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## **Small and Medium Entrepreneurship in Azerbaijan; Country Assessment**

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Shirin Mirzeyev 76 "a"/33,  
Baku, Az1002,  
AZERBAIJAN

Phone; (99412) 5970691

(99412) 4975684

Fax (99412) 4975684

Email; [cesd.az@gmail.com](mailto:cesd.az@gmail.com)

[info@cesd.az](mailto:info@cesd.az)

URL; [www.cesd.az](http://www.cesd.az)

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# Small and Medium Entrepreneurship in Azerbaijan; Country Assessment

Micro and small and medium sized entrepreneurship in Azerbaijan is divided into two groups: individual entrepreneurs (i.e. sole owners of the enterprise without forming a legal entity); and small- and medium-size enterprises (i.e. legal entities). All individual entrepreneurs are legally considered small enterprises by default, whereas those registered as legal entities are classified according to two indicators: number of employees and annual turnover.

The new edition of the criteria for classification of small entrepreneurship subjects (business units) was approved by a decision of the Republic of Azerbaijan’s Cabinet [of Ministers] dated December 18, 2009.

According to this decision, “small business units shall have less than 50 employees and annual turnover of AZN 500,000 in industry and construction; less than 25 employees and annual turnover of AZN 250,000 in agriculture; less than 15 employees and annual turnover of AZN 1 million in wholesale trade; and less than 10 employees and annual turnover of AZN 250,000 AZN in retail trade, transportation, services and other forms of economic activities.”

## Criteria of determination of SMEs

<b>Entrepreneurship Category</b>	<b>Number of employees</b>	<b>Annual Turnover (VAT and other taxes excluded)</b>
Industry and Construction	< 50	≤ 500,00 thousand manat (454,5 thousand Euro)
Agriculture	< 25	≤ 250,00 thousand manat (227,3 thousand Euro)
Wholesale Trade	< 15	≤ 1 million manat (900,9 thousand euro)
Retail trade, transportation, service and other economic activities	< 10	≤ 250 thousand manat (227,3 thousand Euro)

**Source: Cabinet of Ministries of Azerbaijan Republic, 2011**

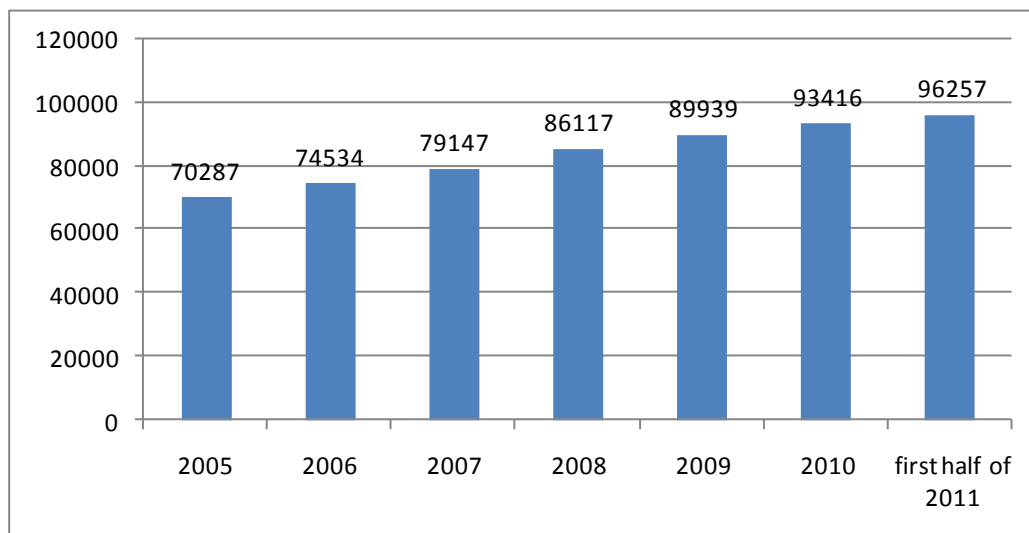
To classify entrepreneurship subjects in the small entrepreneurship sector, both indicators for this sector should be within the defined limits

For new start-ups, the criteria during the first year of operation shall be based on the number of employees for and on the annual turnover for individuals involved in business operations without establishing a legal entity. It is reminded, here, all individual entrepreneurs are considered as small enterprises since individual entrepreneur's annual turnover is smaller than 90 000 euro.

### **Dynamics of entrepreneurship development**

According to Azerbaijan's Economy Development Ministry data, 2,841 legal entities seeking to get involved in entrepreneurial activity have been registered within Azerbaijan during the first half of 2011, up 3 per cent, with the total number touching 96,257 units (see Chart 1). The growth was observed in all spheres of economic activity. This figure cover all legal entities registered in indicated period.

