

STRONGER ECONOMY

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EU4Business

Investing in SMEs in the Eastern Partnership

Azerbaijan

COUNTRY REPORT
JUNE 2018

Table of contents



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Introduction	1
SECTION 1:	
General economic overview of the country	2
1.1 Macroeconomic indicators	2
1.2 Trade volume with the EU – exports	3
1.3 Business climate	3
SECTION 2:	
Share of SMEs in the economy	7
SECTION 3:	
Overview of the EU4Business portfolio in Azerbaijan	8
SECTION 4:	
Donor support to the SME sector in the country – looking beyond EU4Business	10
SECTION 5:	
SME survey results	11
SECTION 6:	
Highlights of the round table discussion	12

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Introduction

The EU4Business Secretariat is proud to present the third Country Report prepared under this initiative, following the first in late 2016, and second May 2017 publication. Country Reports analyse the developments and achievements of the EU4Business initiative in each of the Eastern Partnership countries (EaP). They offer a review of the SME sector in the country, as well as of the economic and business environment in which enterprises operate. In addition, the 2018 Country Reports add two major new elements, namely the results of an SME survey and the outcome of round tables of EU4Business stakeholders carried out in each EaP country.

The national round tables were held between late February and early April 2018, and involved all the EU4Business stakeholders in each country, as you will see in Section 6 of the Report. The conclusions offer a unique perspective arrived at following a detailed joint consideration of all the EU4Business pillars and initiatives.

The results of the survey of SMEs benefiting from the EU4Business finance facility are presented in Section 5. They provide an overview of the impact of EU4Business, as perceived by the beneficiary enterprises themselves, at least a year after the lending operation has been completed.

We have also conducted a thorough analysis of some 150 documents and discussed these with a multitude of stakeholders to arrive at the impact assessment of the EU4Business portfolio, as presented in Section 3.

Finally, the two opening sections provide an economic overview by country and the state of affairs of the SME sector.

The EU4Business Secretariat has received tremendous research assistance from our country teams, based in the EY offices throughout the Eastern Partnership region, while the EU Delegations provided substantial support and data for the publication. DG NEAR was closely involved in report editing and verification. To all of them we extend our sincere thanks.

We anticipate that the materials presented here will support the reform discourse in each of the six countries, contributing to further enhancement of the SME climate and regulatory framework. The Secretariat looks forward to facilitating new national-level discussions on how further to improve effectiveness and delivery of EU support to the EaP's SME development and to work on new and innovative support instruments.

Boris Divjak, SME Expert
EU4Business Secretariat
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General economic overview of the country

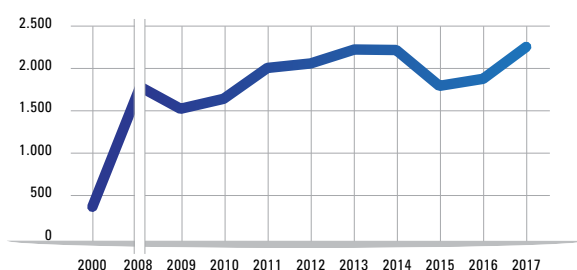


1.1 Macroeconomic indicators

The main challenge Azerbaijan faces is to preserve the reform momentum generated by the economic shock of 2015-16 and to strengthen institutions to increase the economy's resilience to future external shocks. However, progress on the structural reform agenda to stimulate private sector participation and job creation remains limited. Moreover, an effective social protection system aimed at poor and vulnerable households is needed to reduce poverty.

The Azerbaijani economy had a very modest recovery in 2017, as the rebound in the non-oil economy was offset by a contraction in the oil sector due to substantial OPEC-led cuts in oil production and capacity constraints. The non-oil sector rebounded by 2.7% year-on-year (y-o-y), supported by benign public financing, stronger external demand, and improved confidence in response to recovering oil prices. On the downside, and despite higher oil prices, oil GDP contracted by 5% y-o-y.¹ The economy regained further lost ground in the January-March period of 2018, with annual GDP growth accelerating to 2.3% from 1.3% in the January-February period. A swifter pace of expansion in the non-oil sector, which outperformed the economy's crucial oil-producing sector, underpinned the upturn in growth².

