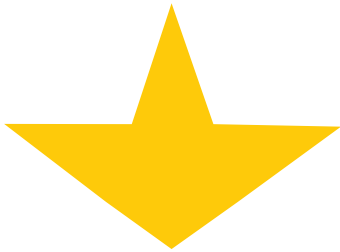




EU4Business



COUNTRY REPORT 2020 AZERBAIJAN



WWW.EU4BUSINESS.AZ

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[EXECUTIVE] [SUMMARY]

EXECUTIVE SUMMARY FOR AZERBAIJAN:

2019 AT A GLANCE



As this difficult year draws to a close, we are proud to present the results of the EU4Business Initiative in this 2020 Country Report for Azerbaijan. Despite the pandemic and its stark impact on business, the entire EU4Business team has worked tirelessly to expand the range of projects that we collect data on and we are pleased to say that we can now show the results that accurately reflect the entirety of EU support to SMEs in the Eastern Partnership, including Azerbaijan.

WHAT SUPPORT DOES THE EU PROVIDE TO SMES?



Access to Finance (A2F):

- concessionary loans via national banks
- microfinancing for household businesses
- small grants to SMEs
- training staff at national banks to better serve SMEs
- training SMEs in financial literacy

Business Development Services (BDS):

- providing direct advice and training to SMEs
- training and capacity-building among national business support organisations (BSOs)
- establishing business incubators for start-ups
- developing business clusters for mutual support and development
- supporting governments in identifying new markets
- building capacities at export support organisations

Business Enabling Environment (BEE):

- promoting regulatory reform and best practices
- building capacity amongst policy makers and regulators
- encouraging public-private dialogue
- informing business about reform processes and rules/procedures

PORTFOLIO FOR AZERBAIJAN IN 2019

34 projects

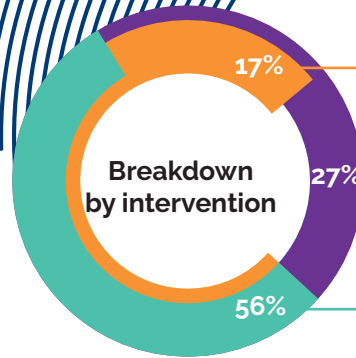
Total budget of EU support in Azerbaijan

€26.82

million

of which

€11.7 was
million disbursed



A2F

€4.46 million

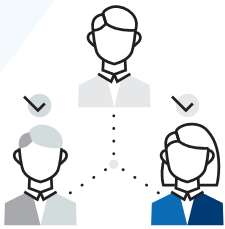
BEE

€7.36 million

BDS

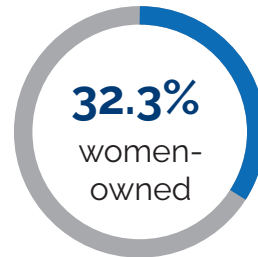
€15 million

RESULTS OF EU SUPPORT IN AZERBAIJAN IN 2019



9,198

SMEs supported



€725

million

total turnover
of SMEs supported

€58.4

million

extra income
generated by SMEs

36,267

new jobs created

RESULTS OF EU SUPPORT IN AZERBAIJAN IN 2019

36,267

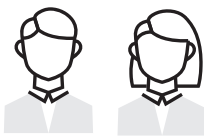
employed in EU-supported SMEs



average SME supported by the EU in Azerbaijan

has

€78,822
annual income



employs **3-4** individuals

WITH THE SUPPORT OF THE EU

these SMEs grew on average by
+8.83%

more SMEs engaged in exporting
+4.28%

expanded their staff by
+12.2%

EU-supported SMEs increased their exports by
+3%

For every million euro of EU support,

€1
million



an average of **786** SMEs benefited



58 new jobs were generated



€8.7 million increase in income recorded

RESULTS PER PILLARS

ACCESS TO FINANCE (A2F):



615

SMEs received loans



women-owned

€2.5

million

total value of loans

€4,065

average loan

1

partner financial institution supported

BUSINESS DEVELOPMENT SERVICES (BDS):

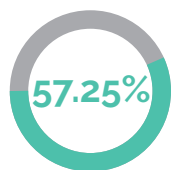


35

business support organisations built their capacity

8,033

consultancy services delivered to SMEs



women-owned

500

SMEs participated in B2B events

BUSINESS ENABLING ENVIRONMENT (BEE):



86

laws, policies and regulations reformed

332

public-private dialogue events held

86

government institutions built their capacity

EU4BUSINESS COMMUNICATION

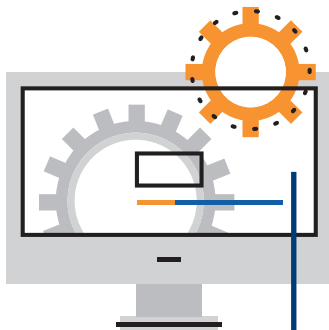
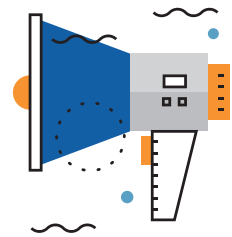
EU4Business communication activities have provided an ongoing, continuous effort using a structured and targeted approach. Having set out an updated vision in our communication strategy, we aligned all processes to build a more structured system for communicating the EU4Business brand.



Our focus is on storytelling, putting quality of content over quantity.

Our focus is on storytelling, putting quality of content over quantity. Since August 2019, we have written up over **a dozen success stories and news items about EU support to Azerbaijani SMEs** that have been shared with the EU, our partners and the press.

Our stories have gained wide coverage in the mainstream media in Azerbaijan.



The number of visitors to the current EU4Business website grew **17.8%** over January-August 2020, compared to the same period last year.

MODERNISING OUR WEBSITE

We have revamped our website to better match the needs of our target audiences. In December 2020, we launched the main donor-oriented platform and six country SME-focused web pages, providing a one-stop-shop for SMEs to find information about EU support.

According to Google Analytics, we received

156,975
page views

85.3%
new visitors

The initiative has eschewed paid ads, focusing instead on promoting meaningful content.

CHECK OUT



the new SME-oriented EU4Business webpage for Azerbaijan:

www.eu4business.az



the updated donor-oriented main website:

www.eu4business.eu

IN RESPONSE TO THE COVID CRISIS

our team quickly launched COVID business help pages for all 6 countries under the EU4Business Initiative in just two weeks.

We brought together recommendations from the EU, governments and business.

Over May-August 2020, we recorded over

3,000 visits to these Covid-19 pages

CHECK OUT

Check out the Covid-19 Information Support Webpage for Azerbaijan:

<https://covid-19-azerbaijan.eu4business.eu/>



Since the pandemic hit, we have issued more than

25

Covid-19 Weekly Alerts

that registered a remarkable

40%

open rate

9%

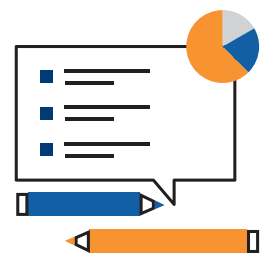
click rate

The number of subscribers to our digest has grown by

20%

since January 2020

To make sure that all messaging is consistent and cohesive so that a strong brand voice is established, we have upgraded the branding guidelines for the EU and our partners with easy-to-use templates and toolkits that each country will be able to adapt to its needs. The guidelines were presented to the EU, partners and projects at the beginning of 2021. Our information exchange guidelines have been widely communicated to make information flows more effortless and avoid unnecessary paper work and fully use the EU Digitool system to maximise cohesion.



Despite the challenges facing SMEs in the EaP region, and indeed the whole world, the EU's commitment to supporting Azerbaijani businesses remains unchanged. With a new and improved vision and approach, EU4Business is ready for any further challenges 2021 might present and looks forward to reporting on yet more positive results for this year.



Mark Hellyer
Team Leader



**EU SUPPORT
TO SMES
IN AZERBAIJAN
LIN 2019**

[PORTFOLIO OVERVIEW]



EU support to SMEs is based on the joint policy between the EU and EaP states as set out in the Eastern Partnership, 20 Deliverables for 2020, Priority I: regulatory environment, SME development and access to finance.

THE EU IS FOCUSING ON THREE TYPES OF INTERVENTIONS:



Access to Finance (A2F):



Business Development Services (BDS):



Business Enabling Environment (BEE):

34

projects provided support to SMEs in Azerbaijan in 2019



with a total budget*

€26.82

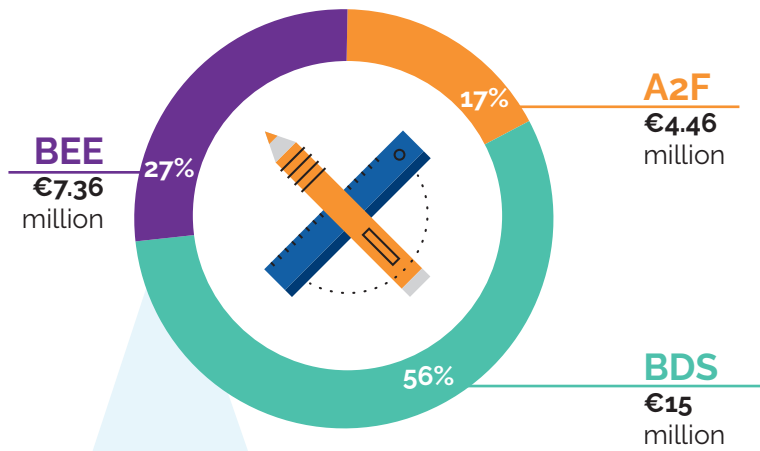
million

* This is total value of contracts being implemented rather than disbursements in 2019.