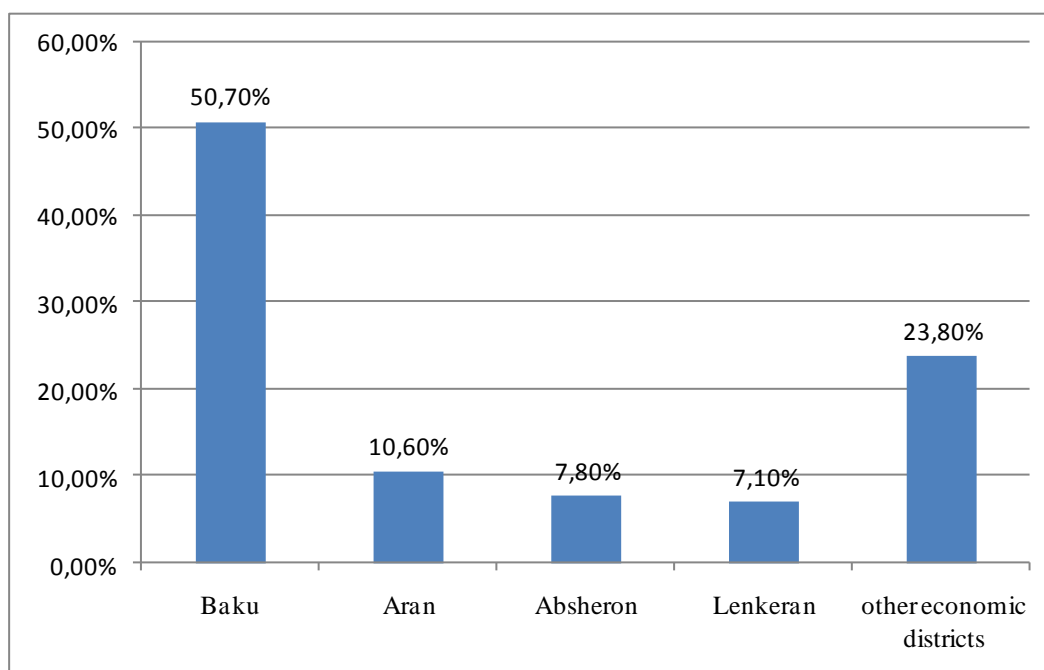
**Chart 1. Number of enterprises in Azerbaijan**



**Source: Ministry of Economic Development of Azerbaijan Republic, 2011**

The significant part of the enterprises was involved in wholesale and retail trade, car and motorcycle repair, agriculture, forestry and fishery, construction, processing industry, vocational, scientific and technical spheres.

**Chart 2. Regional distribution of new established enterprises**



**Source: Ministry of Economic Development of Azerbaijan Republic, 2011**

50.7% of the newly-established enterprises were registered within Baku, while 10.6% in Central Aran, 7.8% in Absheron, 7.1% in Lenkeran economic regions, the rest in the other economic regions. This is official number which are provided by Ministry of Economic Development and unfortunately, neither ofical and nor non-official sources indicated number of newly-established enterprises.

**Table 3. Number of enterprises based on ownership (First half of 2011).**

Ownership	State	Municipality	Specific	Foreign	Joint enterprises
Number	209	4	2354	205	69

**Source: Ministry of Economic Development of Azerbaijan Republic, 2011**

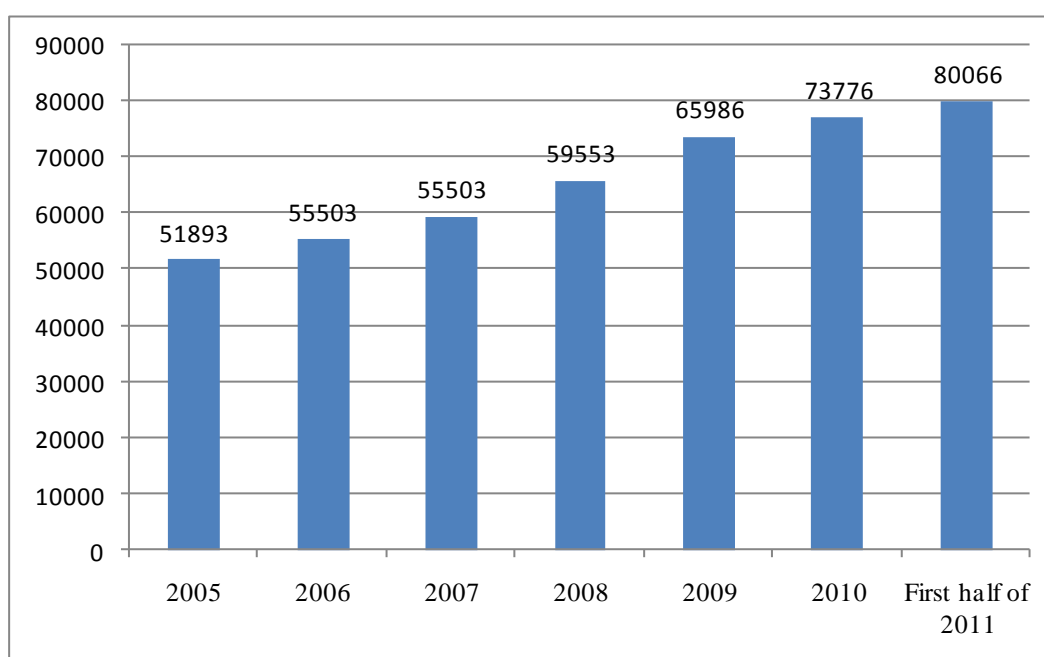
Out of the 2841 legal entities passing state registration in January-June this year, 209 were state-owned, 2,354-individual business units, 4- municipal institutions, 205 – with 100%

foreign investment, 69 – joint ventures according to Ministry of Economic Development of Azerbaijan Republic(see Table 3).

### **Dynamics of small entrepreneurship development**

Small enterprises had seen further development trends under market relations. The Republic of Azerbaijan’s Law on State Support to Small Entrepreneurship establishes the number and structure of small enterprises. The Cabinet Council Decree of the Azerbaijan Republic on Criteria for Defining Small and Medium Enterprises Based upon the Economic Activity defines the two criteria - number of employees and annual turnover. There were 80,066 small business units in the first half of 2011, a 3.5% increase from a year ago (see Chart 3). This figure covers only legal entities.

