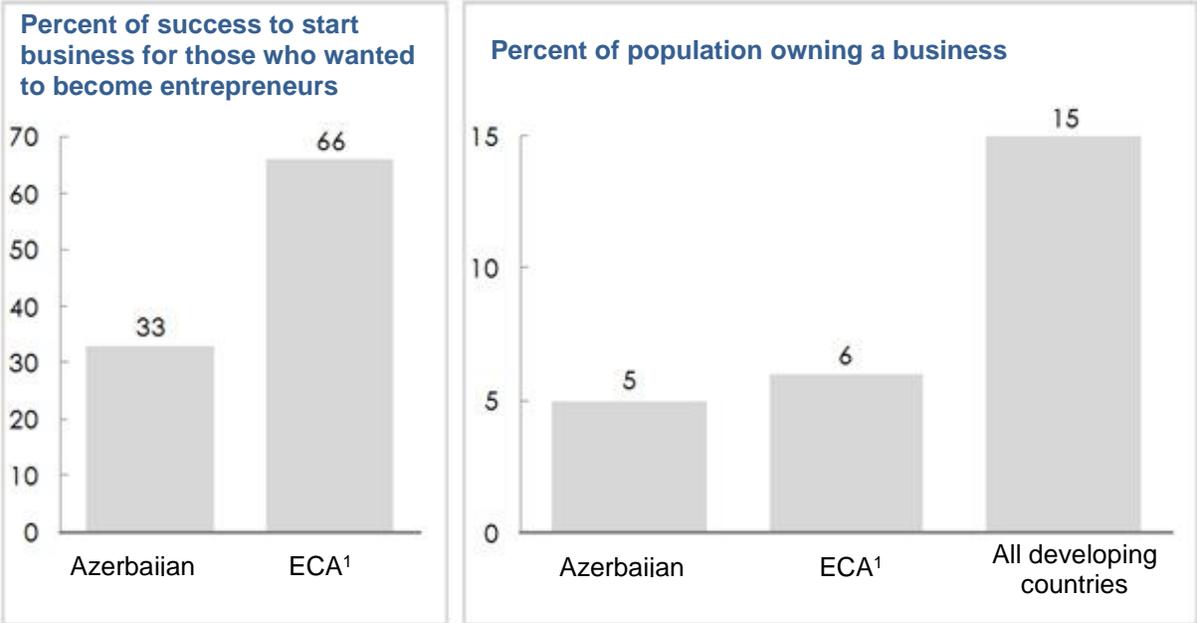
Entrepreneurship mindset is an important element for the economy of that country. In view of the fact that the newly established enterprises survive for a short time in the market, it becomes clear how important the entrepreneurship initiatives of people are.

To foster pride of ownership, there is a need to foster understanding and conviction of the benefits of being a business owner in Azerbaijan as well as the importance of SMEs to Azerbaijan's economy. One existing event, National Entrepreneurship Day, has been established to work toward this goal. More such events and programming—for example, a celebration of the 10 fastest-growing companies nationwide—will help to further instill pride of ownership and spread awareness of the potential to be a business owner in Azerbaijan.

Organization of encouraging programs for SMEs can be an effective way. Formal support programs and national, ministry-level KPIs are also crucial to the long-term development of an entrepreneurial mind-set. For example, a young entrepreneur support program could design contests for innovative projects and fund and promote young people interested in launching start-ups. In this regard, establishment of business incubators and collaborative spaces for entrepreneurs could be evaluated.

Business ownership has the potential to more than double in Azerbaijan, considering benchmarks around the world. The average percentage of the population that owns a business in developed countries is currently three times that of Azerbaijan.

**Exhibit 18. Business ownership growth potential**

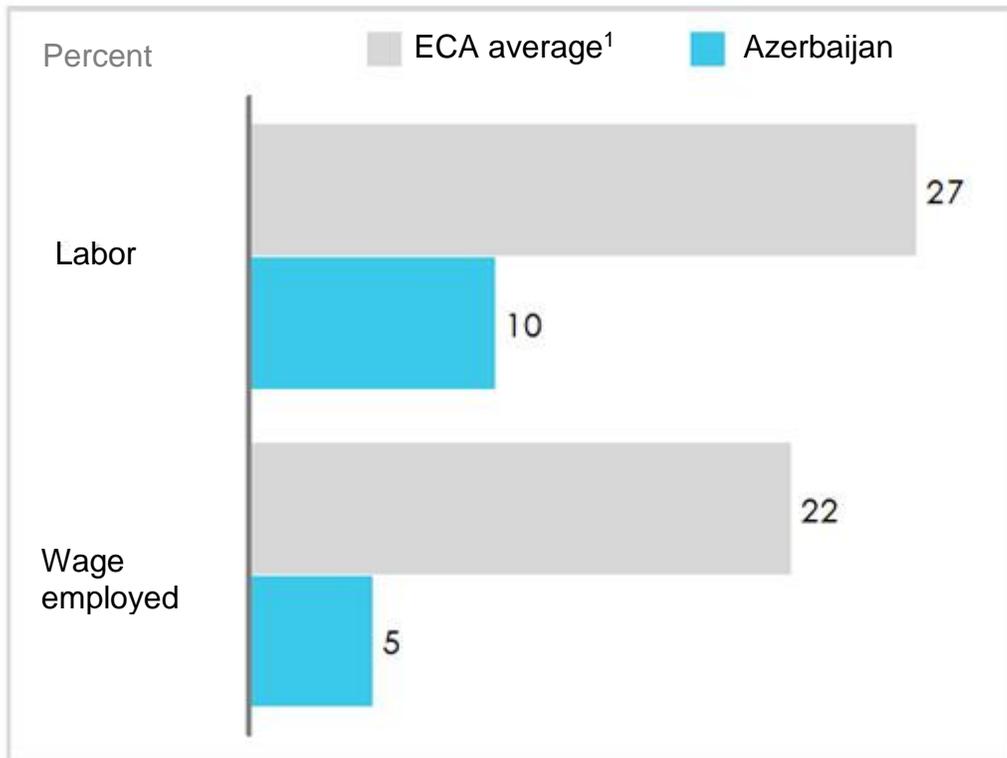


1. *Europe and Central Asia (Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Uzbekistan, Poland, Romania, Russia, Serbia, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine)*