[BREAKDOWN]

BY INTERVENTION

Breakdown of Active Projects in Azerbaijan by intervention (total regional and bilateral) in 2019

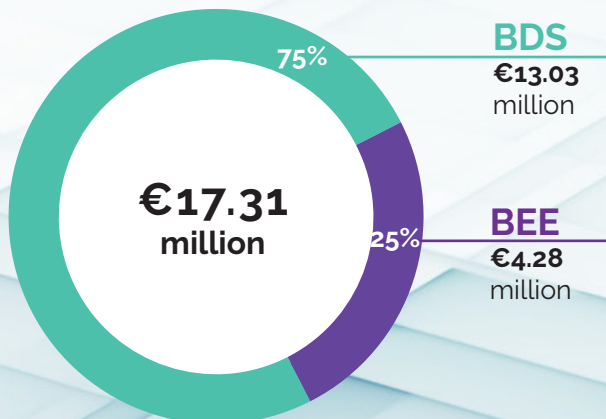


€26.82
million

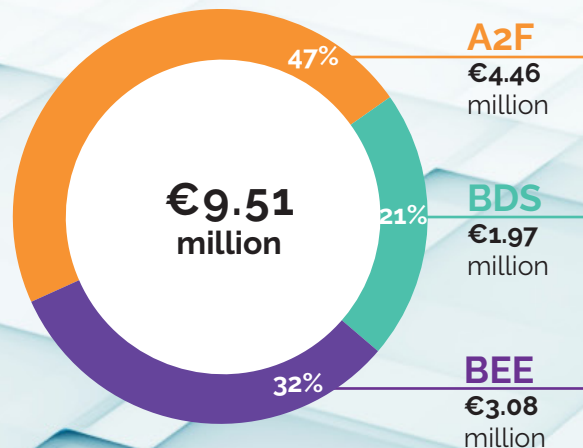
65%
of total budget

35%
of total budget

Breakdown of Active Bilateral Projects in Azerbaijan by Intervention in 2019



Breakdown of Regional Projects in Azerbaijan by Intervention in 2019



OVERVIEW

BY TYPE OF INTERVENTION

ACCESS TO FINANCE (A2F)

A2F is the smallest area of EU intervention to support SMEs in Azerbaijan.

A total of
€4.46
million

in EU support was allocated to unlock access to finance in Azerbaijan in 2019



4 major specific support instruments:

A1

Capped Loss Recovery

A2

Interest Subsidy

A3

Targeted Assistance (TA) to PFIs

A8

Structured Funds

This is the total value of contracts being implemented, not disbursements in 2019.

THE FOUR SUPPORT INSTRUMENTS THAT EU4BUSINESS INITIATIVE USES FOR ENABLING ACCESS TO FINANCE ARE DEFINED BELOW:

A1

Capped Loss Recovery

The capped loss recovery is a risk sharing instrument in the form of a grant that the EU provides to an IFI. This grant is used by the IFI to partially cover the loss that any PFI, such as a local bank, would carry as a result of SMEs not repaying part or all of its loan. In this way, the PFIs feel more comfortable and are willing to use the credit lines from IFIs to lend to SMEs. However, the EU grant only partially covers the potential loss that PFIs could claim. The recovery of loss covered by this EU risk sharing instrument is generally up

to 10% of the total loan portfolio of the respective PFI (total value of the loans disbursed by the PFI from the respective credit line of the IFI) and generally up to 50% of each individual sub-loan. This actually means that if an SME does not pay back the loan to the local bank, the EU grant for capped loss recovery can actually cover half of the loss of the bank. In this way, the local banks are more willing to disburse loans to SMEs, which are generally perceived as high-risk borrowers.

A2

Interest Subsidy

This instrument is a grant given by the EU to IFIs in order to lower the cost of their loans to SMEs in EaP. The grant provides interest subsidies of up to 10%, which is applied to the regular interest rate, with

which the IFI lends to PFIs and further on to SMEs. The purpose of this instrument is to lower the final cost of finance for SMEs in the EaP.

A3

Targeted Assistance (TA) to PFIs

This instrument consists of technical assistance to PFIs in the form of consultancy services, mentoring and specialised training. The main effect of this instrument is that the PFIs (local banks and microfinance institutions) become more

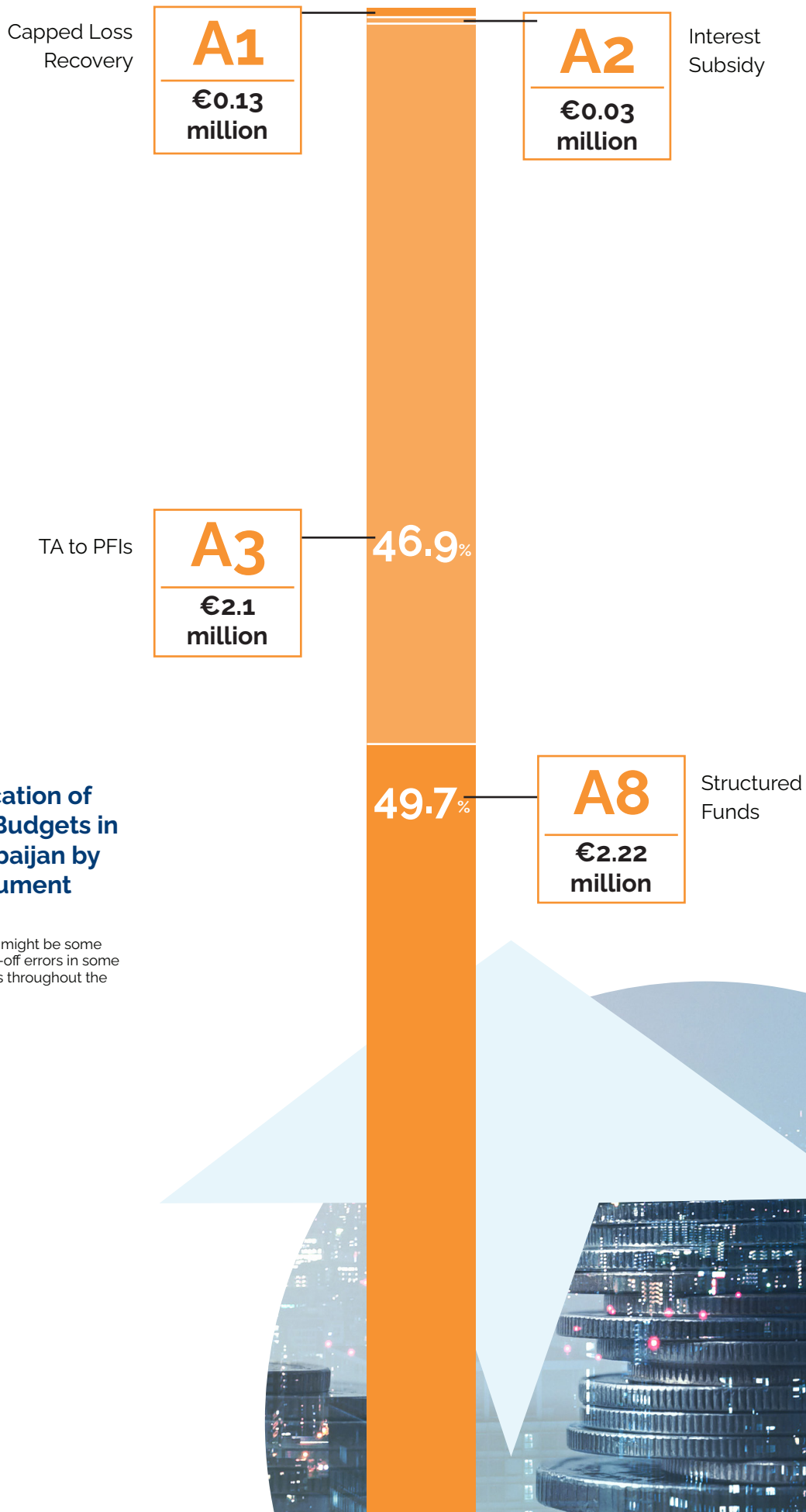
familiar with the modus operandi of the big IFIs, with the characteristic of their credit lines, their reporting requirements as well as to the standards regarding financial and risk analysis of the potential borrowers.

A8

Structured Funds

The direct finance instrument is implemented directly by EU participation as opposed to the risk sharing with IFIs. Typically, this involves direct loans or equity investment in a financial instrument or fund. As the EU does not have the

capacity to disburse direct loans to SMEs, this function is assigned to an intermediary. The most important EU investment in Direct Finance is shares in the European Fund for South – Eastern Europe (EFSE).



Allocation of A2F Budgets in Azerbaijan by Instrument

* There might be some round-off errors in some figures throughout the report



BUSINESS DEVELOPMENT SERVICES (BDS)

BDS is the largest area of EU intervention to support SMEs in Azerbaijan .

A total of

€15

million

in EU support was allocated to improving business development services in Azerbaijan in 2019*



6

specific support instruments:

B1

Consultancy services for SMEs

B2

Capacity building among BSOs

B3

Incubators

B4

Clusters

B5

Trade information

B6

B2B activities

² This is the total value of contracts being implemented, not disbursements in 2019.

THE SIX SUPPORT INSTRUMENTS THAT EU4BUSINESS INITIATIVE USES FOR IMPROVING BUSINESS DEVELOPMENT SERVICES AND KNOWLEDGE TO SMES ARE DEFINED BELOW:

B1

Consultancy services for SMEs

Through this instrument, the EU4Business Initiative aims to directly increase the knowledge and skills of SMEs in EaP countries through the direct provision (fully or part paid) of non-financial business services (these can range from basic startup and registration, accounting, marketing, input supply, technology

and product development, training and technical assistance, infrastructure support and advocacy). These services can be delivered through both international and/or local consultants, in both private firms/ individuals and/or business support organisations.

B2

Capacity building of BSOs

This instrument aims at increasing the capacity of Business Support Organisations (such as Chambers of Commerce, SME associations, professional bodies, the Sector Trade Association, training institutes, etc) to deliver BDS

services to SMEs (whether members or not). The capacity building is achieved through mentoring, training trainers, advisory services and study tours to either enhance existing services, build new ones or improve organisational structures.

B3

Incubators

The business incubator is an organisation designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections.

EU4Business incubators instrument generally shares the cost with the local

authorities with the EU bearing the cost of refurbishment, cost sharing arrangement for the running costs and/or service provision. One of the most important aspects related to this instrument is the sustainability. As the operation costs are high, the initial financial set up is crucial for keeping the incubators viable after the EU4Business intervention ends.

B4

Clusters

This instrument involves group support to SMEs involved in the same field of activity but on different positions in the value chain or with common interests. The basis of the clusters approach is the

synergy of creating a more effective value chain within the cluster. The success of the SME cluster is tightly related to the level of value added in the respective field of activity.

B5

Trade information

Trade information instrument provides SMEs already exporting, exporting infrequently or those interested in exporting with the range of information needed to move closer to exporting. This instrument can include generating

information necessary (brochures, guides, market reports) or developing tools for accessing online resources and intelligent searches and covers market information, marketing guides and market access requirements.

B6

B2B activities

Business to Business (B2B) activities support SMEs to make specific contact with nominally interested buyers (that is company decision makers in target export markets that regularly buy the export on offer). These can include participation in online buyer auctions,

trade fair participation, inward and outward trade missions, buyer meetings etc and EU4Business support can range from organisation, logistics, preparation and advice as well as covering the costs of travel and/or stand and event costs.