**Chart 3. Number of small enterprises**



**Source:Ministry of Economic Development of Azerbaijan Republic, 2011**

As is seen, 83.2% of legal entities running economic activity during 1H 2011 were small enterprises, with the majority involved in trade, agriculture and construction in particular.

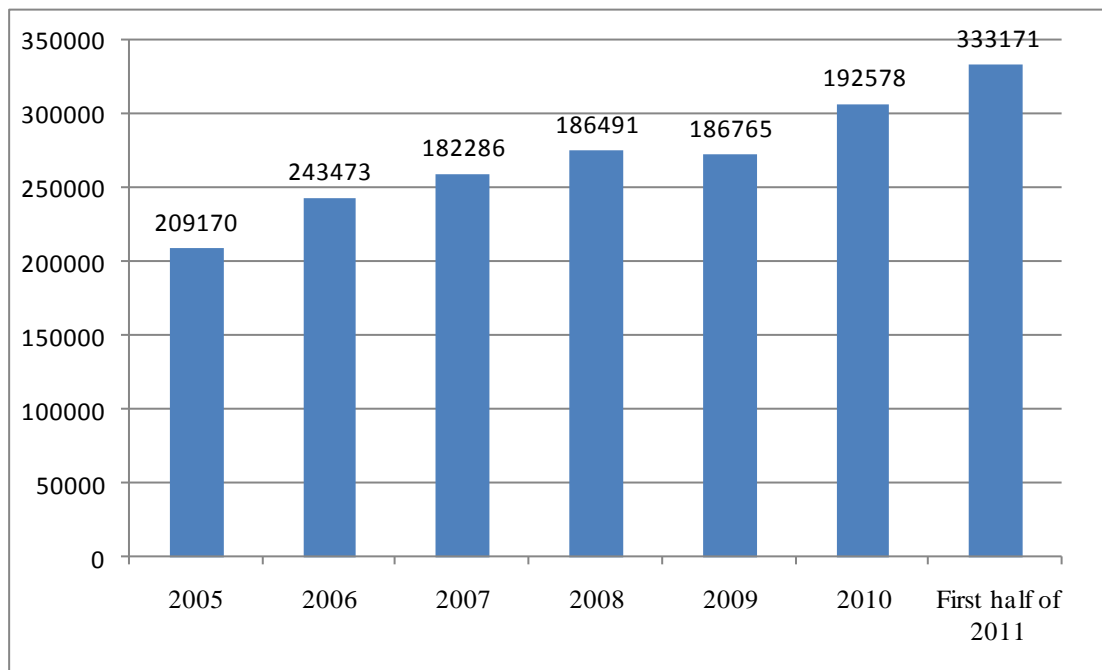
As distribution by economic regions, the total number of small entrepreneurs in Baku equals 50.7 percent of the whole country, the rest work in other economic regions.

### **Dynamics of individual entrepreneurship development**

The number of individual entrepreneurs (IEs) has continued to advance significantly of late years. 26,238 business units have been registered within the entrepreneurship community without forming a legal entity over the past six months of 2011 (the aggregate average

annual growth was, on average, 8 percent), and at July 1, 2011, there were about 333,171 IEs (excluding dissolved or liquidated IEs) (see: Chart 4).

**Chart 4. Number of individual enterprises**

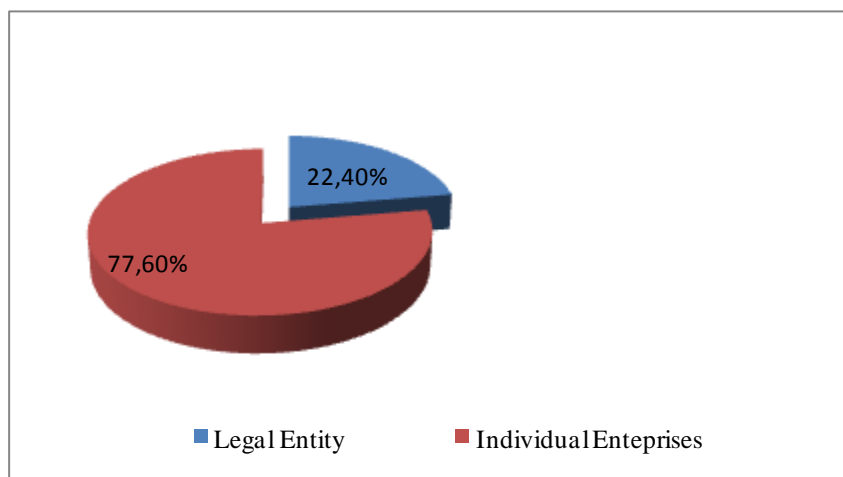


**Source: Ministry of Economic Development of Azerbaijan Republic, 2011**

The majority of IEs was involved in trade, transport, services and agriculture.

Most sole owners of the enterprise without forming a legal entity were registered in Baku, the rest outside Baku. According to the State Statistic Committee, 37,7 % of total small entities which is 76 293 are located in Baku. The survey done by CESD, however, confirms that more 56 % of small entities are running in the capital city. Thus, concerning distribution of entrepreneurship subjects/business units, 22.4% of them constitute legal entities, while the bulk 77.6% are IEs (see Chart 6).