Figure 1.1: Republic of Azerbaijan's GDP per capita (current US\$)



Source: Macroeconomic indicators, World Bank

Going forward, growth is expected to strengthen, driven mainly by a fiscal stimulus, a rise in hydrocarbon prices, and an increase in gas exports. Social conditions remain a major source of concern, as real wages and spending on social protection programmes declined in 2017. There were signs of recovery in Azerbaijan's financial sector in 2017, supported by the stabilization of the Manat exchange rate and growth across the non-oil sectors.

Annual year-end inflation declined from 15.6% in 2016 to 7.9% in 2017. The high inflation rate recorded for food items (9.4% y-o-y) was due to a strong external demand for agricultural products. To curb inflation, the central bank continued to tighten the monetary policy stance by actively absorbing Manat liquidity using deposit auction operations and the issuance of notes.

Higher oil prices, sluggish import growth, and expanded non-oil exports helped improve Azerbaijan's balance of payments in 2017. Exports expanded by 50% y-o-y, led by a rise in oil exports, as oil prices recovered (oil exports accounted for 90% of total exports), while imports increased by 3% (compared to a drop in 2016). Non-oil exports increased by 22%, supported by stronger external demand, mainly from Russia. The current account recorded an estimated surplus of 4.3% of GDP in 2017.³

The tightening monetary policy, improved external environment, and transfers from the Oil Fund to the central bank helped to maintain a broadly stable exchange rate at 1.7 AZN per U.S. dollar in 2017.

Azerbaijan's economy, which earlier this decade was the strongest among the EaP countries, is recovering and has throughout stayed in the upper half of the group as measured by GDP. In comparison to the others, Azerbaijan rebounded after the 2014 downturn, but the growth rates are more comparable than they were during the oil boom years. Except for 2016, it has also traditionally had an inflation rate below the regional average.

¹ Excerpts from the World Bank in Azerbaijan Overview, <http://www.worldbank.org/en/country/azerbaijan/overview>

² Macroeconomic data from <https://www.focus-economics.com/countries/azerbaijan>

³ Excerpt from the World Bank's Azerbaijan Overview – Economy, <http://www.worldbank.org/en/country/azerbaijan/overview#3>

While the exports of goods and services in 2016 (in current US\$) were only half the 2011-2014 levels, in absolute terms they are only behind Ukraine and Belarus and they stand at 46.5% of GDP, which has been in line with the EaP average (46.4%) and almost 10% up compared to the prior year. There is much room for expansion, but it remains to be seen if the gap that started being filled up by the non-oil sector and SMEs can continue to expand and play an ever greater role in the national economy. Crediting of the private sector has always been low in Azerbaijan and well below the regional average with 26.6% of GDP in 2016, according to the IMF, partly also because the lending interest rate is the highest in EaP, although dropping continuously – 16.5% in 2017, according to the WB. There has been no major exchange rate and local currency fluctuation, since the exchange rate stabilized more than a year ago, so a Euro is worth 1.98 Azerbaijan Manat (AZN) at the end of May 2018.

1.2 Trade volume with the EU – exports

The EU and Azerbaijan are in the process of negotiating a comprehensive trade agreement which will foster economic development and integration with the EU. As for other EaP countries, the European Union is Azerbaijan's first trading partner and it account for almost 40% of its total trade.⁴

This section will specifically focus on exports to the EU for selected trade categories and data is provided both in terms of their respective size, economic impact, and job creation.⁵ In Azerbaijan, as in the other countries which do not directly border the EU, the share of selected categories in total trade is lower. The reason for the identification and selection of such sectors lies in their high potential for growth and the concentration of SMEs active within them. The additional support which is granted to SMEs in DCFTA countries is not available for Azerbaijan. However, upon successful conclusion of EU-Azerbaijan trade negotiations launched in 2017 and entry into force of a possible new Partnership and Cooperation Agreement, these facilities for SMEs will further expand Azerbaijan's EU export market.

On average, in the six EaP countries, the economic effects of exports to the EU of these selected categories amount to 1.5% of GDP, and 1.3% of total employment. Compared to the average of the EaP countries, the economic effects of selected exports to the EU in Azerbaijan only amount to 0.1% of GDP, and 0.2% of total employment.