**BDS
Portfolio by
Instrument**

There might be some round-off errors in some figures throughout the report



Regional BDS projects
by Instrument in
Azerbaijan

€1.97
million

13%

Consultancy
services for
SMEs



61.1%

Capacity
building of
BSOs



15.3%

Incubators



23.6%

Bilateral BDS projects
by Instrument in
Azerbaijan

€13.03
million

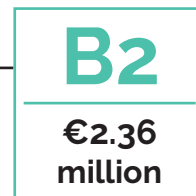
87%

58.3%



Consultancy
services for
SMEs

18.1%



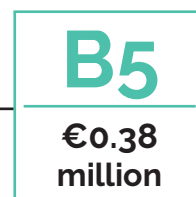
Capacity
building of
BSOs

1.9%



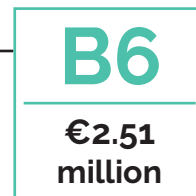
Clusters

1.9%



Trade
information

19.2%



B2B
activities

BUSINESS ENABLING ENVIRONMENT (BEE)

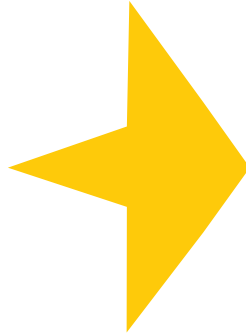
BEE is the second largest area of EU intervention to support SMEs in Azerbaijan.

A total of

€7.36

million

in EU support was allocated to improving the business enabling environment in Azerbaijan in 2019²



4 specific support instruments:



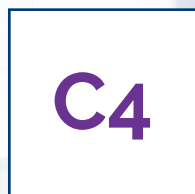
Capacity building among policy makers and regulators



PPD (Private Public Dialogue)



Regulatory Reform



Information and Communication for SMEs

39.5%

C1

€2.91 million

Capacity building of policy makers and regulators

45.3%

C2

€3.33 million

PPD (Public Private Dialogue)

C3

€1.07 million

Regulatory Reform

Information and Communication to SMEs

14.5%

C4

€0.06 million

² This is the total value of contracts being implemented, not disbursements in 2019.

THE FOUR SUPPORT INSTRUMENTS THAT EU4BUSINESS INITIATIVE USES FOR CONTRIBUTING TO A BUSINESS ENABLING ENVIRONMENT ARE DEFINED BELOW:

C1

Capacity building of policy makers and regulators

Through this instrument, EU4Business interventions aim at strengthening the capacity of staff of various government agencies to ensure better, more transparent and open policies and regulations that affect business, whilst ensuring appropriate controls in the six EaP countries. This can include making and

amending policies, laws and administrative procedures based on need and risk assessment. Through this instrument, the EU4Business interventions deliver direct advisory, mentoring services and study tours to the relevant staff involved in policy making.

C2

PPD (Public Private Dialogue)

This is an instrument for more inclusive and targeted policy making. Specifically, it involves effective consultation and collaboration between government and the private

sector and/or its representatives, in order to achieve effective reform and administration of regulations that affect SMEs.

C3

Regulatory Reform

Through this instrument, EU4Business interventions support the EaP countries to improve the regulatory environment based on best practices and most often approximation (to align their SME-related legislations, rules and regulations with those of the EU).

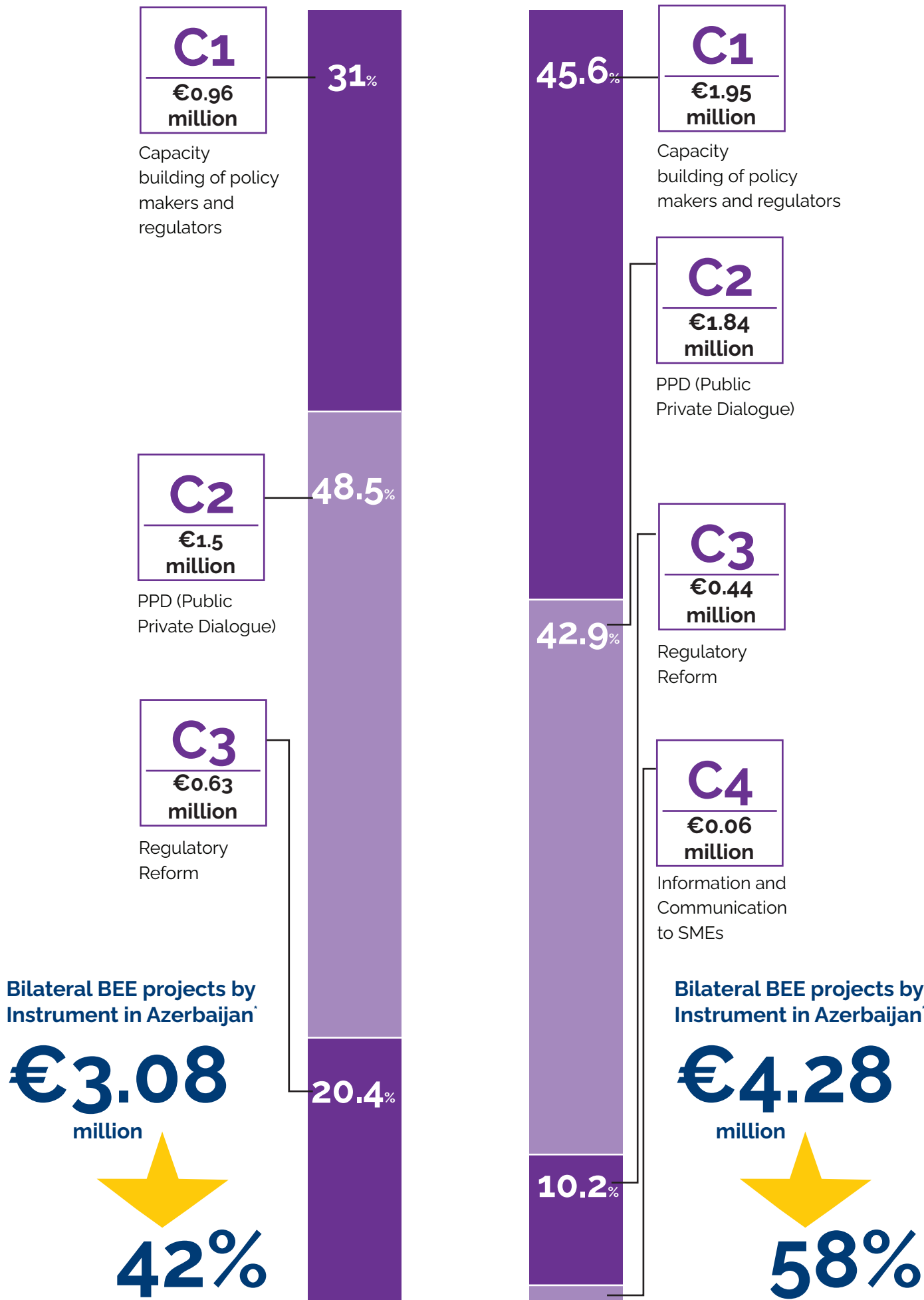
Approximation occurs in all six EaP countries, but it is more intensely applied in the three DCFTA countries, which have committed to widespread adoption of EU business acquis under the Association Agreement (AA).

C4

Information and Communication to SMEs

Through this instrument, EU4Business interventions support government to inform SMEs on reforms and implications

for their business and steps to comply with regulatory reform.



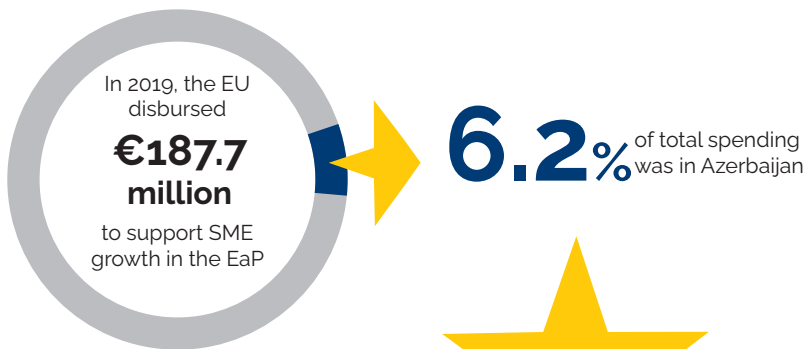
* There might be some round-off errors in some figures throughout the report



[ACHIEVEMENTS] LIN 2019

[AGGREGATED RESULTS] [IN AZERBAIJAN IN 2019]

EU support to SMEs in Azerbaijan was reported here under the EU4Business banner. It was a cumulation of all EU support but, unlike in previous years, we were reporting by instrument rather than by project, based on the 3 types of intervention (A2F, BDS and BEE). This makes it possible to isolate and present results by country, intervention and/or instrument in a more meaningful way to enable readers to analyse and assess EU support more readily.

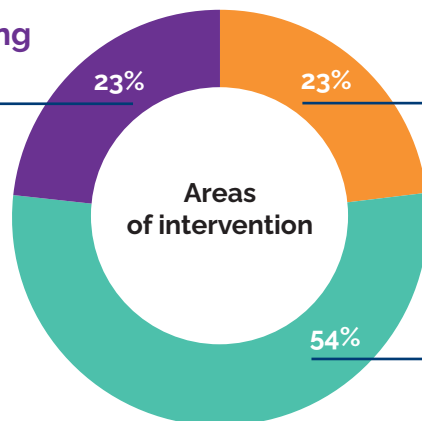


reflecting the number and budgets of active regional and bilateral projects and programmes.