**Chart 5. Structure of enterprises**



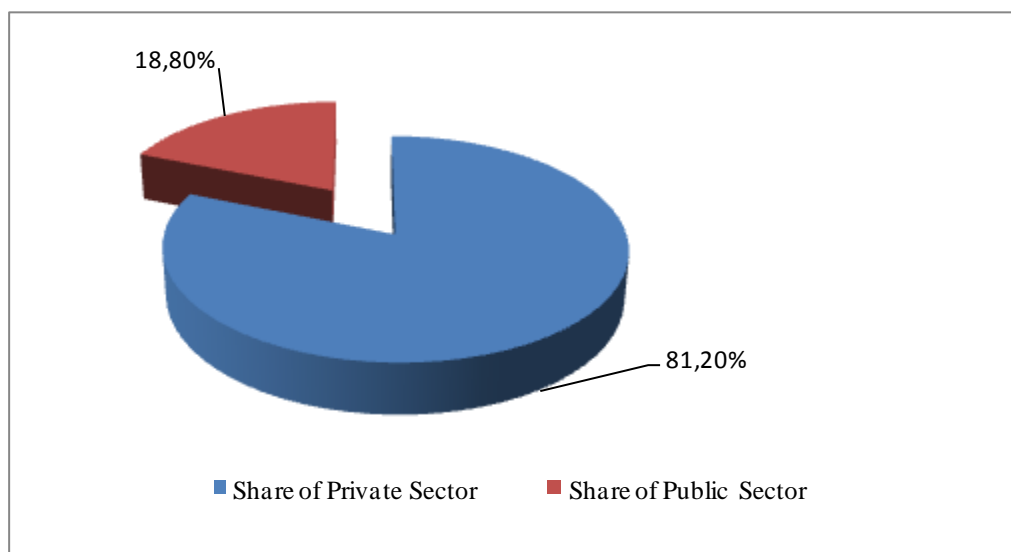
**Source: Ministry of Economic Development of Azerbaijan Republic, 2011**

The President of Azerbaijan Republic issued the Order on "Ensuring measures of organization of entrepreneurship subjects' activity on the single window principle" dated October 25, 2007, for taking necessary measures to accelerate development of entrepreneurship, to simplify starting procedures of business and to increase suitability of business climate. Pursuant to the Order, the Ministry of Taxes of Azerbaijan Republic was appointed as single state registration body on "one window" principle and the application of this system was started on January 1, 2008.

Besides, pursuant to the Decree of the President of the Azerbaijan Republic on application of the single window (one-stop-shop) principle during the inspection of goods and transport means moved across the pass points at the state border of the Azerbaijan Republic, dated November 11, 2008, the authorities of the state body on single window principle during the inspection of the goods and transport means moved through the state borders of the Azerbaijan Republic shall be assigned to the State Customs Committee of the Azerbaijan Republic and the application of this system was started on January 1, 2009.

Azerbaijan was declared most reformer country in the field of improving of the business climate in the "Doing Business 2009" report prepared by the World Bank and the International Finance Corporation (IFC). Our country preserved its position in the "Doing Business 2010" and "Doing Business 2011" reports.

**Chart 6. Contribution of private sector to GDP, %**



**Source: Ministry of Economic Development of Azerbaijan Republic, 2011**

The Cabinet of Ministers of Azerbaijan approved new rules for the application, registration and use of electronic tax invoices on 28 September 2009 thus facilitating to substantially reduce the time spent on tax payments thanks to application of the latest technologies.

The government has undertaken a number of steps to liberalize entrepreneurship through simplifying procedures and rules regulating this activity. The mechanism has been launched to secure state support for entrepreneurship, whereas exports are exempt from customs duties and maximum rate of import of goods into Azerbaijan subject to imposition has been fixed at the level of 15%.

With the improvement of the business environment in practice, privatization of state-owned property, implementation of land reforms, as well as large-scale measures to promote and develop, the share of private sector in GDP had comprised 81.2 percent during the first half of 2011 (see Chart 1).

The share of private sector areas of manufacturing and services, such as agriculture, industry, trade, hotels and restaurants, construction, transport and communications ranges from 70% to 99%.

### **Overview of small- and medium-size entrepreneurship policy, general strategy in this area and overall analysis of approach to SMEs development**

Recent reforms in the country do create more favorable conditions for the development of individual and small-scale entrepreneurship compared with previous years.

Azerbaijan has adopted a number of legislative acts aimed to regulate the development of small and medium enterprises including the system of economic and legal relations. Examples include the Law on Entrepreneurship, the Law on State Support for Small Business, the Law on State Registration and State Registry of Legal Entities, etc. Some available laws in English are attached to the report.

At the same time, much work has been done to institutize relations between the state and businesses thus giving birth to establishment of Azerbaijan's Economy Development



Ministry Export and Investment Promotion Foundation (AZPROMO), the Council of Entrepreneurs, Business Training Centers, etc mechanisms.

Azerbaijan Export and Investment Promotion Foundation (AZPROMO) – a joint Public Private Initiative, established by the Ministry of Economic Development in 2003 aims to increase non-oil FDI inflow in Azerbaijan as well as to stimulate strengthening and expansion of the country's non-oil export capacities.

Mission of AZPROMO is to sustain economic growth by maximizing the flow of non-oil extraction FDI and development of export oriented sectors.

National Confederation of Entrepreneurs (Employers) Organizations of Azerbaijan Republic (AEC) was established on March 5, 1999 and officially registered on April 9, 1999.

AEC being a union of employers in the Azerbaijan Republic is non-commercial, non-governmental, self-managing organization coordinating activities of the juridical and physical persons dealing with the entrepreneurial activity not-dependent on their property and organization-legal form (excluding state financed organizations) on voluntary basis, protecting their legal and economic rights, having social-effective objectives and considering not to get profit as the basic principle of its activity.