Source: World Bank, *Fostering Entrepreneurship in Azerbaijan*, Citing from 2011 World Gallup Survey

Apparently, another, less tangible need is also clear: the need to develop more of an entrepreneurial mind-set among Azerbaijani citizens. For example, to reach Europe and Central Asia averages, the percentage of people in Azerbaijan *willing* to become entrepreneurs would need to increase by three times among blue-collar workers and more than five times among white-collar workers ( Exhibit 19).

**Exhibit 19. Potential to expand entrepreneurial mindset (percentage)**



1. Europe and Central Asia (Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Uzbekistan, Poland, Romania, Russia, Serbia, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine)

Source: World Bank, Fostering Entrepreneurship in Azerbaijan

### **Action items**

#### ***Action 4.3.1: Develop entrepreneurship mindset***

Long term and continuous measures will be taken in Azerbaijan to strengthen entrepreneurship knowledge and self-confidence, which will help to promote entrepreneurship mindset among SMEs.

In order to implement these actions, a team will be formed within the SME agency. The team will ensure continuous efforts to promote entrepreneurial mindset in the country. The government will attract financing for the activities related to entrepreneurial mindset promotion. Funding will be attracted from private sector and incentives will be created for sponsors to finance some of activities, as well as social projects focused on entrepreneurship.

The SME agency will promote entrepreneurial mindset through organization of various events and mechanisms, such as encouraging and supporting entrepreneurial TV shows, creating a platform to bring successful entrepreneurs and university students together, funding and promoting young entrepreneurs for start-ups, supporting start-up events.

The SME agency will assess effectiveness of the implemented efforts and take respective actions in ensuring the success of the strategic priority. In this direction, the number of start-ups established each year will be registered and compared with previous year. Similarly, comparative analysis of SME output share in total GDP of the country will be made from year to year.

***Action 4.3.2: Organize teaching of the basics of entrepreneurship in primary and secondary vocational and technical education facilities***

The issue of teaching basics of entrepreneurship in vocational and secondary technical schools in order to increase knowledge of youth on entrepreneurship activity will be reviewed in cooperation with the relevant government bodies. The main purpose of this course is to develop first entrepreneurship habits. For this purpose, special teaching programs will be developed and consulted with the relevant bodies. Besides, excursions of students of these facilities to SMEs and other relevant organizations will be organized.

**Expected results and result indicators**

The GDP and employment impacts of this priority are covered by the Priority 4.1.

**The required investment**

No additional investment will be required for the implementation of this priority. The required investment costs are covered by the Priority 4.1.

**The expected risks**

- The quality of the proposed services is low and does not meet the requirements;
- Obstacles to entrepreneurship initiatives in some areas.

***7.4.4. Priority 4.4. Develop female entrepreneurship***

**Rationale**

In advanced economies, female entrepreneurship constitutes the more dynamic part of the SME. According to the statistical data, more than 25 percent of new businesses were created by women in the world. One- fourth of firms in France and Great Britain and one- third in Germany are led by women. In Japan, this indicator is 23 percent, whereas it is 38 percent in the United States.<sup>14</sup> The overall tendency in both the advanced and emerging economies shows increase in economic initiatives by women.

The increase of economic initiatives by women, as well as broad representation of women in SMEs in Azerbaijan is also important in terms of socio-economic development, including employment perspectives. Unfortunately, female entrepreneurship is not at a satisfactory level in Azerbaijan yet.

According to the records of the State Statistical Committee of the Republic of Azerbaijan, women accounted for 50,2 percent of the total country population in 2015. Share of women in the national

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<sup>14</sup>Source: Official statistical bodies of France, Great Britain, Japan and the United States of America

economically active population (4915,3 thousand) constitutes 2404,5 thousand. Representation indicators of women is also low in terms of the number of employed population (4671,6 thousand). While men account for 2408,2 thousand of the employed population, the number of employed women is 2263,4 thousand. Undoubtedly, this indicator impacts unemployment level as well. Of 243,7 thousand unemployed persons, 141,1 thousand is women. According to the official statistical data, only 11,1 thousand out of the above figure have received unemployment status.

Men constituted 58,8 percent of waged labor, while 41,2 percent was represented by women. Women were represented primarily in education, health and arts sectors. 71,4 percent of employment in health care sector, 76,6 percent in health and social services sectors and 63,6 percent in leisure, rest and arts sectors are represented by women.<sup>15</sup>

The legislation does not impose any restriction for women to engage in entrepreneurship activity, and no special benefits and privileges are specified for women. Starting from public registration of entrepreneurship activity to issuance of licenses and permits, tax obligations, inspections, restoration of violated rights, etc., entrepreneurs are entitled to equal opportunities in exercising their own rights as legislation does not specify any gender discrimination and preferences.