Business enabling environment

€2.71 million



Access to finance

€2.69 million



Business development services

€6.25 million

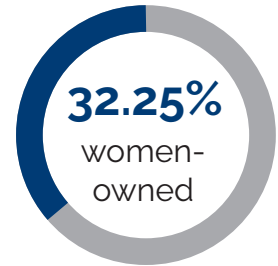


NUMBER OF SMES SUPPORTED



Overall, the EU supported a massive of

9,198
SMEs in Azerbaijan in 2019



€725
million

total turnover
of EU-supported
SMEs in Azerbaijan



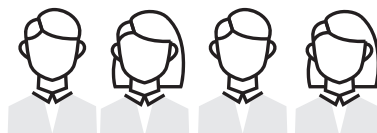
36,267
employed in EU-supported
SMEs in Azerbaijan



average
SME supported
by the EU in Azerbaijan

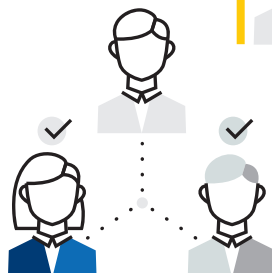
has

€78,822
annual income



employs

3.9
individuals



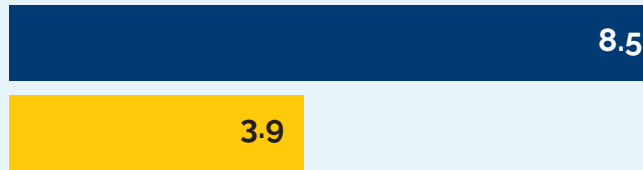
1.3 of whom
were women



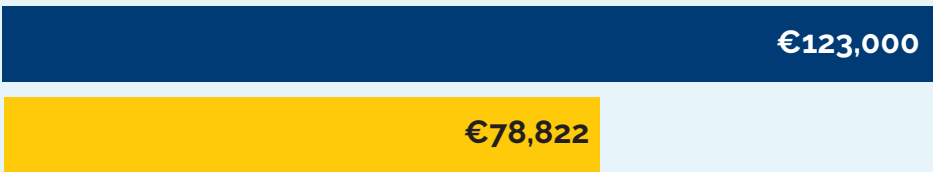
This was the fourth largest average income per SME supported in the EaP, where the average was **€123,000**.

SMES SUPPORTED

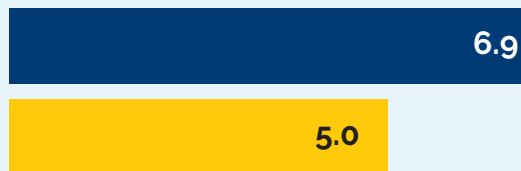
Average jobs per SME supported



Average income per SME supported



Number of employees per €100,000 of income



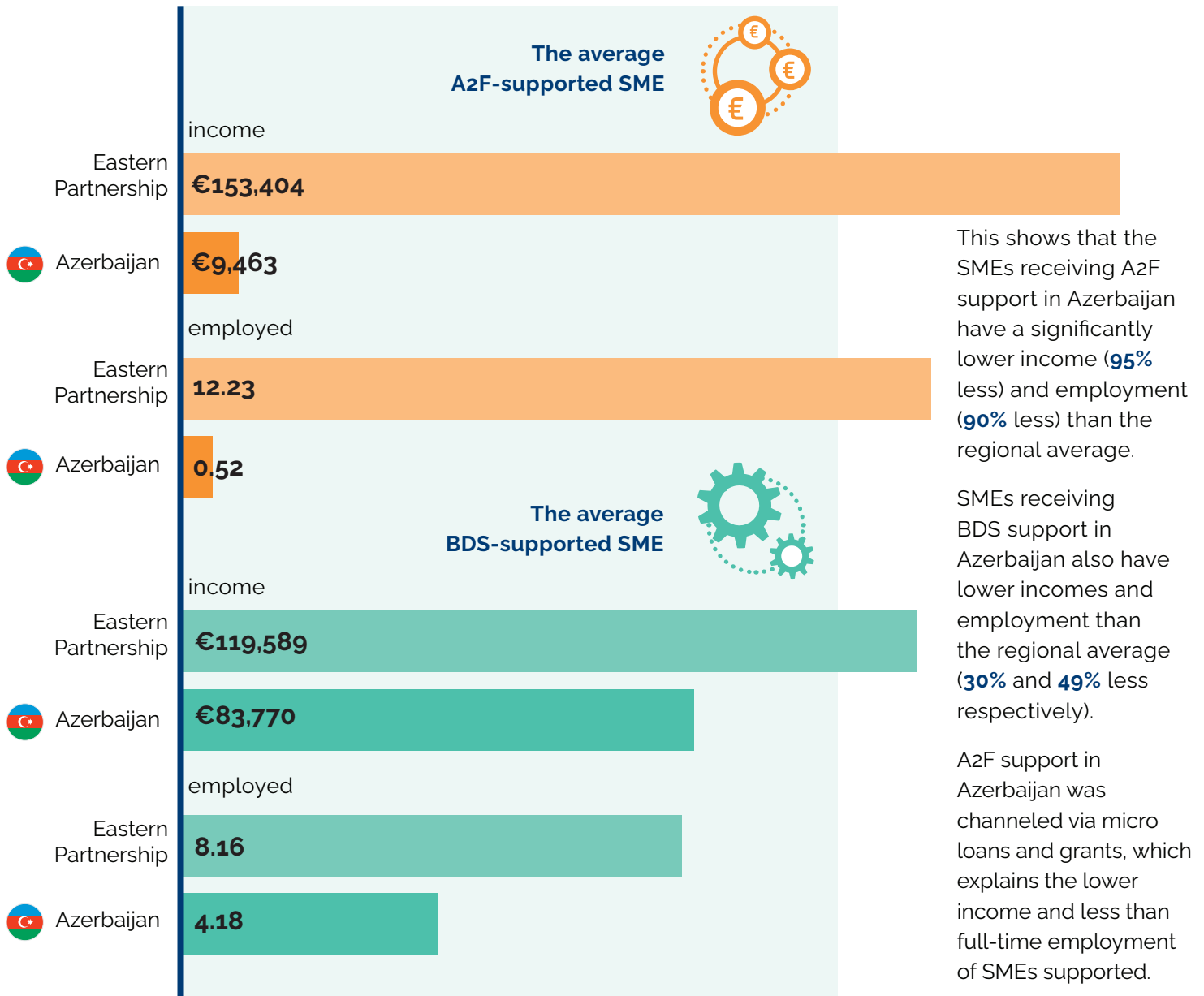
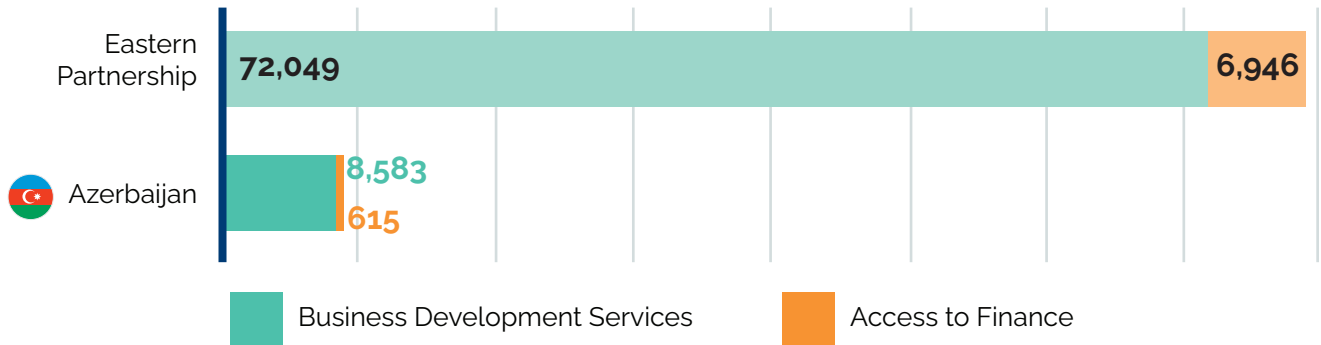
Average income per SME supported employee



The average number of jobs in SMEs supported in Azerbaijan was lower per SME and per **€100,000** in income. This means that EU-supported SMEs in Azerbaijan employ relatively fewer people than the average, but this also means that the average income per employee of SME supported in Azerbaijan was almost **40%** higher, indicating support to higher value-added business.

NUMBER OF SMES SUPPORTED PER PILLAR AZERBAIJAN VS EAP

The number of SMEs supported through access to finance accounted for **6.7%** of all SMEs supported in Azerbaijan, slightly lower than the average of **8.8%** across the EaP, with the remaining SMEs supported through business development services. Note that SMEs benefiting from improved business enabling environment activities were not included in the consolidated reporting of support, as potentially all SMEs in a country can benefit from reforms.



JOB CREATION PER PILLAR AZERBAIJAN VS EAP

In 2019, SMEs supported by the EU in Azerbaijan generated

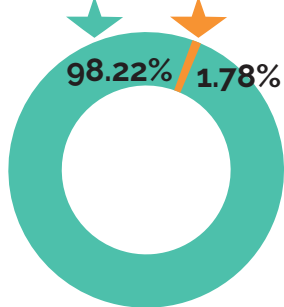
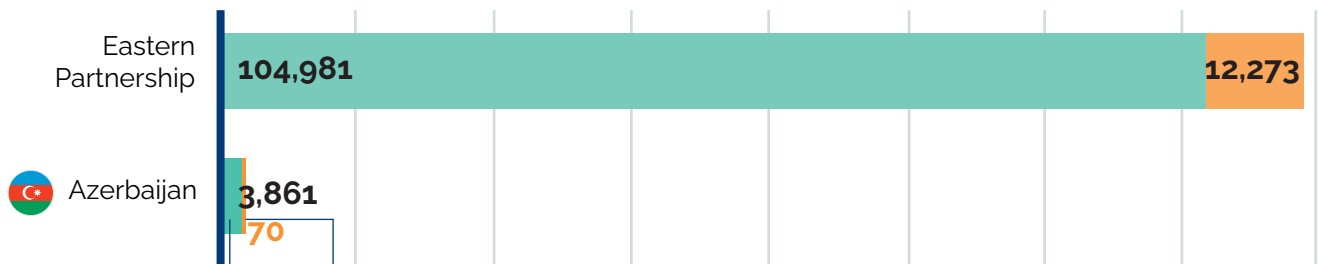
3,931
jobs