⁴ European Commission, DG for Trade, (2018), 'European Union, Trade in goods with Azerbaijan 2017.

⁵ Panteia, (2018), Study: Key sectors and BSOs - Step 1 selection of the sectors). Data on trade flows sourced from the International Trade Centre (ITC).

It is relevant to note, however, that a large proportion of Azerbaijan's export to the EU consists of oil, which was removed from the trade categories because it represents a large-scale production. On average, between 2009 and 2016, Azerbaijan's exports of goods to the EU amounted to €7.5 billion. As stated, to a large extent this consisted of oil, therefore the export to the EU of relevant products amounted to €59 million, of which 78% were from potential growth categories for SME development. The categories with most potential are:

- Edible fruits and nuts (categories in HS8)
- Organic chemicals (categories in HS29)
- Plastics (categories in HS39)

Gross production was increased by €46 million as a result of selected exports of goods to the EU, especially in food and beverages and manufacturing of petroleum and chemical products. The value added associated with this direct effect was €17 million, and the direct employment effect amounted to 1,000 jobs. As the enterprises involved need supplies from other enterprises as well (intermediate goods and services), the total impact on Azerbaijan's economy is larger. The total impact on gross value added is €47 million. The total number of jobs depending on the selected exports to the EU amounts to 7,000, which is 0.2% of total employment in Azerbaijan.

1.3 Business climate

Positioned 57th globally, the Republic of Azerbaijan remains behind the EaP leaders in the Doing Business rankings of the WB in terms of the ease and costs of business regulations. The business climate has steadily been improving over many years, due to a large number of regulatory simplifications, according to the indicator. Of the various topics that Doing Business covers, Azerbaijan is most advanced with protecting minority investors (10th position globally), starting a business and registering property (18th and 21st in the world respectively), while lagging behind in dealing with construction permits and the procedures for getting credit, where it is ranked 161nd and 122th respectively out of 190 countries ranked.

Azerbaijan has been addressing the corruption challenges in a variety of ways over the past decade, as shown also by the Transparency International's Corruption Perception Index, where Azerbaijan's score has been steadily improving over the past five years from 27 to 31 (100 being best and 1 worst), albeit from a low base. In 2017, the country held 122nd position globally among 180 countries, with the current score of 31.⁶

⁶ According to the Corruption Perception Index of Transparency International: https://www.transparency.org/news/feature/corruption_perceptions_index_2017

While Azerbaijan has integrated its energy exports into the world economy relatively successfully, the situation is rather different in other sectors of foreign trade.

This is particularly problematic for SMEs who encounter significant barriers to the import and export of goods and services ⁷.

Azerbaijan has a range of business associations that actively engage in monitoring of the investment climate, reporting on it and discussing progress with the public sector. Besides the official Chamber of Commerce and Industry, there are several other associations, including national associations such as the Azerbaijan Confederation of Entrepreneurs (ASK), or foreign chambers, such as the American Chamber of Commerce (AmCham), Azerbaijan-German Chamber of Commerce (AHK), etc. to name the most visible players. The latter issues business climate reports annually and while praising progress in several regulatory areas, the reform priorities as seen by their members rank the following structural shortfalls: in the tax, customs and legal system but also enhancing the education system; 82% of respondents acclaimed the effectiveness of the e-visa portal, while 31% of EU businesses regard the policies by the Financial Market Supervisory Authority (FIMSA) as ineffective ⁸.

Ever since the Ministry of Taxes opened the one-stop shop for business registration, such fast and user-friendly solutions have almost become a trademark of Azerbaijan. Much has been achieved in digitalising databases and enabling direct access of end users to the system. One of the recent achievements is the single window supporting exporters. However, there is still insufficient dialogue among business representatives and regulators in how to further improve the investment climate. Such attempts are driven more from the outside, such as the EU4Business “From Policies to Action project - Supporting the implementation and monitoring of Azerbaijan’s SME roadmap”, run by the OECD. The results of the project will be peer-reviewed at the OECD Eurasia Competitiveness Roundtable 2018 in Paris. The overall objective of the project is to build capacity in Azerbaijan’s institutions to implement and monitor the SME roadmap.