### **Action items**

#### ***Action 4.4.1: Develop stimulatory mechanisms for development of female entrepreneurship***

Stimulatory mechanisms setting issues such as access to credits, taxation and other benefits will be developed with respect to women entrepreneurs. These mechanisms will significantly increase the realization of economic initiatives by women in Azerbaijan. When mechanisms are developed, special emphasis will be placed on women employment in rural areas. Further prospective areas of women employment will be identified in rural areas to take respective measures.

#### ***Action 4.4.2: Develop information support for female entrepreneurship***

In order to provide information support for women, various measures will be taken in support of accessibility of information necessary for women entrepreneurs. Special section will be created in information portal owned by the SME agency to place the related information therein.

#### ***Action 4.4.3: Create women business incubators***

For the purpose of supporting women entrepreneurship, efforts will be made to consider creation of special women business incubators. Creation and development of incubators will be important for support of women entrepreneurship initiative and creation of new business and employment opportunities, and will also create additional possibilities to attract investments in and finance women entrepreneurship activities.

#### ***Action 4.4.4: Establish associations and professional organizations of women entrepreneurs***

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<sup>15</sup> Source: State Statistical Committee of the Republic of Azerbaijan

Creation of women entrepreneurs associations and professional organizations will be promoted to contribute to the development of women entrepreneurship. The scope of work of these institutions will include steps such as conducting constructive dialogue with the government with the purpose of improving business enabling environment for women entrepreneurs, removing gender stereotypes restricting opportunities of women, organizing campaigns raising wider awareness in support of increasing skills and knowledge of women entrepreneurs.

#### **Expected results and result indicators**

The implementation of this priority will facilitate better business enabling environment in the country for women entrepreneurs and will also increase the number of women among small and medium- sized entrepreneurs. These activities will also contribute to increase of the number of women in employment indicators.

#### **The required investment**

No additional investment will be required for the implementation of this priority, attention will be paid to this priority while implementing other projects. The required investment costs are covered by the Priority 4.1.

#### **The expected risks**

- Less interest by women in entrepreneurship activity;
- Less efficiency of the activity of women entrepreneurs' associations and professional organizations.

### **7.5. Strategic target 5. Promote innovations and expand research and development activities for SMEs**

In international practice, SMEs are active in offering innovative initiatives. In many cases, new products and services, innovative approaches offered by startups with SME status are further supported by large companies or venture funds which eventually leads to production in industrial scale. SMEs have natural advantages to offer such innovative approaches: simple structure, flexibility, transparency, limited procedures make decision-making faster and prevent from bureaucratic barriers typical for large companies.

In recent years, multiple actions have been taken in support of innovative economy in Azerbaijan. By the Presidential Decree № 736, dated 5 November 2012, High Technologies Parks were established in Pirallahi district of Baku. The High Technologies Park act in the capacity of manager of future parks to be created throughout the country. To support innovative activities in the regions using this format, first high technologies park was created in Mingachevir by the Presidential Decree № 481, dated 26 February 2015.

By the Presidential Order on Establishment of High Technologies Park under Azerbaijan National Academy of Sciences № 2425, dated 8 November 2016, High Technologies Park within the National Academy of Sciences of Azerbaijan was created to conduct scientific researches and experimental-constructor works for the purpose of preparing, processing or improving innovation

products and high technologies, and implementing their results in industrial, service and other spheres (commercialization).

High technologies parks created in the country are equipped with necessary infrastructure, material supply and management bodies and residents registered in these parks are entitled to tax and customs benefits.

In addition, the Azerbaijani legislation does not fully contain provisions on building modern innovation system in the country, and no centralized policy document is available in this area. SMEs in Azerbaijan are passive in innovative initiatives and the level of funds allocated by SMEs to research activities is low. Further developing the innovative infrastructure, supporting research activities among small and medium-sized entrepreneurs, expanding practical relations between scientific and private sectors make it necessary for the state to actively intervene the processes as coordinator and organizer.

### **7.5.1. Priority 5.1. Improve national innovation system**

#### **Rationale**

Innovations are important for efforts to ensure dynamic and constant development of the economy. Development of this area, first of all, depends on availability of favorable innovation environment. According to the innovative economic principles, innovations facilitate regular update of technical and technological frameworks and presentation of competitive new product and services in global markets.

The goal of the national innovation system is to ensure more up-to-date and flexible activity over various sectors of the economy, preparation of highly educated and qualified employees, scientific workers, development of scientific-research centers based on the state-of-the-art standards and increase of active involvement of exporters, including marking of innovative ideas or inventions.

National innovation systems at international level provide prerequisites for the country to increase competitiveness and export potential of the economy, and accelerate economic activeness. Level of the use of innovative products across the world and innovation potential depends on the development of national innovation system.

Although no separate legislative framework governing innovation activity in the Republic of Azerbaijan is available, the country has adopted several laws supporting and stimulating innovation policies. The following laws of the Republic of Azerbaijan could be example: Law on Patent, the Law on Science, the Law on guaranteeing intellectual property rights and fight against plagiarism.

Elements of innovation infrastructure in the Republic of Azerbaijan include techno parks operating under public and private universities, business incubators, scientific-innovation centers and high technologies parks.

Another fundamental basis of the national innovation system is recognition of patents. Although Azerbaijan has been a party to several international conventions on patent, inventions patented in Azerbaijan face difficulties in recognition by other countries.

Conceptual issues regarding the promotion of innovations and development of human capital are covered by the Strategic road map on national economic perspectives of the Republic of Azerbaijan.

### **Action items**

#### ***Action 5.1.1: Improve legislative framework***

To build the national innovation policy based on systematic approach needs, first of all, to draft a law on innovation. Under this framework, the legal framework of high technologies parks – one of the key elements of innovation infrastructure in the territory of the Republic of Azerbaijan will be improved. Besides, implementation and financing of innovation-oriented projects will need further improvement in the legislation, where creation of venture capitals, a widely practiced model at global level, will be used.