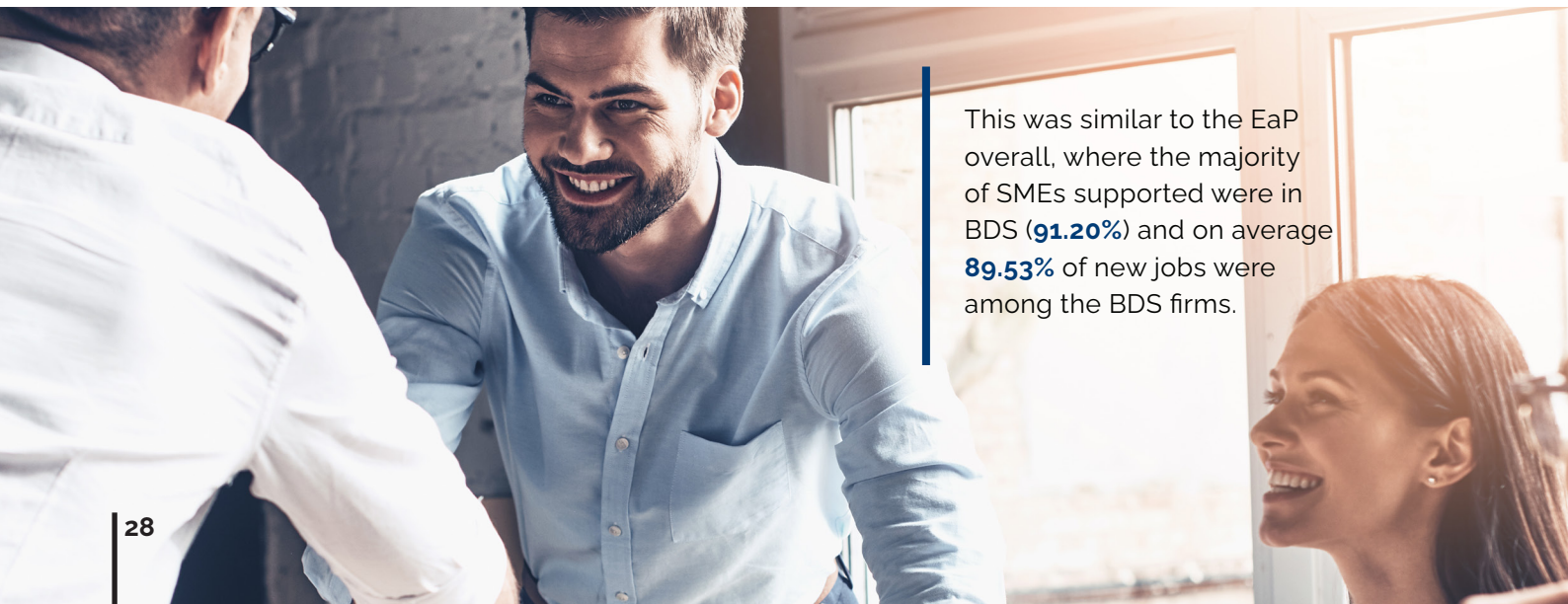
increased staff by
+12.2%
and ranked fifth
in the Eastern
Partnership region

compared to
the EAP average of
+21.1%

- Business Development Services
- Access to Finance

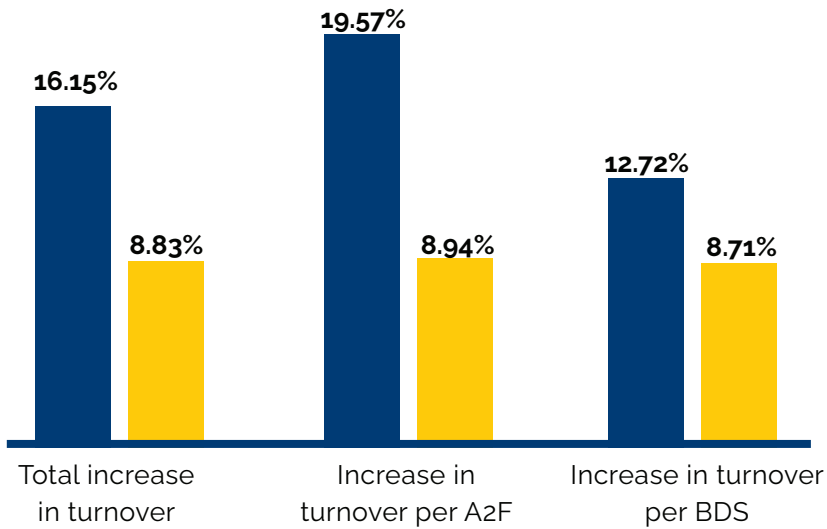


The vast majority of SMEs supported in Azerbaijan was via BDS, and most of the jobs were also generated through business development services, at **98.22%**, compared to support for access to finance, with **1.78%** of total jobs generated.

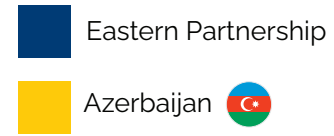


This was similar to the EaP overall, where the majority of SMEs supported were in BDS (**91.20%**) and on average **89.53%** of new jobs were among the BDS firms.

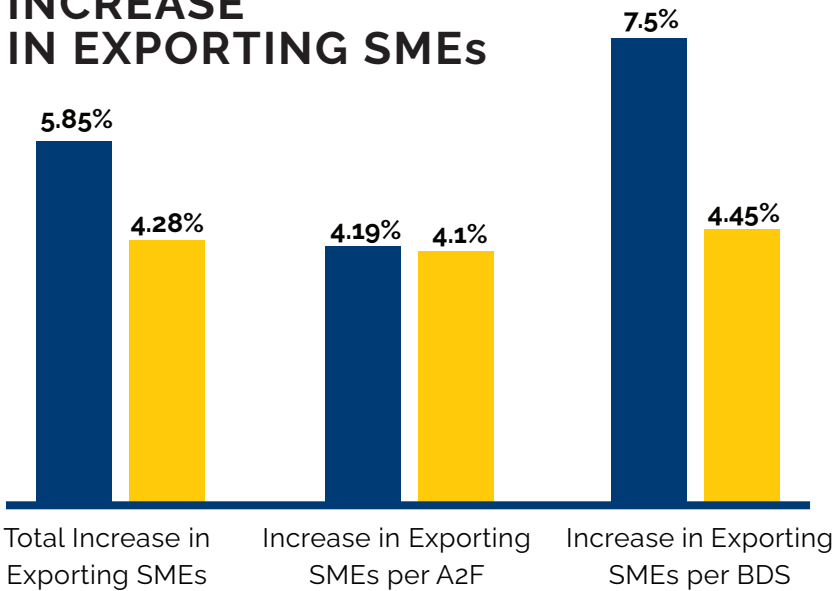
INCREASE IN TURNOVER



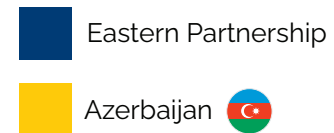
EU-supported SMEs in Azerbaijan increased turnover by **8.83%** in 2019, which was half the **16.15%** regional average.



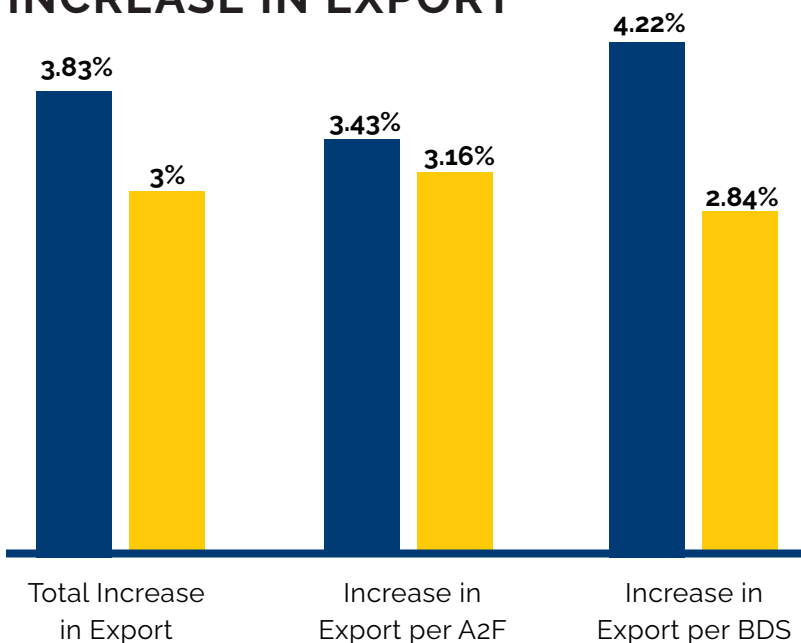
INCREASE IN EXPORTING SMEs



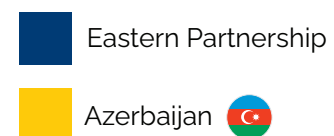
Growth in the number of supported SMEs in Azerbaijan exporting was close to the EaP average.



INCREASE IN EXPORT



Among those supported SMEs exporting, there was a **3%** increase in exports, close to the **3.8%** average for the region.



ACCESS TO FINANCE

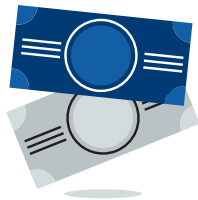
FOR AZERBAIJANI SMES

OVERALL RESULTS OF A2F
INTERVENTIONS IN 2019 WERE:



615

SMEs supported with
A2F interventions



€2.5
million

in loans disbursed



70

new jobs
generated at SMEs
supported through A2F

8.94%

increase in income
of supported SMEs

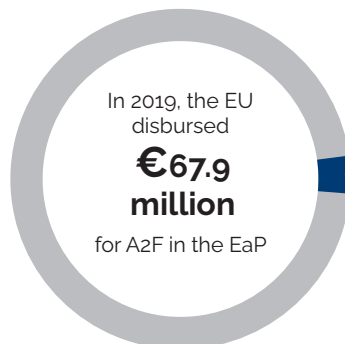
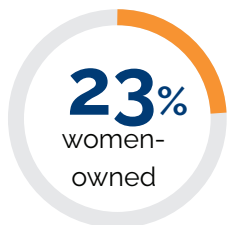
MAINTAINERS

NUMBER OF SMES SUPPORTED PER ACCESS TO FINANCE INSTRUMENTS IN AZERBAIJAN



615

SMEs supported with A2F interventions in Azerbaijan through access to finance instruments in 2019.



4% of total spending for A2F was in Azerbaijan



€2.7 million

The EU used only one instrument:

lending through structured funds.

€2.5 million

was disbursed through structured funds, leading to the same amount in sub-lending via local partner financial institutions (PFIs).

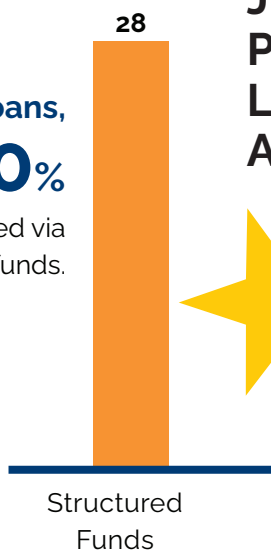
The structured fund targeted micro loans, with an average loan of

€4,065

RESULTS PER A2F INSTRUMENT

	Number of SMEs supported	Income of SMEs	Jobs in SMEs	Jobs generated	Increase in turnover
Structured funds	615	€5,820,000	320	70	€520,308 ↑ 8.94%

In terms of loans,
100%
were disbursed via
structured funds.