7 Bertelsmann Transformation Index 2016: Azerbaijan Country Report. Gütersloh: Bertelsmann Foundation.

8 AHK: EU Business Climate Report Azerbaijan 2018 - Perceptions of EU Businesses active in Azerbaijan, Baku 2018, funded by the EU through EU4Business

Textbox 1: Key recommendations of the EU Business Climate Report for 2018

The Report finds that new and consistent reforms are required in the tax and customs systems, as well as to the rule of law and the education sector. EU businesses are clearly optimistic that the tax system, cited in the previous year as a major hurdle to do and expand business in Azerbaijan, will see substantial improvements following the recent change of management and amendments to the Tax Code.

For customs, on the other hand, the optimism witnessed in last year’s survey, following the introduction of e-customs declarations, seems to be waning due to the lack of follow-up reforms. EU businesses emphasise the importance of speeding up the pace of reform implementation, improving customs administration, accelerating transactions into the electronic system and increasing the training and professional development of customs authorities.

They also call to ensure that customs tariffs do not disproportionately burden SMEs, as they are at the heart of the country’s agenda for economic diversification.

Carrying out reforms to the legal system, modernising the implementation of court decisions and ensuring transparency in the judicial system are considered to be the principal tasks in support of the development of entrepreneurial activity. Last but not least, EU companies continue to signal the importance of addressing the skills mismatch by investing in and reforming higher education and vocational training and making them more relevant to company requirements. The first steps taken in this domain are acknowledged in this year’s survey, with increased satisfaction with higher and vocational education systems, but obtaining tangible results will require a long-term commitment to reforms.



EU4Business

AZERBAIJAN: major boost for woman-led accessory company



“

The project significantly helped the company to compete successfully during the economic slow-down and to build a strong direct distribution network.

”

Gulnara Hasanova is Director of ESSE LLC, a woman-led accessory and home-care products company in Azerbaijan. With help from EU4Business and the EBRD, the company introduced an effective recruitment and sales system – as a result turnover was up 18%, customer base rose 25%, and ESSE was able to add new product lines and open two regional offices.

5

In order to meet this objective, the project will focus on the following activities:

- Strengthen public-private dialogue through regular Working Group meetings involving international experts, Azerbaijani stakeholders and the OECD;
- Develop recommendations for better implementation of the SME roadmap, with a focus on internationalisation, investment, financing and establishment of a centralised SME agency;
- Provide support in establishing a monitoring system for the SME roadmap.

The main beneficiaries of this project are the Ministry of Economy, the Centre for Economic Reforms Analysis and Communication, and other SME stakeholders involved in the implementation and monitoring of Azerbaijan's SME Roadmap.⁹

At the same time, the Azerbaijani Government in late 2016 adopted the Strategic Roadmap covering national economic perspectives and strategic priorities in 11 economic sectors. The Agency for SME Development was therefore created in late 2017 under the Ministry of Economy and it is in charge of implementing the Roadmap. In addition, the Centre for Analysis of Economic Reforms and Communication was mandated to conduct monitoring, evaluation and communication of the implementation of such an ambitious reform document.

⁹ OECD EU4Business: From Policies to Action – Supporting the implementation and monitoring of Azerbaijan's SME roadmap, Concept note, Paris 2018



SECTION 2:

Share of SMEs in the economy

The number of SMEs operating in Azerbaijan's economy has been on the rise in the last years, with a total of 139,185 in 2016, almost doubling the SMEs present in 2015. Most of the SMEs registered are individual entrepreneurs, representing 95% of all, while the remaining 5% consists of legal entities. Individual entrepreneurs in Azerbaijan more than doubled in 2016, in comparison to the ones established in 2015. The table below summarises the status of SMEs in Azerbaijan's economy on the basis of value added, number of employees and total turnover. Given the large presence of the oil industry in Azerbaijan, the indicators also provide percentages stemming purely from the non-oil sectors. In general, the table portrays that SMEs have diminished their share across all three indicators, especially with regard to total turnover¹⁰.