#### ***Action 5.1.2: Develop several incentive mechanisms for innovation activity***

Stimulatory mechanisms will include the following issues:

- Stimulate innovation activity in high technologies parks and business incubators;
- Introduce benefits for companies operating in the high technologies parks and business incubators established by both the government bodies and residents;
- Coordinate activity of coordination bodies specifying and exercising public innovation policies;
- Improve legislative framework to conduct venture capitalization;
- Implement promotional measures to attract venture funds, as well as foreign investors to finance innovation-oriented startup projects.

#### ***Action 5.1.3: Establish innovation- oriented regional clusters***

Economically more successful regional cluster models will be identified to increase introduction of innovations. Furthermore, the most favorable models will be selected to take measures in support of creation of innovation clusters in the most relevant regions. Clusters will be created in close collaboration with techno parks or scientific-research institutes operating under universities, as well as SMEs. Business incubators will be created under regional innovation cluster where authors of inventions in these incubators or innovation- oriented startups will be identified and subsidies will be provided for them.

### **Expected results and result indicators**

With the implementation of the above measures, more systematic implementation of the national innovation policy will be followed and legislative framework will be improved. The Republic of Azerbaijan is expected to create and develop innovation-oriented regional clusters.

#### **Key performance indicators:**

- Improve legislative framework in the field of national innovation;
- Create at least 3 innovation- oriented regional clusters in the Republic of Azerbaijan.

### **The required investment**

Implementation of this priority does not require major investment. The required investment costs are covered by the Priority 4.1.

### **The expected risks**

- Effectiveness of innovation- oriented regional clusters for SMEs is low.

## **7.5.2. *Priority 5.2. Form innovation infrastructure stimulating small and medium- sized enterprises***

### **Rationale**

Recently, innovation infrastructure environment – the fundament of the national innovation system has experienced relative development. However, infrastructure elements of innovations are limited compared to other advanced economies. There are three large technology parks in the territory of the Republic of Azerbaijan, and only one of them is private. The number of business incubators is very limited. The scope of high technologies parks is not well-diversified as other innovation centers are. It should be particularly noted that according to the best practices of advanced economies, high technologies parks and incubation centers are established by universities. The goal of universities in creating such innovation infrastructure is to generate additional incomes and increase position of a university in the global ranking. On the other hand, high technologies parks and business incubation centers stimulate research and progress. The main interest of SMEs is to benefit from suggestions of inventors or professional researchers at universities and further strengthen entrepreneurship activities.

### **Action items**

#### ***Action 5.2.1: Improve innovation infrastructure for SMEs***

It is necessary to improve innovation infrastructure for development of SMEs and startups. Promotional programs will be prepared to have high technologies parks created by private sector. Besides, measures will be taken to create techno parks and business incubators within universities. International best practices will be studied to support establishment of new innovation centers, technology transfer centers and forming of innovation infrastructure of the country by initiating investors.

Besides, special program will be developed for SMEs to implement innovation-specific business plans in techno parks and business incubators, and investment incentives will be offered to finance above activities. Persons willing to deal with potential entrepreneurship and startup activities in innovation centers (FabLabs, ILabs) will be equipped with innovation equipment, who will also be provided with ready laboratory instruments.

### ***Action 5.2.2: Develop state-run and independent scientific-research (research and development) centers and scientific-production unions***

Although scientific-research centers of state importance exist in Azerbaijan, innovation-profiled institutes, including private institutes do not exist. For this purpose, necessary efforts will be made to create independent scientific institutes of state importance to stimulate innovation activity in upcoming years and establishment of scientific-production unions will be stimulated to conduct exemplary production of inventions.

#### **Expected results and result indicators**

With the implementation of this priority, innovation infrastructure for development of SMEs will be further improved, specific programs in support of this action will be developed and investment incentives will be introduced to finance this activity.

#### **Key performance indicators:**

- Innovation –oriented infrastructure is created by independent residents;
- Introduction of benefits for elements of innovation infrastructure;
- Develop in dependent and state-run scientific-research (research and development) centers and scientific-production unions.

#### **The required investment**

The implementation of this priority is expected to require AZN 5 million investments until 2020.

#### **The expected risks**

- Lack of interest by independent residents in participation in innovation- oriented zones;
- Less interest by small and medium enterprises in use of innovation infrastructure;
- Lack of sufficient scientific capacity to build independent scientific- research (research and development) centers and scientific- production unions.

## **8. FINANCING MECHANISMS**

To reach identified strategic targets requires AZN 700 million of investments until 2020. The implementation of actions postulated in the Strategic Road Map will be provided at the expense of the following sources:

- Public budget;
- Non-budgetary funds;
- Funds of National Entrepreneurship Support Fund;
- Local budgets;
- Funds of local departments, enterprises and organizations regardless of the type of ownership;
- Direct foreign investments;
- Credits by country banks and grants;
- Credits, technical and financial assistance by international organizations and foreign countries;
- Other sources not prohibited statutorily.

In order to ensure effective spending of funds for priority targets, budgets will be prepared within the outcome -oriented budget preparation process. A great portion of the required funds will be provided at the expense of the restructuration of existing budgets, joint financing initiatives of private sector and different investors.

## 9. IMPLEMENTATION ,MONITORING AND EVALUATION

### Implementation of the Strategic Road Map

**Coordination and guidance:** Appropriate coordination and guidance will be ensured for accelerated decision making, clear accountability and additional execution capacity.