JOBS CREATED PER €1 MILLION LOAN IN AZERBAIJAN

28
jobs

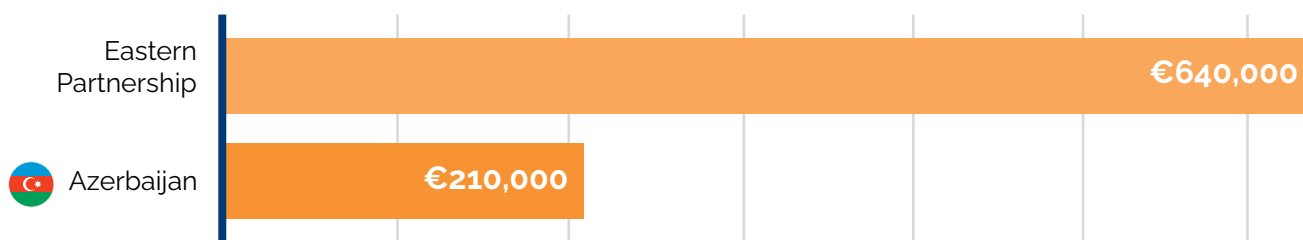
25
jobs

For each **€1 million** in loans provided through structured funds in Azerbaijan, **28 jobs** were generated, which was similar to the regional average of **25**.



INCREASE IN TURNOVER PER €1 MILLION LOANS

Similarly, for each **€1 million** of lending through structured funds in Azerbaijan in 2019, supported SMEs increased turnover by **€210,000**. This was lower than the regional average of **€640,000**.



BUSINESS DEVELOPMENT SERVICES (BDS)

FOR AZERBAIJANI SMES

OVERALL RESULTS OF BDS INTERVENTIONS IN 2019



8,583

SMEs supported through BDS interventions



3,861

new jobs generated at SMEs supported through BDS



8.71%

increase in income at supported SMEs



Azerbaijan ranks fifth in the Eastern Partnership region in terms of funds disbursed for improving business support services in the 2019.

35

BSOs capacitated

In 2019, the EU disbursed for BDS

€85.9 million

to support SME growth in the EaP



7.3%

of total spending for BDS was in Azerbaijan



€6.2

million



AZERBAIJANI GOURMET FOOD BRAND GROWS FROM THE GROUND UP

SUCCESS STORIES

Zira Natural & Gourmet, a business in the premium foods segment, participated in a number of foreign exhibitions, revamped its website, and received EU4Business and ITC support for developing its business plan.

[Read full story](#)



"We are actively benefiting from EU4Business and ITC support. They organized for us to participate in a number of foreign exhibitions. They hired programmers to help us design a new website, while marketing specialists and financial analysts helped us put together business plans."

Afet Akhmadova
founder of Zira Natural &
Gourmet

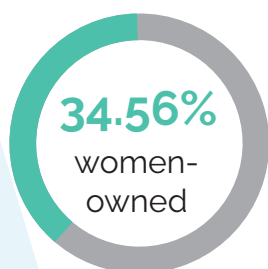


NUMBER OF SMES SUPPORTED PER BUSINESS DEVELOPMENT SERVICES INSTRUMENTS IN AZERBAIJAN

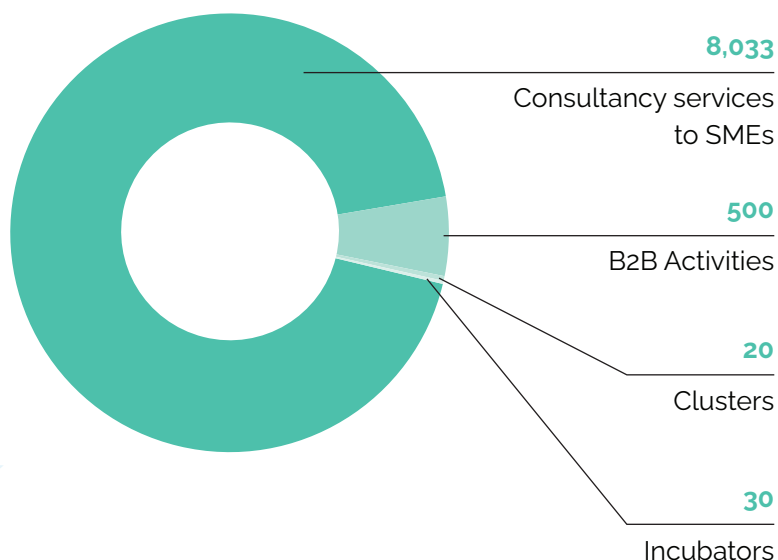


8,583

SMEs benefited



A total of **8,583** SMEs, **34.56%** of them owned by women, benefitted from business development services support by the EU, over **93.6%** through consultancy services provided directly to SMEs, with **5.83%** to B2B activities, **0.35%** to incubators and **0.23%** to clusters.

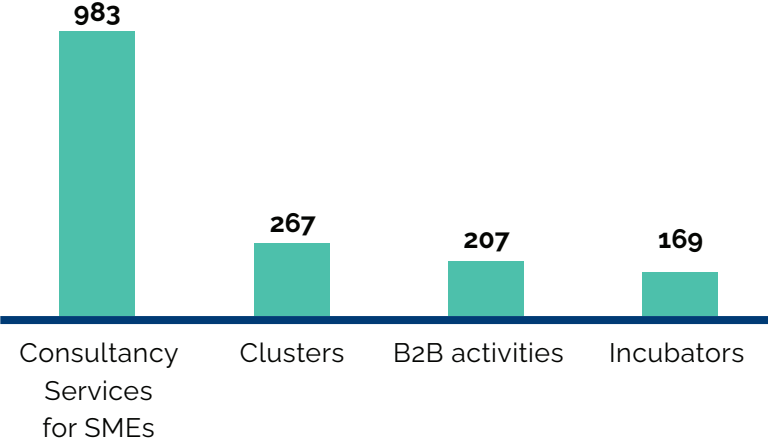


RESULTS BY BDS INSTRUMENTS

	Sustained jobs	New jobs	Turnover	Turnover increase
Consultancy services to SMEs	35,257	3,626	€710,404,684	€42,340,119 ↑ 5.96%
Incubators	40	20	€5,145,907	€714,766 ↑ 13.89%
Clusters	50	15	€150,000	€9,705 ↑ 6.47%
B2B Activities	600	200	€3,300,000	€281,160 ↑ 8.52%

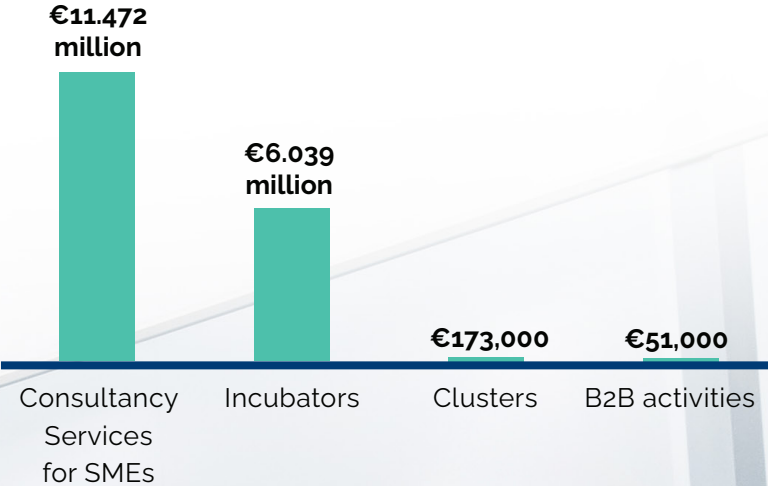
JOBS CREATED PER €1 MILLION EU SPEND ON BUSINESS DEVELOPMENT SERVICES IN AZERBAIJAN

In terms of job creation, SMEs that received EU support in consultancy generated more jobs, and for every **€1 million** of support to consulting services, supported SMEs generated **983** new jobs, compared to only **169** among SMEs that were incubated.



INCREASE IN TURNOVER PER €1 MILLION EU SPEND ON BUSINESS DEVELOPMENT SERVICES IN AZERBAIJAN

By contrast, SMEs receiving consulting services increased income by far higher levels than SMEs supported through other instruments. For each **€1 million** of support in consulting services, supported SMEs grew by **€11 million** compared with only **€51,000** from B2B activities.



WEAVING A FUTURE: THE AGALAROV FAMILY RIDES CARPETS TO SUCCESS

SUCCESS STORIES

The Agalarov family managed to start a carpet-weaving business after attending workshops for aspiring entrepreneurs supported by EU4Business and UNDP. The Agalarovs will soon become full members of ABAD and be able to place and sell their products in ABAD's large distribution network.

[Read full story](#)



THE MIRALAMOVS TURN A CHEESY IDEA INTO A BUSINESS

The Miralamov family completed the training supported by EU4Business and UNDP and had their business plan approved by the instructors. Afterwards, the Miralamovs delivered their first order of 100 kg of cheese to ABAD's large distribution network, which supplies supermarkets and duty-free shops throughout Azerbaijan. They are now starting to sell online.