10 The State Statistical Committee of the Republic of Azerbaijan: Small and Medium Entrepreneurship in Azerbaijan, Statistical Yearbook 2017

The total employed population in the country was 1.50 and 1.51 million in 2015 and 2016 respectively, of which SMEs employed 280,500 and 279,350 in the two years respectively.

The number of newly created MSMEs has grown in the last two years of available statistics, as the data demonstrates:

- Total number of newly created SMEs (2015): 69,894, of which 5,655 legal persons and 64,239 individual entrepreneurs.
- Total number of newly created SMEs (2016): 139,185, of which 7,435 legal persons and 131,750 individual entrepreneurs¹¹.

11 Ibid

Table 2.1: Share of SME in the economy

Indicator (%)	2015			2016		
	Total	Small	Medium	Total	Small	Medium
1. Value added	7,5	5,9	1,6	6,4	5,2	1,2
<i>non-oil sector</i>	10,9	8,6	2,3	9,9	8,1	1,8
2. Number of employees	18,7	5,8	12,9	18,5	6,6	11,8
<i>non-oil sector</i>	19,1	5,9	13,2	18,9	6,8	12,1
3. Turnover	11,9	9,2	2,7	9,2	7,4	1,8
<i>non-oil sector</i>	18,8	14,5	4,3	14,9	11,9	3,0

SECTION 3:

Overview of the EU4Business portfolio in Azerbaijan

Since its establishment, the EU4Business Programmes have supported 16 projects in Azerbaijan. Within all the operating years, from 2009 to 2017, 4 projects have been concluded and 12 are still running. These projects operate in four key areas of support, and in Azerbaijan 4 projects have been set up to Improve the access to finance, 3 to Strengthen the policy and regulatory framework, 6 to improve knowledge base and business skills, and 3 to improve access to markets.

The table illustrates the distribution of projects in the different support areas, and which of those are ongoing and which completed.

Table 3.1: EU4Business project portfolio

PROJECTS in AZERBAIJAN				
Area of support	A: Improving Access to Finance	B: Strengthening policy and regulatory framework	C: Improving knowledge base and business skills	D: Improving access to markets
Ongoing projects	4	2	5	1
Closed projects	0	1	1	2
Total projects	4	3	6	3

Source: EU4Business database

The ongoing projects are subsidised through EU contributions of approximately €10,250,000 with most support targeting the area of improving access to finance, followed by improving knowledge base and business skills.

With regard to closed projects, the area which received most support concerned the improvement to access to markets with 2 projects completed, followed by improving knowledge base and business skills with one project completed. A comparatively minor contribution was awarded for the completion of a project in strengthening policy and regulatory framework. The total EU contribution for these completed projects amounted to approximately €3,650,000.

The EU4Business initiative and the implementation of its programmes impact both enterprises and job creation in Azerbaijan.

The table below summarises these key impacts in terms of enterprises supported, the number of enterprises who received loans, the total value of the loans provided via the programmes, and the number of jobs created through the programme support. Since its inception, EU4Business has benefitted 348 enterprises in Azerbaijan, with a significant number of 10,941 receiving loans for a total value of €207,400,000, impacting the creation of 3,028 hiring positions with many more jobs supported and sustained.

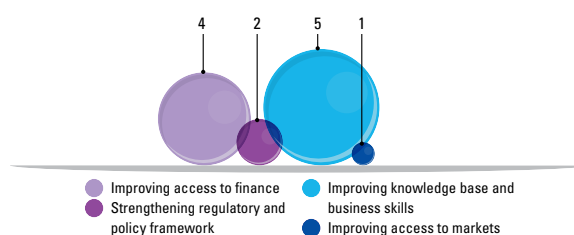
Advisory projects have also had a strong impact, acting as a catalyst for SME growth and jobs as in the examples of women's accessory company ESSE LLC¹² and an outdoor furniture company IDEA LLC¹³.