Within its goals the Confederation carries out the following functions:

- To protect rights of the entrepreneurial subjects, their property and other legal interests before the corresponding state structures, municipality bodies and other organizations;
- To assist strengthening of the market infrastructure and development of entrepreneurship relevant to the trends of the State Entrepreneurship Development Programme;
- To participate in the collective negotiations with the Azerbaijan Government and Trade Unions Confederation with the purpose of regulation of the labour relations according to the Labour Legislation in the country, to sign the tripartite General Collective Agreement together with the Azerbaijan Government and Trade Unions Confederation;
- To provide the establishment of permanent business relations among its members, to assist work out of the investment, innovation and other initiative projects and formation of sound entrepreneurship environment;
- To participate in preparation and realization of various social-economic oriented sector, regional and country programmes;
- To assist local entrepreneurs in search of partners in the country and abroad, participate in their information supply;
- To realize the preparation of the social-economic oriented draft laws and other normative-legal acts related to the development of entrepreneurship;
- To create conditions for study of the world experience of entrepreneurship and its available application in Azerbaijan;
- To assist the establishment of social-economic oriented organizations;

Baku Business Training Centre is under the Ministry of Economic Development of Azerbaijan hold regular trainings on business in different districts of Azerbaijan. The center was set up on August 01, 2007.

Alongside with that, steps were taken towards improvement of legislative framework and administrative procedures on business environment, increasing the efficiency of state support mechanisms for business development in provinces, raising entrepreneurs' awareness and expansion of business relations.

For this purpose, the President of the Republic of Azerbaijan issued Decree “On Some Measures for the Establishment of the Electronic Services by the State Bodies”.

Entrepreneurs wishing to get involved in entrepreneurial activity without forming a legal entity are registered in electronic format.

Since 2008, the registration of individual entrepreneurship subjects has been conducted according to the single window principle.

Once the single window system has been applied, the term of registration of new enterprises had decreased from 53 days to 7-3 days and the number of procedures from 13 to 5.

Moreover, despite the positive factors above, small and medium-size enterprise (SMEs) businesses in Azerbaijan still face challenges in economic, legal, administrative, and other respects.

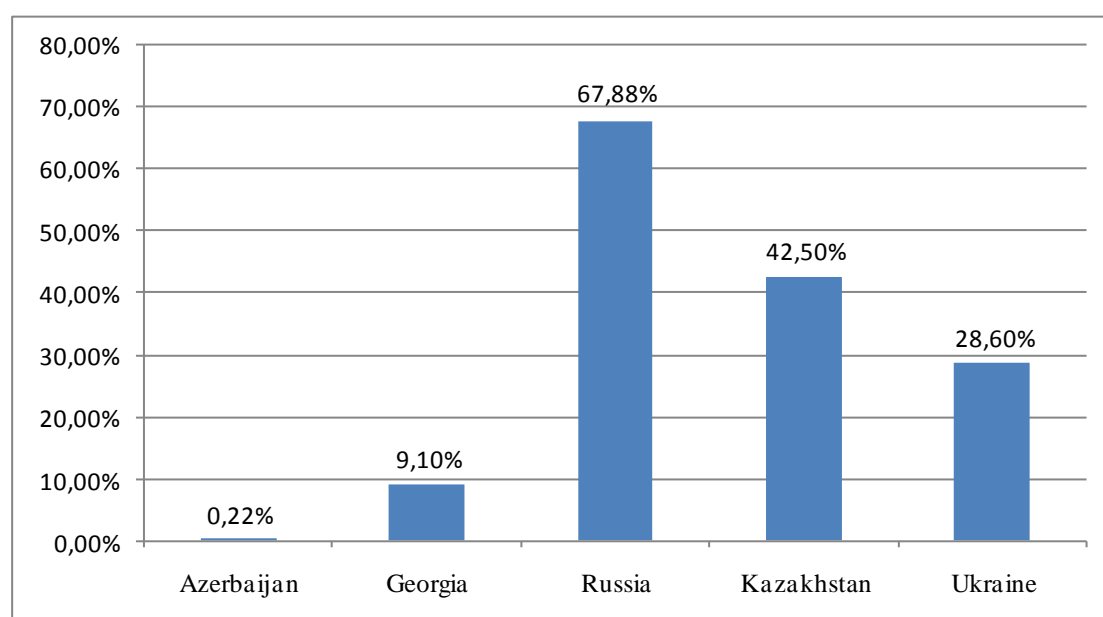
Since SMEs are exposed to illegal inspections by tax and related bodies.

In addition, entrepreneurs face the problem of access to finance, i.e. insufficiency of financial resources to grow their businesses on grounds of insufficient development or shaping of securities market, venture and investment funds or institutions offering additional financial sources.

Consequently, SMEs remain dependent on higher bank credit rates. Such bank rates and heavy conditions for warranty and pledge called for debts issued by banks challenge SMEs to access financial sources.

The Baku Stock Exchange (BSE) is a profit organization established as a closed joint-stock company. BSE was constituted in 2000 year with an aim to create an organized stock market in the country. BSE carries out trading and settlement (clearing) operations for corporate securities. Trading, depository and clearing operations on primary and secondary markets of public securities (T-bills of Ministry of Finance and Notes of the Central Bank) are carried out solely at BSE. Corporate securities consist of shares for joint-stock companies and bonds for legal entities.

**Chart 7. Market capitalization of leasing companies in Stock Exchanges in Region (Share in GDP)**



**Source: Standard & Poor's, Global Stock Markets Factbook and supplemental S&P data.**

According to the State Committee for Securities of Azerbaijan Republic data, the total securities transactions amounted to AZN 2.285 billion in 2010, while AZN 3.479 billion during the first half of 2011. The share of securities transactions in Azerbaijan's GDP stood at 5.5 percent in 2010, with market capitalization accounting for 0.22%.