BUSINESS ENABLING ENVIRONMENT

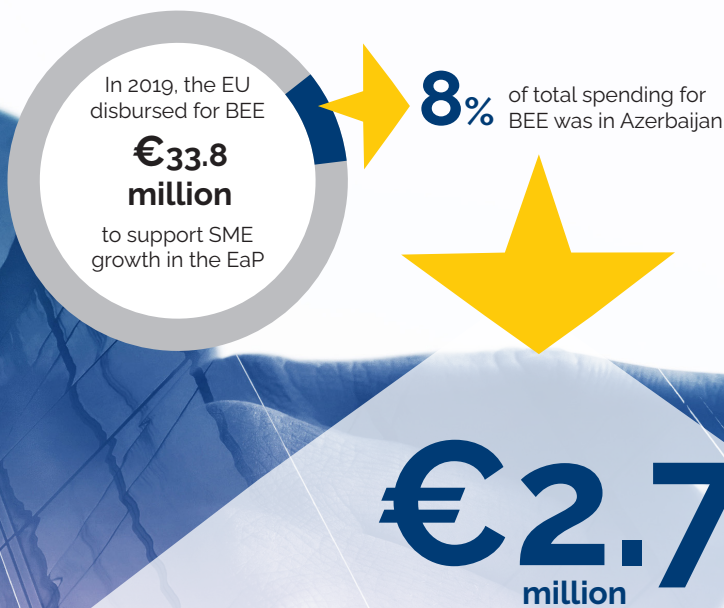
FOR AZERBAIJANI SMES

OVERALL RESULTS IN BUSINESS ENABLING ENVIRONMENT INTERVENTIONS IN AZERBAIJAN IN 2019



Within EU4Business reporting, support for improving the business enabling environment was treated differently. Whilst improvements in the business enabling environment will inevitably improve competitiveness, lower costs and make SMEs more efficient, it was more difficult to isolate those that directly benefitted, as potentially, all will benefit, since, for example, reforms that make it easier and less costly to pay taxes will benefit all SMEs.

EU SUPPORT AIMED AT IMPROVING THE BUSINESS ENABLING ENVIRONMENT IN AZERBAIJAN



THE SUPPORT INSTRUMENTS USED TO IMPROVE THE BUSINESS ENABLING ENVIRONMENT ACTIVE IN AZERBAIJAN IN 2019 INCLUDED:



Changing / improving laws and regulations



Public-private dialogue events



Capacity building among government agencies / regulators

The best-performing instruments used in Azerbaijan for improving the business enabling environment in 2019 were organized Public-Private dialogue events.

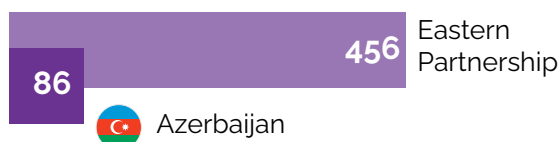
NUMBER OF LAWS / REGULATIONS CHANGED



NUMBER OF PUBLIC PRIVATE DIALOGUE EVENTS



NUMBER OF REGULATORS/GOVERNMENTS BENEFITING FROM CAPACITY BUILDING



Azerbaijan ranks second in the Eastern Partnership region, with **332** PPD events held and **86** regulators/ governments capacitated.

SMES IN AZERBAIJAN BENEFIT FROM IMPROVED BUSINESS ENVIRONMENT

NUMEROUS CHALLENGES REMAIN

The OECD has been working with Eastern Partner (EaP) countries for more than ten years in an effort to guide SME policy reforms. Within the framework of the EU4Business Initiative, the OECD together with the EBRD, the European Training Foundation, and the European Commission published a third edition of the SME Policy Index in March 2020, monitoring progress with regards implementation of the Small Business Act for Europe (SBA) and highlighting outstanding reform priorities.

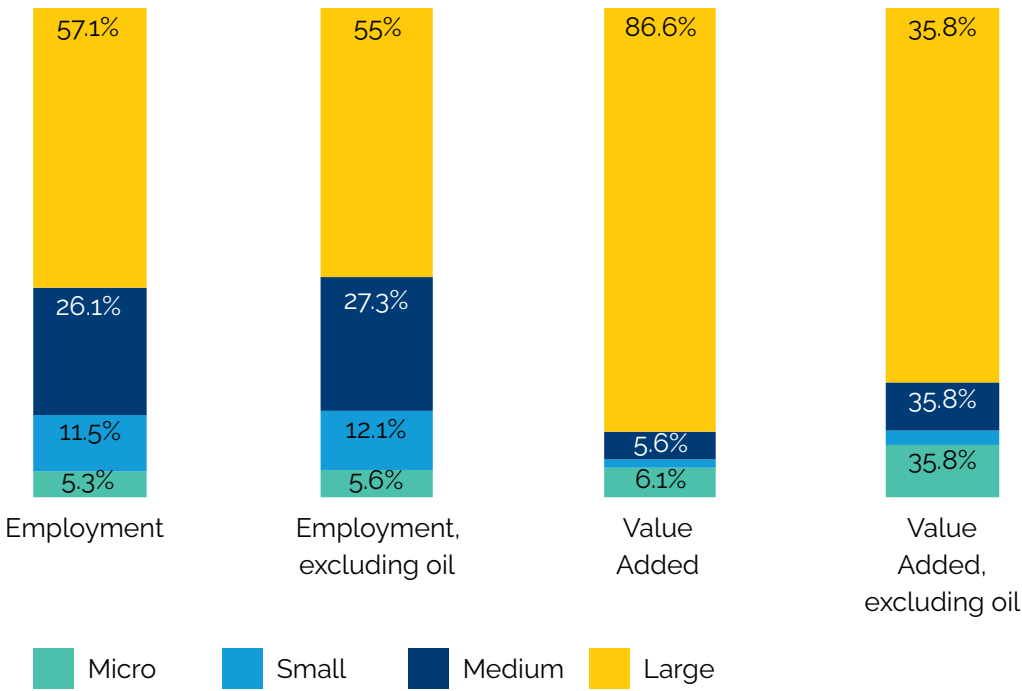
Following a global drop in commodity prices, Azerbaijan underwent a sharp recession in 2015-16. In response, the government adopted an ambitious plan to implement reforms in 12 strategic sectors, including the SME sector, with an aim to diversify the economy and improve the business environment. To this end, several new programmes and SME support initiatives have been launched

since 2016. Going forward, Azerbaijan could take further steps to ensure a level playing field for all firms by promoting a more competitive environment, strengthening the rule of law, and improving business integrity. Future priorities might include ensuring effective coordination of newly-created entities and initiatives, building capacities in key institutions, and easing SME access to finance.

SMES IN AZERBAIJAN'S ECONOMY

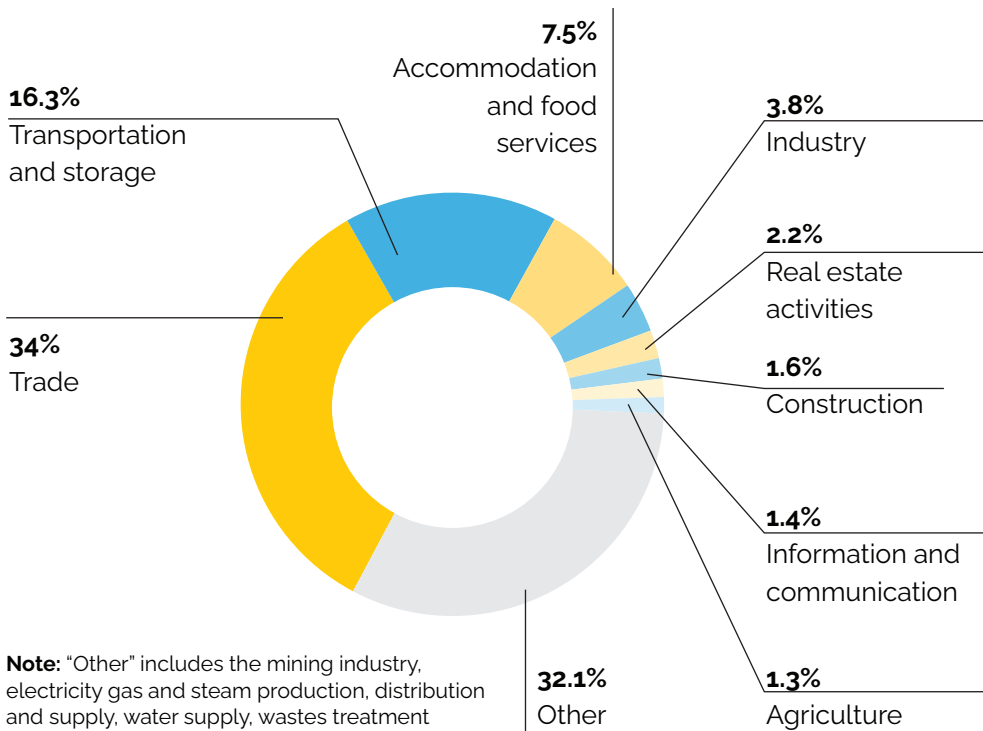
The potential of SMEs in Azerbaijan remains largely untapped. In 2018, SMEs generated only **13.4%** of value added and **42.9%** of total employment, compared to **60%** and **60-70%**, respectively, in OECD countries. Figures are slightly higher regarding the non-oil economy, with SMEs generating **23.5%** of value added and **45%** of employment. Most SMEs are concentrated in relatively low value-added activities, such as trade and repair of vehicles, transport and storage.

¹ OECD et al. (2020), SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the Small Business Act for Europe, <https://www.oecd.org/development/sme-policy-index-eastern-partner-countries-2020-8b45614b-en.htm>



Business demography by company size, 2018

Source:
Azerbaijan State Statistical Committee.