- A mechanism for accelerated decision making at the highest political level will be set up for the Strategic Roadmap. This mechanism will allow other main participants to ensure necessary guidance on implementation of the program for the decision-makers . Decisions on implementation priorities and concrete targets will be made using this mechanism.
- The main executive organizer will define responsible persons for each priority and action related to the organizer in order to carry out the action on time and on the merits. At the same time, working groups will be established with the participation of other bodies noted in the actions plan, under the leadership of bodies responsible for implementation of priorities. Reporting meetings of working groups will be held quarterly under leadership of main implementing organization. The meetings will discuss works done during the past three months and activities planned for the next quarter. The working groups will operate based on yearly work program. Division of labor and tasks of working groups will be set by a responsible person. As a rule, meetings of working groups will be held in the premises of main executive organization by proposal of the responsible person. Necessary conditions will be created to ensure uninterrupted performance of working groups, and where necessary, external experts will be applied for technical assistance
- A dedicated central delivery unit will be established to monitor the implementation of the roadmap and provide central execution support in areas such as in problem solving or coordination across institutions. The unit's work will serve to create stronger organization across the institutions, processes, and technologies required for effective implementation of actions. Harmonious work of working groups, summaries of quarterly reports and development of yearly reports will be regulated by the delivery unit. Furthermore, it will be responsible for ensuring that the involved institutions arrange for the required financial and human resources, and empowered to inject additional resources when needed.

**Strategic alignment and financing:** To allow for an efficient implementation process that avoids wasted resources and conflicting objectives, Strategic Roadmap will be fully integrated into other sectorial plans and existing budgets.

- All the relevant strategic documents will be harmonized with the roadmap based on the proposals of the related state bodies and the mandates of key existing state agencies will be realigned to the objectives wherever necessary. This alignment work will include transparent, measurable implementation targets, which will be communicated publicly and used to track progress.
- Detailed implementation plans will be developed for all strategic priorities based on provided actions to guide implementation and provide transparency regarding the

resources required and expected results. While the assigned executive body will bear overall responsibility for carrying out the implementation plan, all the most important institutions participating in implementation – including private sector organizations – should be involved.

**Stakeholder mobilization platform:** Local and international partners from both the public and private sectors will be involved in the execution of the roadmap.

- Steps will be taken to identify and attract core strategic partners. The involvement of multiple organizations and stakeholders is required for the successful implementation of each strategic priority. To ensure alignment of objectives and proper coordination, advisory councils and working committees will be formed to work with the private sector and state owned enterprises (SOEs) as well as with critical international partners, such as international financial institutions
- Civil society will be mobilized and engaged to generate broad support for the Strategic Roadmap. In addition, active communication, transparency and inclusiveness will help to mobilize the public and private sectors, society as a whole, and other relevant stakeholders.

#### Monitoring and evaluation of the Strategic Road Map

Monitoring and evaluation of the Road Map will be undertaken to successfully execute it using required instruments, processes, etc. Monitoring and evaluation activity will focus on implementation of priorities in line with their predefined goals, results and indicators expected from relevant priority. Besides, the monitoring and evaluation will review whether the deadlines are followed or not. Monitoring and evaluation will be conducted based on rules designed in accordance with international methodologies.

Annual work programs of the working groups will be consulted with delivery unit and approved by the main executive organization. Quarter-based meetings of the working groups will be held with attendance of representatives of the delivery unit.

The main executive organization will submit a quarterly report on activities to the delivery unit not later than 10 days before a quarterly meeting of the working group. The delivery unit, considering detailed analysis and evaluation of report and discussions of the working group in quarterly meeting, will submit to the main executive organizations the results of quarterly held meetings and recommendations for the next period within 10 days after meeting. The delivery unit and main executive organization will take measures for consideration of monitoring results and recommendations by working group in its daily undertakings.

## 10. ACTIONS PLAN

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
<b>Strategic target 1. Improve business enabling environment and regulatory framework for operation of SMEs</b>					
<b>1.1. Establish centralized SME Registry</b>					
1.1.1.	Establish a centralized SME agency	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy, Ministry of Finance	<ul style="list-style-type: none"> <li>● AZN 140 million direct and AZN 60 million indirect GDP impact, summing up to AZN 200 million in total until 2020;</li> <li>● 240 new employments by 2020.</li> </ul>	2017
1.1.2.	Build structure of the SME Agency	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy		2017
1.1.3.	Define duties of the SME Agency	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy		2017
1.1.4.	Establish SME house	Cabinet of Ministers	The SME Agency, Ministry of Economy, State Committee for Property Issues		2017-2018

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
1.1.5.	Create unified information portal	Ministry of Economy	The SME Agency, Ministry of Communication and High Technologies		2017-2018
<b>1.2. Improve SME-specific legislative framework and introduce legislative impact analysis</b>					
1.2.1.	Introduce legislative impact analysis	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy	<ul style="list-style-type: none"> <li>thorough information on impacts of normative-legal acts and possible effects of proposed legislation will be obtained</li> </ul>	2017-2018
1.2.2.	Create institution to increase support of legislative impact analysis	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy, Ministry of Taxes, Ministry of Justice, Ministry of Labor and Social Protection of Population		2017-2020
<b>1.3. Deepen public-private partnership</b>					
1.3.1.	Improve normative- legal framework for public- private partnership	Ministry of Economy	Ministry of Justice, “Azerbaijan Railways” CJSC, «Azerenergy” OJSC, «Azersu” OJSC, «Azerishig” OJSC	<ul style="list-style-type: none"> <li>Develop a concept paper for public- private partnership development;</li> <li>Increase share of participation of SMEs in implementation of public contracts by 2020.</li> </ul>	2017-2020
1.3.2.	Develop a conceptual document for development of public- private partnership	Ministry of Economy			2017
1.3.3.	Prepare regulatory base on implementation of investment	Presidential Administration of the			2016