For comparison, according to Standard & Poor's data for 2010, the market capitalization of listed companies (% of GDP) in U.S. securities market accounted for 117.5%, while – 138.3 % in UK, 75.3% in France, 74.6% in Japan, 43.2% in Germany. The Market capitalization of listed companies (% of GDP) in Russia was last reported at 67.88 in 2010, according to a World Bank report released in 2011. This indicator was 41.7 % in Turkey, 9.1 % in Georgia, 42.5% in Kazakhstan, and 28.6% in Ukraine.

As is seen from the chart, Azerbaijan falls behind all the regional countries according to this indicator. The lack of sustainability in the securities market is one of the factors impeding SME's access to financial sources.

One of the reasons for inaccessibility of bank credits by business units is the harsh collateral requirement for business credits by banks.

The banks take usually take real estate as collateral (pledge) from citizens and entrepreneurs. And a third party guarantee is required as collateral while issuing small-size loans. There is no single centralized register of pledges in Azerbaijan. Once the property pledged as collateral is notarized, it is registered by the State Service for Registration of Real Estate.

The lack of unified register of pledges complicates the activity of banks and entrepreneurs, as the latter are obliged to collect a pile of documents from state agencies. So, the banks

demand the pledger to submit a statement issued by the State Service for Registration of Real Estate approving that the property is not pledged with any other banks.

In order to issue this statement, the State Service for Registration of Real Estate demands the pledger to submit a certification approving the registration of other persons on this property, as well as a notarized certification from each person registered on this property and other documents.

It sometimes takes a month to issue documents approving the property pledged as collateral by the State Service. This term may delay depending on the state of property the entrepreneur wants to put as collateral. Since if the pledged property is registered for the name of the previous, i.e. old owner and there are no documents approving the transfer of the property to the new owner (such as general legacy), then the issue is subject to court settlement, which delays the process.

The small enterprise lending, when physical entities act as guarantor, is formalized through a warranty agreement prepared by the bank. For such loans, the guarantor is requested to submit a certification of residency and certification of job place, as well as a copy of the identification card. As is evident, as pledging property as collateral for loan-raising from the bank is a long process, it creates additional difficulties for entrepreneurs.

The creditors' rights in Azerbaijan are protected by the Law on Mortgage dated 3 July 1998. According to the law "the "Mortgage" is the way of securing fulfillment of obligation. Should the debtor fail to fulfill obligation secured with the mortgage (pledge), the creditor - mortgagee, in compliance with this Law, will have priority right on other creditors, for reimbursement from the cost of mortgaged property."

Besides to banks, local and foreign micro-lending firms and organizations are financial sources entrepreneurs have access to.

According to the Central Bank (CBA), 150 credit organizations were licensed to conduct bank operations at 1 April 2011, 106 of which were non-bank lending firms. And the non-bank lending firms had 81 branches as of 1 August 2011, including 12 firms financed by a variety of international humanitarian organizations.

As of 1 August 2011, the authorized capital and assets of non-bank lending organizations totaled AZN 41.19 million and AZN 289.11 million accordingly.

As can be seen from the figures, although there is a large number of micro-credit organizations, the number of their branches the size of authorized capital seem to be insufficient in the regions thus complicating the entrepreneurial activity there. Besides as the micro-credit organizations render part of bank services, i.e. credit services, the amount of loans they issue is insignificant, the rates are higher.

Much lower credits – 6% on annual basis are provided by the National Business Promotion Foundation centralized to the Ministry of Economic Development, but the amount is much smaller in comparison with the demand of SMEs.

Besides, the Foundation allocates money for real business projects only which do not coincide with the starts-up.

In 2005 the Centralized Credit Registry was created within the Central Bank of Azerbaijan (CBA). The right of using these data can be exercised by debtors only for the purpose of assessing credit appeals. The amendments and additions to the rules on connection of non-

bank credit organizations to the Centralized Credit Registry became effective on 1 February 2001.

In Azerbaijan, the Cabinet of Ministers issued a Decree dated 4 March 2004 on approval of the law on stimulation of agricultural insurance dated 18 June 2002 and the regulation on allocation of and payment rules for financial aid to the stimulation of agricultural insurance. Under the Cabinet's decision No 32 dated 15 February 2007, 50 percent of insurance premiums for wheat, barley, corns, potatoes, sugar beet, vegetables, citrus plants and orchards shall be paid from the state budget covered against the insurance risks, including but not limited to, fire, hailstorm, flooding, freezing. The major problem facing this sector is that only natural disasters are considered as the Agricultural insurance event by the law, while as the insurance events financed by the state, the limited list of natural disasters (fire, hailstorm, flooding, freezing) is determined.

Under this law, all agricultural products and property were announced as insured interests, but the list of agricultural produces financed for insurance coverage includes part of crop products. Besides, the funds in insignificant amount allocated to stimulate agricultural insurance are not used, in fact. For example, according to the Ministry of Finance, although AZN 172,000 and 400,000 manat were allocated out of the state budget in 2006 and 2007, the funds had remained unused. In 2008, only 7,800 manat of the 550,000 manat were spent, while 50,000 manat of 750,000 manat allocated in 2009.

At the same time, farmers' awareness about the mechanisms of this support is inadequate. The Presidential decree dated 4 August 1999 on application of the law on state support for small entrepreneurship tasked the Cabinet of Ministers to prepare proposals and submit to President of Azerbaijan Republic regarding expansion of opportunities for access of small entrepreneurs to finance.

The Ministry of Agriculture allocates insignificant subsidies small agricultural enterprises.