Table 3.2: EU4Business impact in Azerbaijan

Impacts of EU4Business support	2009-2015	2016-2017	2009-2017
Number of enterprises supported with advisory services	183	165	348
Number of enterprises which received loans	10,879	62	10,941
Total value of loans disbursed (Euro)	203,600,000	3,800,000	207,400,000
Number of new jobs created	1,581	1,447	3,028
Number of jobs supported and sustained (advisory and financial projects)	8,234	3,947	12,181

Source: EU4Business database

Figure 3.1 Ongoing projects by objective



Source: EU4Business database

12 For the related success story, please refer to page 5.

13 For the related success story, please refer to page 9.



EU4Business

AZERBAIJAN: stepping up a gear to meet demand



“

Our company is different because we don't do standardised products. Every order is customised, unique. The most important things for us are design and quality.

”

IDEA LLC is successful small business making outdoor furniture. The company had interest from abroad, but didn't know how to handle the demand, so they turned to EU4Business and the EBRD for help. With their support, IDEA introduced an Enterprise Resource Planning System, which has cut delivery times, provided better operational controls, and allowed the company to sign a major contract to export to Russia.

9

Success stories:
Advice for Small Businesses

SECTION 4:

Donor support to the SME sector in the country - looking beyond EU4Business

As many as 70 projects have been identified that focus on economic development in Azerbaijan beyond EU4Business and are ongoing. These are all donor-funded projects, bilateral and multilateral, with the largest donor being the EU, followed by USAID, the World Bank (incl. IFC), ADB, Swiss and German development agencies, and UNDP.

Only seven of them envisage some form of access to finance. Even the EU4Business projects that have been tailored as onlending support programmes found themselves stuck with a combination of non-bankable SME subjects and weak banking sector after the currency collapse. Therefore, most of them refocused to support creation of conditions for lending and improved competition among the credit providers that would enable SMEs to borrow.

This is why the majority of all support programmes focus on empowering national authorities with the strategic capacities to plan and implement reforms that would further improve the business environment, the banking sector and therefore allow for more competition among SMEs as well as between SMEs and the larger commercial entities that have state patronage.

Programmes that look to strengthen the business environment aim at several regulatory areas that also support Azerbaijan's efforts to join multilateral organisations and groups of countries that work alongside one another, such as: competition, WTO accession, customs reform, standards and accreditation, etc. These are often more far reaching than just SMEs. The other reforms are more important to create a more level playing field nationally, and these focus on: taxes, property registration, dispute resolution, permits and licences, insolvency, further e-solutions to the public sector, etc. A number of donors help the government create a better SME policy, strategy and institutional framework, or statistics, while working with a myriad of market players to support SME access to finance, competitiveness, non-financial services of banks to SMEs, SME banking, etc. All of these look more into financial sector regulation improvement and facilitating access to finance.

The other set of interventions works with intermediaries and entrepreneurs directly and endeavours to improve entrepreneurial and business skills, many specifically with new businesses or start-ups. Some interventions aim at specific niches or disadvantaged groups like women in business, or the innovation sector, incl. green financing, venture financing and start-up funding. The latter group is in an early stage of development, often waiting for some more critical overarching issues to be regulated, before pilot projects can go ahead. On the supply side, creating jobs and employment with vocational education and training, remains a donor activity with much appetite from several sources.

Comparing these interventions to the suggested gap assessment as portrayed by the national round table and other analyses deployed by the EU4Business Secretariat, several main needs are being met. However, most stakeholders believe that the time has come to move away from dealing with the central ministries as the key recipient of aid and to find channels to work with BSOs or other associations that are closer to the final beneficiaries than are the regulators. As the economy recovers and the banking sector finds ways to access the expanding entrepreneurship, working with the banks (other than the largest) might also improve the range of financing options available to SMEs.

Finally, a donor engagement in increasing the knowledge of SMEs, ability to grow, expand markets etc. would enable these entrepreneurs to expand. Also, the fact that they are linked to an international support programme might offer them an additional cushion of protection against the non-market forces and their adverse impact. Supporting such SMEs will entail reaching out to the regions beyond Baku and moving into the less profitable sectors that do not cater for the elitist market niche clustered in the capital, such as e.g. the Azerbaijan Hazelnut and Pomegranate Initiative (AHPI). This would help generate more employment outside the state sector and support economic growth in disadvantaged regions, particularly those that have been exposed to the prolonged conflict and are in or close to the security zones, house internally displaced people, etc.

