



Social Economy in Eastern Neighbourhood and in the Western Balkans

Country report – Azerbaijan

-
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Social Economy in Eastern Neighbourhood and in the Western Balkans

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Authors

Andreja Rosandic (Project Team Leader)
Mahammad Guluzade (Country Expert)

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LIST OF ABBREVIATIONS

NGO	Non-governmental organization
CSO	Civil society organization
SME	Small and medium enterprise
SE	Social enterprise
LLC	Limited liability company
IDP	Internally displaced persons
ASAN	Citizen Services and Social Innovations State Agency with the President of the Republic of Azerbaijan
NGO Council	The Council on State Support to NGOs under the President of Azerbaijan (NGO Council)
East Neighbourhood	
AR	Armenia
AZ	Azerbaijan
Blr	Belarus
GE	Georgia
MD	Moldova
UK	Ukraine
Western Balkans	
AL	Albania
BA	Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
XK	Kosovo*
MK**	The former Yugoslav Republic of Macedonia
ME	Montenegro
RS	Serbia
WB	Western Balkans

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

** Provisional code which does not prejudice in any way the definitive nomenclature for this country, which will be agreed following the conclusion of negotiations currently taking place under the auspices of the United Nations

1. EXECUTIVE SUMMARY

A social enterprise (SE) ¹ is rather a new concept for Azerbaijan. There are great opportunities for development of SE in Azerbaijan due to the overall favourable business environment and socially oriented public policy. Nevertheless, public institutions seem to pay more attention to business and social development taken separately and not together as is the spirit of SE.

Ever increasing government attention to the non-oil sector and SME development promise further improvement of the welfare of the population in the future. However, on a community and regional levels this seems to be less operational and therefore SE has more potential to perform in this niche.

Numerous state programmes build a strong coordination and cooperation platform among various stakeholders in social economy, including line ministries, private business, academia and non-governmental organizations. These programmes address the needs of various vulnerable groups as well, including disabled people, minorities, women, migrants, unemployed, IDPs, refugees and beyond.

With the existent experience of Azerbaijan in running business incubators and providing funding to SME and NGOs, it would be much easier to promote SE set-ups and ensure their development in Azerbaijan. This undoubtedly would require certain legislative improvements to boost the sector. In particular, legislative changes are required in order to introduce certain tax incentives and exemptions both for the donors and for the beneficiary. At the same time, simplification of procedures for registration of income of NGOs from foreign sources can also potentially contribute to the development of the SE in Azerbaijan.

SE in Azerbaijan or the entities with social elements in their activity are in need of both financial and non-financial support. Often non-financial support is limited to an administrative support by regional authorities or municipalities. Such support could be addressed for example, by inclusion of SE as a separate group into various state programmes and national action plans. This would be a message for relevant central and regional authorities to cooperate with SE.

SEs often utilize social media to build their relations with beneficiaries as well as to attract funders. A general will of the population to support people in the need to make the life of SEs easier at least on the financial side of the question. However, bureaucratic obstacles related to registration of income (particularly relevant to individuals and NGOs) play a chilling effect. This also necessitates diversification of income of SEs to reduce dependency on potentially subjective judgment by authorities and to ensure uninterrupted services for the beneficiaries.

As a successful country's model, one has to mention ABAD which generates certain income from the sale of the goods produced by its craftsman and farmers but reinvests most of it into further start-ups. As such, ABAD's assistance to craftsman and farmers is not limited to consulting, design, and branding, but also includes access to the real market, and in certain cases financing. This model has a high chance to generate other SEs in Azerbaijan.

¹ For the purposes of this research the definition adopted by the European Union has been used: "Social enterprises combine societal goals with entrepreneurial spirit. These organisations focus on achieving wider social, environmental or community objectives".

2. INTRODUCTION

Azerbaijan, with its 9.8 million² population, is the biggest of three South Caucasian countries. The country has undergone significant structural changes since its independence in 1991, including the gradual clustering of its population towards its urban centre. With political, structural economic and social changes as a result of its independence from the former Soviet Union, its GDP has increased since independence more than 28 times (from 2133,8 million AZN in 1995 to 60393.6 million AZN in 2016)³ due to rich oil and gas resources and successful economic policy. GDP per capita for 2016 is 3,914\$⁴. However, an average net salary remained rather low (around 500 AZN (250 euro) per month in 2016⁵. Azerbaijan has not yet been granted with EU candidate status, but it is a member of the Council of Europe since 2001.

The effects of the global financial crisis, the fall of oil prices and two devaluations of national currency were balanced with swift policy and economic reforms which guaranteed an economic recovery and growth since early 2018. The growing attention of the government to non-oil sector and SME development promise to reduce unemployment and increase the welfare of the population at large.

Azerbaijan has seen a stagnation of industry following the collapse of the USSR which had a vested interest in the ‘chain’ economy with other USSR countries. At the same time, modern markets targeted by Azerbaijan dictated the need to introduce new technologies and new working methods. If in the past the oil and gas industry were the driver of GDP, for 2016 their share in GDP was only 34.3%⁶. As part of a central government strategy, the diversification of the economy led to growth of other spheres, including agriculture, food processing, tourism, and construction.