One of the problems facing businesses is the lack of standard leasing services. The law on leasing was adopted on 29 November 1994. Local banks and credit organizations offer leasing credits, yet their use is not wide-spread due to leasing rates that are different from consumer credit and other rates. The major problem within leasing sphere is insufficiency of longterm and low-rate financial resources. And the capitalization level of leasing companies is too low. According to the Association of Leasing Companies of Azerbaijan (ALCA), 44% of leasing companies are involved in agriculture, 34% in construction, 10% in cargo transportation, 7% in passenger transportation, 5% in special equipment. The size of leasing market was reported to be \$170 million during January-July 2009.

Another problem small entrepreneurship subjects within the agriculture sphere face is related with the land registration.

According to the State Land Cadastre and Monitoring Science-Production Center of State Land and Mapping Committee of the Republic of Azerbaijan, the land registration process period is one month. So, the process takes times and great efforts.

The state registration of cars and other moving vehicles is regulated by the regulation on "State registration of mechanical vehicle means and trailers" approved by the Cabinet's of Ministers Decree No. 38 dated 5 March 1999.

One of the biggest hurdles impeding the development of SMEs is lack of adequate legal awareness of entrepreneurs. To avoid this, it would be expedient to benefit from the services provided by business incubators, which have not been shaped yet. No significant

steps have been made in this sphere, yet some opinions on these institutions have been voiced.

The government lacks a certain action plan or strategy aimed at increasing financial literacy of the population and entrepreneurship.

At the same time, the Savings Banks Foundation for International Cooperation (SBFIC) and the Central Bank of Azerbaijan agreed on the development of financial literacy in the country. The parts also agreed to help attract financing from the German government for this purpose. The main focus of the program is to warn people against excessive debt accumulation. Classes on financial literacy are agreed to be held in the pilot schools in 2011/12, and the Ministry of Education is involved in the process as well. Nevertheless, no national strategy exists to increase financial literacy.

Besides, the lack of a unified entity regulating the relations between the government and SMEs impedes them to get involved in decision-making process. Consultations between the government and private sector are not conducted very often. There are almost no consultations between government institutes and business according to the survey and interviews conducted by the CESD.

There are no mechanisms to submit recommendations and offers for related draft laws by SMEs. Since officials have not initiated consultations between government and private sector so far.

Besides, one of the major difficulties arises during the registration of SMEs property. Although the government planned to apply the “silence gives consent” principle, it has not become practical yet.

As a result of measures taken by the Ministry of Taxes, VAT and simplified taxes can be paid online through the Ministry’s Online Department. Individual entrepreneurs without forming a legal entity can be registered online. E-service set up in the official web-site of Ministry of Taxes and this cover internet tax department, e-reporting, e-payment, e-application and other services.

However, the delay with the application of e-signature process bars legal businesses from online registration.

And there is no e-portal covering the activity of small- and medium-size enterprises (SMEs).

The services provided by business information centers in insignificant number are loose. Examples may include Agro-Information Center and Information Center created at Economic University by the World Trade Organization (WTO). Besides, there are no international consulting firms.

Agro-Information Center provides consultation, land and water laboration analysis services. The center also provides advice to local farmers including efficient fertilization. The center provided training courses on following subjects;

- Accounting;
- Agro-business planning;
- Marketing;
- Monitoring and evaluation and etc.

There are no strategy and action plans to support starts-up. In particular, the lack of legislation on venture and risk capital complicated the work of starts-up.

SMEs subjects are not through trainings on state procurement services.

## **CONCLUSIONS AND RECOMMENDATIONS**

The following conclusions have been made based on the above report:

1. The country lacks a single strategy on SMEs subjects.
2. The government needs to establish a unified state agency to implement the strategy on SMEs subjects.
3. Different ministries and other state agencies deal with business units. For example, the Ministry of Taxes acts as the sole body of registration, the Ministry of Economy Development secures access to financial sources and provides technical support, and the Ministry Agriculture carries out subsidization of small agricultural businesses. The Ministry of Taxes of Azerbaijan Republic was appointed as single state registration body on "one window" principle and the application of this system was started on January 1, 2008.
4. A number of legislative acts on entrepreneurial activity had been adopted in Azerbaijan. These are the following:
  - Law on Entrepreneurship of Azerbaijan Republic (Baku, December 15, 1992)
  - Law of Azerbaijan Republic on Protection of Foreign Investments (Baku, June 4,1999)
  - Law on State Registration of legal Entities of Azerbaijan Republic (Baku, December 12, 2003)
5. There is no single plan and strategy to reduce the share of unofficial economy. Although the law on tax returns of state officers was adopted in 2005, it has not been made law so far.
6. Groundless inspections within small entrepreneurship subjects are still carried out by tax bodies.
7. Consultations between government agencies and small entrepreneurship are not conducted and roundtables on a regular basis. The Ministry of Economic Development first pioneered these consultations. They are carried out through the National Confederation of Entrepreneurs (Employers) Organizations. To this end, the Ministry of Economic Development and the above Confederation signed a Memorandum. In addition, the latter has signed partnership agreements with the state agencies and organizations below:
  - Ministry of Finance of Azerbaijan Republic;
  - Ministry of Agriculture of Azerbaijan Republic;
  - State Committee for Securities of Azerbaijan Republic;
  - Ministry of Culture and Tourism of Azerbaijan Republic;
  - Ministry of Education of Azerbaijan Republic;
  - Ministry of Foreign Affairs of Azerbaijan Republic;
  - Ministry of Labor and Social Protection of the Population of Azerbaijan Republic;
  - Ministry of Youth and Sports of Azerbaijan Republic;
  - National Business Promotion Foundation of the Ministry of Economic Development;
  - State Committee on Family, Women and Children Affairs of Azerbaijan Republic;
  - Azerbaijan's Economy Development Ministry Export and Investment Promotion Foundation (AZPROMO);
  - Azerbaijan University MMC;

- Ganja Entrepreneurs' Association;
- Azerbaijan Microfinance Association (AMFA);
- Azerbaijan Banks Association;
- Azerbaijan Marketing Society;
- ITECA Caspian MMC;
- Azerbaijan State Agrarian University (ASAU);
- Chamber of Accounts of Azerbaijan Republic.