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
	projects based on special financing of construction and infrastructure objects	Republic of Azerbaijan			implemented
	Prioritize the Law of the Republic of Azerbaijan "On the Implementation of Special Financing for Investment Projects in Connection with Construction and Infrastructure Facilities"	Ministry of Economy	State Committee for Property Issues		2017-2020
1.3.4.	Identify minimum share of participation in public procurements for SMEs	Ministry of Economy			2017
<b>1.4. Improve competition environment</b>					
1.4.1.	Improve legislation	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy, Ministry of Justice	<ul style="list-style-type: none"> <li>The competition code is enacted.</li> </ul>	2017-2020
1.4.2.	Conduct institutional reforms	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy, Ministry of Justice		2017-2020
<b>1.5. Improve inspection and licensing mechanisms for operation of SMEs and continue tax reforms</b>					
1.5.1.	Conduct monitoring and assessment of inspections in the SMEs	Ministry of Economy	Ministry of Justice		2017

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
1.5.2.	Introduce optimal and risk-based mechanisms for conduct of inspections	Ministry of Economy, Ministry of Taxes	Ministry of Justice	<ul style="list-style-type: none"> <li>● Limited number of inspections by government bodies;</li> <li>● Optimal tax burden for SMEs;</li> <li>● Improved and advanced electronic tax audit;</li> <li>● Foreign licenses are recognized and necessary mechanisms are created to ensure their equivalency.</li> </ul>	2017-2020
1.5.3.	Identify directions of reforms in field of taxes	Presidential Administration of the Republic of Azerbaijan, Ministry of Taxes	Ministry of Economy, Ministry of Finance		2016 implemented
	Continue stimulatory tax policies in SMEs	Ministry of Taxes	Ministry of Economy, Ministry of Finance		2017-2020
1.5.4.	Improve licenses and develop a mechanism for recognition of international licenses	Ministry of Economy, State Agency for Service to Citizens and Social Innovations			2017-2018
1.5.5.	Further simplify SMEs' connection to relevant utilities services	Ministry of Economy	«Azerenergy» OJSC, «Azersu» OJSC, «Azerishig» OJSC, SOCAR		2017-2018
1.5.6.	Create a single certification system for SMEs	Ministry of Economy, State Agency for Service to Citizens and Social Innovations	State Committee for Standardization, Metrology and Patent, Ministry of Agriculture		2017-2018
1.5.7.	Establish Appeal Council under the President of the Republic of Azerbaijan	Presidential Administration of the Republic of Azerbaijan			2016 implemented

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
1.5.8.	Establish Appeal Councils in central and local executive authorities of the Republic of Azerbaijan	Presidential Administration of the Republic of Azerbaijan	All central and local executive authorities		2016 implemented
<b>1.6. Establish SME-specific special industrial zones and clusters</b>					
1.6.1.	Develop business partnership among SMEs	Ministry of Economy		<ul style="list-style-type: none"> <li>● In 2020, real GDP increase by AZN 475 million(AZN 265 million direct and AZN 210 million indirect);</li> <li>● In 2020 employment impact of 23,300;</li> <li>● Establish new industrial clusters;</li> <li>● Strengthen business partnership among SMEs in Azerbaijan;</li> <li>● Achieve 40% revenue and employee share for SMEs within these industrial clusters.</li> </ul>	2017-2018
1.6.2.	Create new private industrial clusters for SMEs based on private investments	Ministry of Economy			2017-2020
1.6.3.	Improve benefits and incentives granted to residents of industrial clusters	Ministry of Economy	The SME Agency, Ministry of Taxes, Ministry of Finance		2017-2020
1.6.4.	Create new industrial sites and parks	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy		2016 implemented
<b>1.7. Expand public-private partnership and strengthen institutions representing SMEs</b>					
1.7.1.	Improve normative-legal base in public- private partnership	Ministry of Economy	Ministry of Justice	<ul style="list-style-type: none"> <li>● Improve normative-legal base to strengthen</li> </ul>	2017-2020

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
1.7.2.	Strengthen business associations	Ministry of Economy	Ministry of Justice	public-private partnership in Azerbaijan;	2017-2018
1.7.3.	Expand activity of the chamber of commerce	Ministry of Economy		<ul style="list-style-type: none"> <li>● Increase numbers of institutions representing SMEs and strengthen their impact on economy;</li> <li>● Expand powers and scope of the chambers of commerce.</li> </ul>	2017-2020
<b>1.8. Improve alternative dispute settlement options among SMEs</b>					
1.8.1.	Prepare draft law on mediation	Presidential Administration of the Republic of Azerbaijan	Ministry of Economy, Ministry of Justice	<ul style="list-style-type: none"> <li>● Reduce out-of-court dispute resolution indicators among SMEs twice by 2020;</li> </ul>	2017
1.8.2.	Establish mediation council	Ministry of Justice		<ul style="list-style-type: none"> <li>● Adopt a law on mediation to improve alternative methods for out-of-court resolution of disputes;</li> <li>● Establish Mediation council.</li> </ul>	2017
<b>1.9. Introduce criteria for identification of SMEs in all support measures and introduce systemized mechanism for statistical data</b>					
1.9.1.	Apply SMEs identification criteria to all support measures	Ministry of Economy	Ministry of Taxes, The SME Agency	<ul style="list-style-type: none"> <li>● Ensure that support measures associated</li> </ul>	2017