Producing tailored sector studies might pave the road for clustering or value chain development, particularly in agribusiness and small crafts, or perhaps tourism (outside Baku), the areas with growth potential in Azerbaijan. This will nonetheless require a continuous engagement with the central regulators and the Ministry of Economic Development, ideally engaging many more stakeholders and ultimately working with entrepreneurs directly.

Reforms and stabilisation of the banking sector will have to continue in parallel in order to enable not only financial resources throughout the country for local entrepreneurs, but an avenue in which tailored technical assistance can be offered to the SMEs.



SECTION 5:

SME survey results

Due to the economic downturn and instability of the banking sector in Azerbaijan in the past two years, the access to finance component of EU4Business made minimal lending through the local banks. Given such an inadequate sample, it has been decided to exclude Azerbaijan from the EaP SME survey.

Highlights of the round table discussion

The round table held at the EU Delegation in Baku on 03 April 2018 resulted in a dynamic discussion, during which 16 EU4Business stakeholders present in Azerbaijan highlighted important achievements of the EU4Business initiative.¹⁴

Azerbaijan has one of the smallest shares of the EU4Business programmes and there is a notable absence of SME financing. This is partly due to the lack of 'bankable' subjects in the country that fall under this category (Azerbaijan is dominated by the oil businesses) and partly due to the financial crisis of 2014-15, which left a number of banks weaker, not yet qualifying as intermediaries of the EU-funded support.

Generally, SMEs are not creditworthy and are unable to borrow, either in foreign or local currency and the financial management of these companies is not sound enough. That leaves the few that must borrow to take on relatively high interest rates and short loan maturities, provided by the financial sector in distress. The EBRD only started local currency lending from last December, very gradually.

There continues to be a gap between the large businesses and the SMEs, and clustering of SMEs is non-existent. Some indicators have started to improve, as the regular German-Azerbaijani Chamber of Commerce survey indicates: optimism is on the rise.

However, SMEs are still looking to the Government to set up an appropriate regulatory framework. The donors have been investing resources in several such programmes, including support to the newly established Centre that will act as a catalyst for all the SME-related activities. A skills gap persists between the education system and the labour market. SMEs are largely unaware of available support programmes, particularly those outside Baku.

Recommendations going forward:

- Support the new SME Agency
- Support to the tax framework and regulation of SMEs
- Support to BSOs and study new models of support to SMEs via the BSOs, rather than direct most support via the Ministry of Economy or other government authorities
- Require action-oriented dialogue with BSOs
- SMEs would benefit most from handholding support and very targeted and tailored individual assistance
- Clustering might provide new opportunities and the options need to be studied by industry experts
- Support establishment of data centre and analytics of SMEs, as initiated by OECD
- Endorse public participation in the legislative drafting process where it affects SMEs
- EU Delegation might consider holding SME Days to promote the available EU support and share the information on how it can be accessed; other stakeholders to join
- There might be a scope for EIB engagement, but it remains absent in the country.

EU Delegation emphasised the importance of EU support to the government of Azerbaijan through technical assistance tools that include approximation of legislation, strengthening capacities of the public authorities, enhancing policy dialogue etc. However, public sector at present has limited outreach, expertise and incentives.

In addition, regular staff changes lead to limited coverage, loss of developed and invested into capacities, and less transparent developments beyond donor control. Therefore, in order to ensure sustainability and further impact, EU Delegation advises greater involvement of private sector.

¹⁴ The national round tables were held in the capitals of all six EaP countries between late February and early April 2018, and engaged all the EU4Business stakeholders in each country: the EU Delegations, the IFIs involved, national counterparts – SME agencies and Ministries of Economy, commercial banks involved, business associations, key implementers and any other related party, totalling between 25 and 45 persons per round table. The discussions focused on the ongoing achievements across all four pillars of EU4Business, but the content was tailored to the priorities of each country. The discussants were specifically guided to address the forthcoming challenges anticipated and to propose solutions for the way forward.

The round table concluded that this exchange was very useful for all the EU4Business stakeholders in the country and their partners and associates. The minutes are to be circulated by all the participants and progress will be monitored through initiatives such as the ongoing OECD's From Policies to Action programme, where contacts will resume with all the key stakeholders to the Azerbaijani business enabling environment.



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