Besides, the Cabinet of Ministers of Azerbaijan Republic, the Trade Unions Confederation, the National Confederation of Entrepreneurs (Employers) Organizations of Azerbaijan Republic (AEC) on 1 June 2001 signed the General Collective Agreement on tripartism basis.

The General Collective Agreement stipulates for social and economic situation in the society, minimization of social disparity and promotion of living standards of population. As well as, it identifies obligations of the partners to develop mutual cooperation on the basis of social partnership principles and collective bargaining agreements and contracts.

The General Collective Agreement determines obligation and cooperation in the following directions:

1. Economic policy
  2. Remuneration of labour, income and living standards of population
  3. Development of labour market and providing employment
  4. Strengthening social protection
  5. Labour right protection, occupational safety, technical and ecological safety
  6. Social partnership and coordinating activities of parties.
- 
8. The government lacks an action plan related to business services provided to SMEs.
  9. There are no centers providing business services to small entrepreneurship subjects
  10. There is no e-portal on SMEs.
  11. The government has no strategy and plan to support starts-up.
  12. Taxpayers can submit online tax returns to the tax authorities. However, social protection fund, pensions, state procurement services, cadastre payments, etc are affected online.
  13. The application of electronic signature (e-signature) is delayed although the Law on E-signature of Azerbaijan Republic was adopted in 2004.
  14. There are the following legislative acts related to innovation:
    1. The draft Conception of National Innovation System of Azerbaijan Republic
    2. The draft Program of the National Innovation System Formation and Development of Azerbaijan Republic
    3. The draft Law on State Support and Regulation of Azerbaijan Republic. However, there is no strategic approach to the innovation policy in the country. The number of organizations involved in innovation sphere is few and most of them function as institutions and networks within the Academy of Sciences. The largest one among them is Science Innovation Center. The Center's scope of activity extends to:
      - Automating of administration
      - Improvement of administration's structure
      - Economic analysis of business
      - Providing penetration to foreign bases



- Making essential foreign relations
- Providing of participation in international exhibitions
- Creating of given data
- Compiling grants
- Calculation of innovations' efficiency
- Analysis of information
- Presenting data about scientific-research works in the Republic
- Preparation of traditional and electron publications
- Consulting about getting information

However, there are no centers or organizations providing financial support to innovation entities. Local private and international innovation firms do not exist.

15. The state agencies providing financial support for businesses in the country are the National Business Promotion Foundation and Export and Investment Promotion Foundation (AZPROMO) at the Ministry of Economic Development. But these two organizations provide insignificant funds to seek financial support.
16. The size of leasing, factoring and other bank services is real insignificant and weak.
17. There are no business incubators to render legal and financial support to new start-ups created by small entrepreneurship subjects.
18. The law on venture and risk capital does not exist.

The Center for Economic and Social Development (CESD) proposes the following reforms to promote SMEs and boost entrepreneurship in Azerbaijan:

1. Azerbaijan needs to adopt a single Strategy and Action Plan for developing and upgrading SMEs capacities.
2. We urge that government agencies and small entrepreneurship subjects should meet to conduct consultations and roundtables on a regular basis.
3. There needs to create a single organization so that it bridges coordination between the government and entrepreneurs.
4. Specific efforts are necessary in order to make sure that small entrepreneurship subjects are involved in the discussions focused on adoption of, or amendments to, laws and other regulatory documents they are impacted by, and that their comments and initiatives are taken into consideration.
5. The government should create a venture for providing consultancy services to SMEs and state support is vital to run this structure.
6. The government should strive to increase the number of centers providing innovative and business services to small entrepreneurship subjects and stimulate the participation of private local and foreign companies in this process.
7. There is a need to establish business incubators to render legal and financial support to new start-ups created by small entrepreneurship subjects.
8. With a view to provide substantive amounts of financial resources to strengthen the competitiveness of small entrepreneurship subjects, it is necessary that the funds

- allocated through the National Business Promotion Foundation be increased and increased transparency for the activity of this Foundation be secured.
9. A law on venture capital and risk capital must be adopted.
  10. The electronic government (e-government) process should be accelerated to increase the number of electronic services provided by government agencies.
  11. The government should seek further application of Single Window system.
  12. The government should strive to speed up efforts towards application of electronic signature (e-signature).
  13. Banks services like leasing, factoring, etc must be improved and related funds allocated by banks must be increased.
  14. Efforts must be made to boost the Securities Market and create opportunities for the activity of investment companies.
  15. The government should increase the size of subsidies to entrepreneurs and amend the relevant legislation.
  16. A centralized news portal should be launched to cover the whole activity of small entrepreneurship subjects.
  17. The government should create a single Warranty & Guarantee Register based on a single window system.
  18. There is a need to reduce the number of procedures and days spent on land cadastre and registration and to speed-up electronization (online application) of the process.
  19. To avoid illegal inspections within small entrepreneurship subjects carried out by tax and related bodies.
  20. SMEs should enjoy the right to tax reductions or exemptions in their first years of business. We could share Georgian practice in this area.
  21. There should be increased transparency in the activities of judicial authorities and greater scrutiny over them to be provided by relevant agencies and bodies.
  22. The government should seek further combating of corruption and red tape.

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