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
1.9.2.	Introduce standardized approach to SME-specific statistic data	Ministry of Economy	State Statistics Committee , The SME Agency	with SMEs are formed based on unified principles; <ul style="list-style-type: none"> <li>● Ensure that the definition of SME is based on unified principles;</li> <li>● Maintain statistic figures based on unified principles, increase precision in calculation of data;</li> <li>● Increase efficiency of SME-specific policies.</li> </ul>	2017
<b>Strategic target 2. Ensure cost-effective and efficient access to financial sources for SMEs</b>					
<b>2.1. Conduct reforms to solve bankruptcy and insolvency issues</b>					
2.1.1.	Review establishment of specialized insolvency courts for SMEs	Ministry of Justice	Ministry of Economy, Financial Markets Supervision Chamber	<ul style="list-style-type: none"> <li>● AZN 450 million GDP impact in real terms in 2020;</li> </ul>	2017-2020
2.1.2.	Study insolvency problems of SMEs and monitor the implemented activity	Ministry of Economy	Financial Markets Supervision Chamber	<ul style="list-style-type: none"> <li>● employment impact of 900 in 2020;</li> <li>● Specialized courts for issues of insolvency of SMEs are created;</li> </ul>	2017-2020
2.1.3.	Improve insolvency-related legislation and create bankruptcy registry	Ministry of Economy	Ministry of Communication and High Technologies	<ul style="list-style-type: none"> <li>● Necessary conditions for recovery is created in insolvency process with the establishment of</li> </ul>	2017

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
				online insolvency or bankruptcy registry; <ul style="list-style-type: none"> <li>● Increase recovery rate for SMEs by 4 percentage points to best-practice levels.</li> </ul>	
<b>2.2. Create SME Credit Guarantee Fund</b>					
2.2.1.	Create Credit Guarantee Fund	Financial Markets Supervision Chamber		<ul style="list-style-type: none"> <li>● Financing of export activities of SMEs operating in Azerbaijan will be improved;</li> <li>● Access to export markets will be increased.</li> </ul>	2017
2.2.2.	Increase financial literacy of SMEs	Ministry of Economy	Financial Markets Supervision Chamber, Ministry of Education, The SME Agency		2017-2020
<b>2.3. Improve activities related to property issues and increase access to finance</b>					
2.3.1.	Improve legislation on encumbered movable collateral	Presidential Administration of the Republic of Azerbaijan	Financial Markets Supervision Chamber, Ministry of Justice	<ul style="list-style-type: none"> <li>● acceptance rate of movable collateral by banks will increase by 2 times;</li> <li>● Increase in lending.</li> </ul>	2017
2.3.2.	Create registry of movable collateral	Financial Markets Supervision Chamber	Ministry of Economy, State Committee for Property Issues		2017-2018
2.3.3.	Improve organization of auctions for sale of movable and immovable properties	State Committee for Property Issues	Ministry of Justice, Ministry of Taxes, Ministry of Economy		2017-2018

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
<b>2.4. Develop leasing and alternative financial instruments (forward, futures, option, swap, factoring, etc.) market to ease access to finance</b>					
2.4.1.	Draft a law on leasing	Financial Markets Supervision Chamber	Ministry of Justice, Ministry of Economy	<ul style="list-style-type: none"> <li>● interest of local and foreign investors in leasing market;</li> <li>● share of leasing transactions in GDP will rise by 2 percent;</li> <li>● Alternative financial sources of SMEs will be expanded.</li> </ul>	2017
2.4.2.	Regulate leasing activity and introduce benefits	Financial Markets Supervision Chamber	Ministry of Economy, Ministry of Taxes		2017-2018
2.4.3.	Expand use of alternative financing instruments (forward, futures, option, swap, factoring, etc.) for financing of SMEs	Financial Markets Supervision Chamber	Central Bank, Ministry of Economy		2017-2020
<b>Strategic target 3. Internationalization of SMEs and increase of access to foreign markets</b>					
<b>3.1. Expand financial services for international trade deals of SMEs and promote foreign direct investments</b>					
3.1.1.	Supply SMEs with relevant services of international trade transactions	Ministry of Economy	Central Bank, Financial Markets Supervision Chamber	<ul style="list-style-type: none"> <li>● AZN 55 million GDP impact in real terms in 2020 (AZN 35 million direct and AZN 20 million indirect GDP impact in real terms);</li> <li>● Employment impact of 9800 in 2020.</li> </ul>	2017-2018
3.1.2.	Support SMEs in compliance with international standards and requirements	Cabinet of Ministers	Ministry of Economy		2017-2018
3.1.3.	Provide support to SMEs in attracting foreign direct investments	Ministry of Economy			2017-2020

<b>N</b>	<b>Name of event</b>	<b>Main implementing body</b>	<b>Other implementers</b>	<b>Result indicators</b>	<b>Implementation period</b>
3.1.4.	Identify mechanisms for promotion of exports for SMEs	Presidential Administration of the Republic of Azerbaijan	State Customs Committee, Ministry of Finance		2016 implemented
3.1.5.	Organize measures to simplify international trade transactions of SMEs	Presidential Administration of the Republic of Azerbaijan	State Customs Committee		2016 implemented
3.1.6.	Form mechanisms for use of benefits associated with promotion of investment	Ministry of Economy	Ministry of Taxes, State Customs Committee		2016 implemented
<b>3.2. Establish sector-based export associations</b>					
3.2.1.	Develop export associations	Ministry of Economy		<ul style="list-style-type: none"> <li>● AZN 45 million direct GDP impact in 2020;</li> <li>● Achieve 5 percent increase in non-oil export.</li> </ul>	2017-2020
3.2.2.	Stimulate export and take measures in support of the introduction of "Made in Azerbaijan" brand	Ministry of Economy			2016 implemented
3.2.3.	Create a single information portal for goods produced in Azerbaijan	Centre for Analysis of Economic Reforms and Communication			2016 implemented
<b>Strategic target 4. Increase knowledge and skills of SMEs, accelerate introduction of best practices</b>					