Sectoral distribution of SMEs in Azerbaijan, 2018

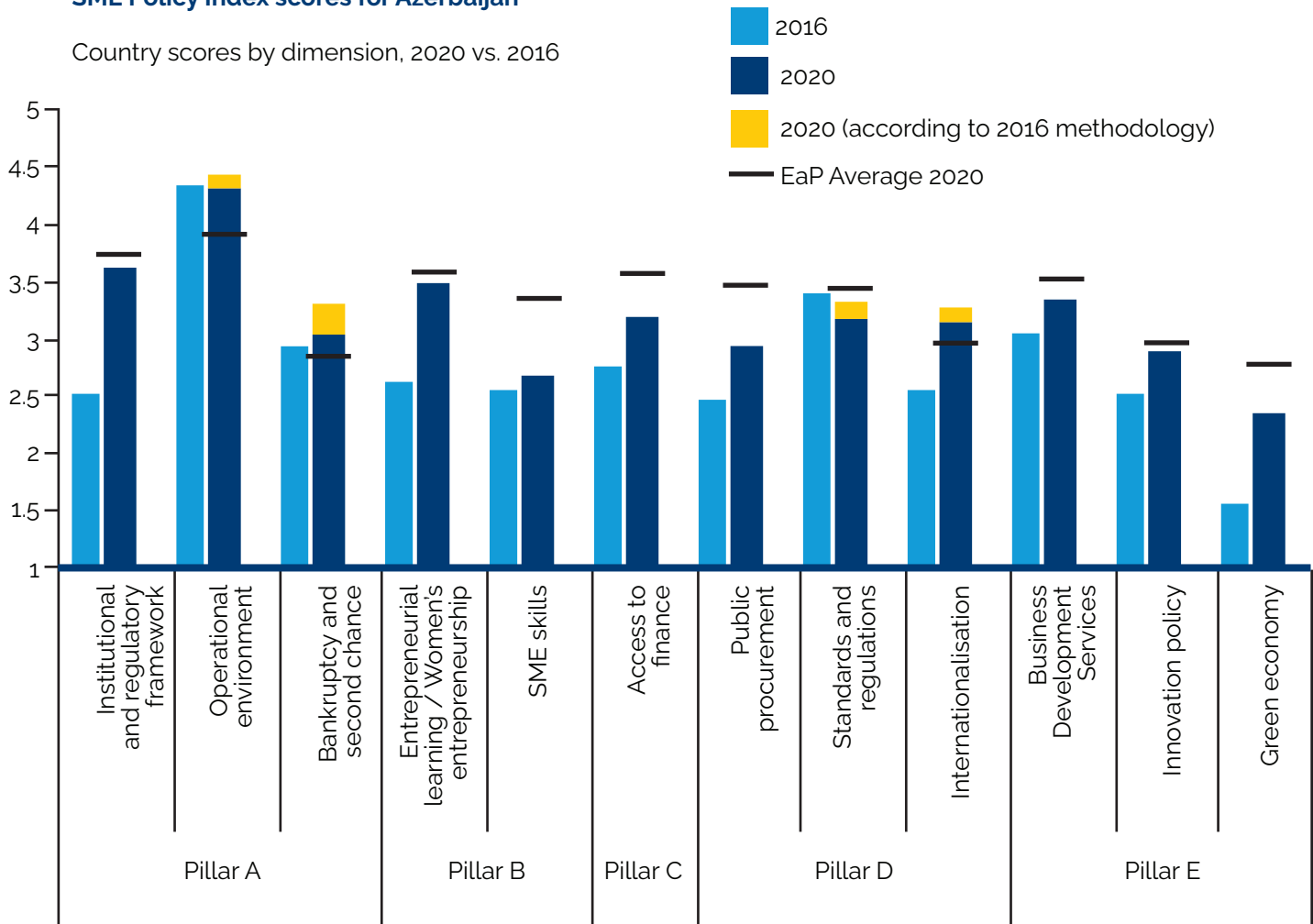
Source:
OECD calculation based on data from Azerbaijan State Statistical Committee

Note: "Other" includes the mining industry, electricity gas and steam production, distribution and supply, water supply, wastes treatment and disposal, financial and insurance activities, education, information and communication, public administration, human health and social work, arts and entertainment.

Azerbaijan has made significant efforts to create a more favourable environment for SMEs, which has resulted in an overall increase in scores by 16% on average. The institutional framework has considerably improved, and entrepreneurial learning and women entrepreneurship specifically have been fostered. More efforts are needed to develop SME skills and, despite a remarkable score increase, SME greening remains one of the weakest areas.

SME Policy Index scores for Azerbaijan

Country scores by dimension, 2020 vs. 2016



Since 2016, Azerbaijan has made major progress in putting in place the main building blocks of a proactive SME policy and in mobilising the necessary human resources to support it. Notably, the country adopted the 2016-2020 SME strategy, currently being implemented, and established a SME Development Agency in 2017. Moreover, SMEs now benefit from streamlined licencing processes and more than 450 e-government services, available through a single-entry portal created in 2018.

- Yet more could be done to support financially distressed entrepreneurs, by adopting a comprehensive second-chance strategy, for instance.

The government has also supported SME development through measures fostering entrepreneurial learning and women entrepreneurship, such as structured policy partnerships. Regardless, SME skills intelligence

remains weak, and no evidence of systematic training-needs analysis has been identified. To further enhance human capital development, the authorities could:

- Introduce entrepreneurship key competence at the system level across all education levels; and
- Focus on the availability and quality of data to ensure highly relevant and effective provision of SME training services for different target groups.

SME access to finance is being facilitated. As recommended in 2016, significant legal and regulatory reforms have been implemented, which will improve public confidence in the banking sector. A credit guarantee fund was established along with as a private credit bureau that covers around 44.6% of the adult population (against 28.7% covered by the public credit registry in 2014). Nevertheless, financial inclusion for SMEs remains limited, as financial programmes are fragmented and untargeted. Moving forward, the government could:

- Enhance financial inclusion by supporting the development of non-bank financial services (e.g. adopt a new law on leasing); and
- Improve data availability within the financial sector.

Furthermore, the report notes positive steps towards SME internationalisation, such as the establishment of an Export Promotion Centre and the expansion of information support and e-services for exporting SMEs. However, little progress has been achieved regarding public procurement and standards and technical regulation. Building on its well-established institutions, Azerbaijan could further improve SME access to domestic and international markets by:

- Finalising its e-procurement system; and
- Implementing targeted SME training in standardisation along with its benefits.

Finally, a range of business development services is being developed: training and consulting services, regional one-stop-shops, e-trade portal, and others. But more coordination is needed among the bodies involved. Innovation has been encouraged

through the creation of a dedicated National Agency and three business parks, but actions remain scattered and should be organised in a single national innovation strategy. As for SME greening, Azerbaijan could look to implement SME-targeted programmes to support the uptake of renewable energy use and introduce financial and regulatory incentives.

Overall, the government has been working on developing level playing field conditions for all firms. However, while legal frameworks for competition have been strengthened, application of competition law provisions remains limited. In addition, while contract enforcement through the establishment of specialised courts for entrepreneurship disputes has been strengthened, much remains to be done. Policy makers could:

- Grant independence to the competition authority;
- Enable effective enforcement of competition rules, in particular against hard-core cartels; and
- Ensure efficient functioning of the e-court system.

LIST OF PROJECTS

IN AZERBAIJAN AS OF 2019

Title	Total Budget	Start date	End date	Type of the Project	Areas of Intervention		
					A2F	BDS	BEE
Support to Transformation and Achievement of Excellence in Pomegranate Value Chain (STEP)	€502,210	2019	2023	Bilateral		●	
"From Kitchen to Business" Food Promotion and Women Empowerment Action	€446,789	2019	2022	Bilateral		●	
Azerbaijan Hazelnut and Pomegranate Initiative (AHPI)	€551,223	2017	2022	Bilateral		●	
Strengthening of agricultural advisory services	€1,600,000	2019	2021	Bilateral		●	
Assistance to farmers to develop the sustainable value chains on soft fruit and vegetable production in the rural regions of Azerbaijan	€423,000	2019	2021	Bilateral		●	
Promoting local food production and agri-business owners through advisory services, the creation of new value chain models and agri-tourism development	€569,719	2019	2021	Bilateral		●	
Development of sustainable and inclusive local agri-food systems in north-west region of Azerbaijan	€1,200,000	2019	2021	Bilateral		●	
Improved Support for Entrepreneurial Development in Rural Areas	€1,734,000	2019	2021	Bilateral		●	
Improved Promotion and Marketing of Traditional Food Products	€1,900,000	2019	2021	Bilateral		●	
COVCHEG: Community-based Value Chain Enhancement in the Greater Caucasus Mountains area in Azerbaijan	€813,106	2018	2021	Bilateral		●	

Title	Total Budget*	Start date	End date	Type of the Project	Areas of Intervention		
					A2F	BDS	BEE
Promoting Community-based Agritourism as a Rural Regeneration Strategy	€384,437	2017	2021	Bilateral		●	
Entrepreneurship for Youth	€324,000	2018	2021	Bilateral		●	●
Accelerating development of sustainable micro-entrepreneurship in rural regions of Azerbaijan (ADSMIRRA)	€418,324	2018	2021	Bilateral		●	
Socio-Economic Empowerment and Development of Small-scale vulnerable rural families in Dashkasan, Goranboy and Samukh rayons of non-Absheron regions of Azerbaijan (SEEDS project)	€927,118	2018	2020	Bilateral		●	●
Support to the development of small family businesses in the Sheki-Zagatala Economic Zone through ABAD regional centre in Balakan	€820,000	2017	2020	Bilateral		●	
The agricultural initiatives for market-driven income generation in the Telishli ecomigrant community	€240,527	2017	2020	Bilateral		●	
Supporting regulatory framework for improving the business environment	€289,600	2019	2020	Bilateral			●
Supporting the Government of Azerbaijan in implementation of the Annual Action Programme 2017 "European Union for the Lankaran Region of Azerbaijan"	€249,356	2019	2020	Bilateral			●
Support to EU-AZ Business Forum	€179,970	2018	2020	Bilateral		●	●
Technical assistance project for the implementation of the support to rural and regional development (SRRD) Programme in the republic of Azerbaijan	€3,177,400	2017	2020	Bilateral			●

* Budgets indicated for regional projects apply for 6 EaP countries

Title	Total Budget*	Start date	End date	Type of the Project	Areas of Intervention		
					A2F	BDS	BEE
Development of competitiveness in key non-oil manufacturing sectors of the economy of the Republic of Azerbaijan	€559,530	2017	2019	Bilateral		●	●
EU4Business – The EU Local Currency Partnership Initiative: the European Fund for Southeast Europe (EFSE)	€50,320,000	2018	2039	Regional	●		
Structural Reform Facility: World Bank component	€1,500,000	2018	2023	Regional			●
Women in Business	€5,035,000	2015	2022	Regional	●	●	
EU-EBRD Country-specific Investment Climate Reviews and Action Plans for Eastern partnership (EaP) countries.	€2,000,000	2018	2021	Regional			●
Mayors for Economic Growth	€4,979,800	2017	2020	Regional		●	●
Mayors for Economic Growth 2 TA	€10,000,000	2017	2020	Regional		●	●
WBG technical support to the implementation of the Mayors for Economic Growth initiative	€500,000	2016	2020	Regional		●	●
Eastern Partnership: Ready to Trade – an EU4Business initiative	€6,000,000	2017	2020	Regional			●
EU4Business: From Policies to Action	€4,000,000	2017	2020	Regional			●
Framework for Capacity Building to support Financial Intermediaries in Azerbaijan and Georgia	€2,880,000	2009	2019	Regional	●		
SBS Program – EGP BAS Phase II	€8,000,000	2015	2019	Regional		●	
EFSE (Neighbourhood Window of the European Fund for South East Europe)	€5,100,000	2009	2019	Regional	●		
STAREP (Strengthening Auditing and Reporting in the Countries of the EaP)	€1,000,000	2014	2019	Regional			●

* Budgets indicated for regional projects apply for 6 EaP countries



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