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
<b>4.1. Develop business incubators and startup projects, create model factory</b>					
4.1.1.	Establish a model factory for SMEs to benefit in Azerbaijan	Ministry of Economy		<ul style="list-style-type: none"> <li>● AZN 35 million indirect GDP impact in 2020 (AZN 20 million direct and AZN 15 million indirect GDP impact);</li> <li>● Establish 3 -5 model factories until 2020;</li> <li>● Establish at least 5 new business incubators until 2020;</li> <li>● Launch at least 25 startup projects each year.</li> </ul>	2017-2018
4.1.2.	Develop business incubators	Ministry of Economy	The SME Agency, Ministry of Education, Ministry of Youth and Sport, Ministry of Communication and High Technologies, Ministry of Labor and Social Protection of Population, National Academy of Sciences		2017-2020
4.1.3.	Support startup projects	Ministry of Economy	Ministry of Education, Ministry of Communication and High Technologies		2017-2020
<b>4.2. Increase training and education options for SMEs, accelerate introduction of best practices</b>					
4.2.1.	Identify training and education needs of small and medium- sized enterprises and prepare training materials	Ministry of Economy	The SME Agency, Ministry of Education, Ministry of Taxes, Financial Markets Supervision Chamber, Ministry of Labor and Social Protection of Population, State Customs Committee	<ul style="list-style-type: none"> <li>● Facilitate SMEs to access to talent;</li> <li>● Provide special trainings for at least 1000 small and medium- sized enterprises per year until 2020;</li> <li>● Create special talent pool for SMEs.</li> </ul>	2017
4.2.2.	Study labor market- specific needs of small and medium enterprises	Ministry of Economy	The SME Agency,		2017

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
	and undertake necessary improvements		Ministry of Labor and Social Protection of Population		
4.2.3.	Coordinate the activity of vocational educational facilities with SMEs	Ministry of Education	The SME Agency, State Agency for Vocational Education under the Ministry of Education, Ministry of Economy		2017-2020
4.2.4.	Ensure “lifelong learning” options for SMEs	Ministry of Economy	The SME Agency		2017-2020
4.2.5.	Stimulate SMEs to introduce International Accounting Standards	Ministry of Finance	Ministry of Economy		2017-2020
4.2.6.	Strengthen introduction of corporate governance standards	Ministry of Economy			2017-2020
<b>4.3. Promote entrepreneurship mindset</b>					
4.3.1.	Develop entrepreneurship mindset	Ministry of Economy	The SME Agency	<ul style="list-style-type: none"> <li>The GDP and employment impacts of this priority are covered by the Priority 4.1.</li> </ul>	2017-2020
4.3.2.	Organize teaching of the basis of entrepreneurship in the primary and secondary vocational and technical education facilities	State Agency for Vocational Education under the Ministry of Education	Ministry of Economy		2017-2020
<b>4.4. Develop woman entrepreneurship</b>					
4.4.1.	Develop stimulatory mechanisms for development of women entrepreneurship	Ministry of Economy	State Committee for Family, Woman and Child Problems	<ul style="list-style-type: none"> <li>facilitate better business enabling environment in</li> </ul>	2017

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
4.4.2.	Develop information support for women entrepreneurship	Ministry of Economy	State Committee for Family, Woman and Child Problems	the country for women entrepreneurs; ● increase number of women among small and medium- sized entrepreneurs;	2017-2020
4.4.3.	Create women business incubators	Ministry of Economy	State Committee for Family, Woman and Child Problems	● Increase of the number of women in employment indicators.	2017-2020
4.4.4.	Establish associations and professional organizations of women entrepreneurs	Ministry of Economy	State Committee for Family, Woman and Child Problems		2017-2020
<b>Strategic target 5. Expand promotion of investments, research and development activities for SMEs</b>					
<b>5.1. Improve national innovation system</b>					
5.1.1.	Improve legislative framework	Ministry of Economy	Ministry of Justice, Ministry of Communication and High Technologies	● Improve legislative framework in the field of national innovation until 2020; ● Create at least 3 innovation- oriented regional clusters in the Republic of Azerbaijan.	2017-2020
5.1.2.	Develop several incentive mechanisms for innovation activity	Ministry of Economy	Ministry of Communication and High Technologies		2017
5.1.3.	Establish innovation- oriented regional clusters	Ministry of Economy	Ministry of Communication and High Technologies		2017-2020
<b>5.2. Form innovation infrastructure stimulating small and medium- sized enterprises</b>					
5.2.1.	Improve innovation infrastructure for SMEs	Ministry of Economy	Ministry of Communication and High Technologies	● Innovation –oriented infrastructure is created	2017-2020

N	Name of event	Main implementing body	Other implementers	Result indicators	Implementation period
5.2.2.	Develop independent scientific-research (research and development) centers and scientific-production unions of state importance	Ministry of Economy	National Academy of Sciences, Ministry of Communication and High Technologies	by independent residents; <ul style="list-style-type: none"> <li>● Introduction of benefits for elements of innovation infrastructure;</li> <li>● Develop independent scientific-research (research and development) centers and scientific-production unions of state importance.</li> </ul>	2017-2020