A decrease in oil prices in 2014-2015 resulted in two serious devaluations of national currency and it provoked further economic reforms. The country rapidly introduced a set of reforms aiming at diversification of the economy and reducing dependence on oil and gas. As a result, in December 2016 the Government approved Strategic Roadmaps for development of the national economy in 11 sectors, including tourism, agriculture, energy, education, etc. At the same time the country invested a lot of finances and other resources to regional and international projects which eventually will contribute to economic growth (for instance, East-West and North-South transport corridors, Baku-Tbilisi-Kars railroad, TransAnatolian Natural Gas Pipeline, TransAdriatic Pipeline, etc).

Azerbaijan has an ethnically diverse population of ethnic Azerbaijanis, Talysh, Lezgi, Avars, Russians and others. An ongoing war with neighbouring Armenia resulted in more than 1 million IDPs and refugees, which affected the social welfare statistics and unemployment rate. In Azerbaijan, 4.9% of the population lived below the national poverty line in 2015⁷ a result of a successful social policy. To compare, the level of poverty in 2000 was 49 per cent⁸.

This study is dedicated to social enterprises and the social economy in the Republic of Azerbaijan. It is conducted in the framework of the “Social economy in Eastern Neighbourhood and in the Western Balkans: Preparing a methodology/toolbox for EU Delegations” project, funded by the European Commission – DG NEAR. The main objective of this assignment is to identify the conditions and the modality of support to efficiently develop social economy and social entrepreneurship in the Enlargement and Neighbourhood East countries.

² Republic of Azerbaijan State Statistical Agency, 2017, at <https://www.azstat.org/MESearch/pdf.jsp>

³ <https://www.azstat.org/MESearch/details>

⁴ <http://www.worldbank.org/en/country/azerbaijan/overview>

⁵ <https://www.azstat.org/MESearch/pdf.jsp>.

⁶ CESD, Azerbaijan Economy in 2016: Brief Overview, available at http://cesd.az/new/wp-content/uploads/2017/02/Azerbaijan_Economy_in_2016.pdf

⁷ See <https://www.adb.org/countries/azerbaijan/poverty>

⁸ Azerbaijan 2020 concept, p. 3, at http://www.president.az/files/future_en.pdf

More specifically, this report provides an analysis of the social economy and social entrepreneurship ecosystem in Azerbaijan. It assesses the state of play of the social economy, including the nature, size and key sectors of social economy, as well as giving an overview of the regulatory framework, institutional support, financing options and available support structures.

The methodology comprised a mix of desk research, qualitative interviews and documentary analysis. An assessment mission to Azerbaijan took place in the period of 28 January – 2 February 2018. Formal and informal interviews were conducted with the main stakeholders during the mission. The list of individuals interviewed is appended in Annex B. The mission was conducted by Ms. Nataša Gospodjinački and Mr. Mahammad Guluzade.

3. STATE OF PLAY OF THE SOCIAL ECONOMY IN AZERBAIJAN

3.1. Nature and size of the social economy sector

From the perspective of the wider social economy, the actors with a potential to grow into social enterprises are quite diverse and take several formal and informal forms:

- Non-governmental Organisations (NGOs) – mostly the legal forms of associations and foundations
- SME
- Public legal entities⁹
- Cooperatives
- Family farm associations
- Informal solidarity initiatives and young entrepreneurs.

So far the main drivers of social entrepreneurship in the country were the NGOs. The transition towards a market economy involving the closure of many state owned enterprises as well as armed conflict with Armenia has resulted in high unemployment, a decline in the government provision of services and increased social disparities. With direction and support from donor organisations, many NGOs were created in response to these challenges. At present there are some 4000 NGOs in Azerbaijan and a few hundred of them are specialized in the provision of social and health services to vulnerable groups. It is these NGOs that are at the forefront of the creation of the new social economy sector in order to maintain their missions.

NGOs have been encouraged to develop economic activities as international donors are gradually withdrawing their support due to legislative restrictions introduced in recent years in order to reduce their dependency on foreign funding and strengthen their financial sustainability. Despite there being no official data on total income of CSO from economic activities, the estimation is less than 10%.

Despite two laws on cooperatives being adopted in 1996 and 2016 accordingly, the cooperative movement in Azerbaijan has not seen a significant uptake as in many of the EU countries. According to local experts, there are no agricultural cooperatives in Azerbaijan.

Social enterprises often are set-up as commercial entities by local NGOs. This model has been efficient so far due to easy registration, low tax and simplified reporting.

The country pays significant attention to SME development with a solid financing history over the years (details follow in the next sections). At the same time, the development of business incubators was also boosted in Azerbaijan during the last decade. These groups also have the potential to contribute to social economy in Azerbaijan.

⁹ The law defines them as ‘non-state and non-municipal organizations that are established by the state, municipality or public legal entity, and that are engaged in activity of nation-wide and/or public importance’. See the Azerbaijani version of the Law at <http://www.e-qanun.az/framework/31994>

Based on the EU definition of social enterprises, there are currently no more than a few dozen active social enterprises in the country (based on expert's estimates). Social enterprises in Azerbaijan are therefore still in their early stages of development. The sector mostly consists of micro and small enterprises that employ less than 25 people and have an annual income below 200,000azn (EUR 100,000)¹⁰.

3.2. Key sectors for social economy and phases of development of social economy players

Organizations and entities with social enterprise elements in Azerbaijan are mostly active in the field of health, social care, education, tourism, youth and support to SMEs. In 2010 there were statistically 70 NGOs registered with the purpose of supporting entrepreneurship and 242 focusing on economy (out of a total of 2237 registered NGOs)¹¹. Since the establishment of the Youth Fund under the President in 2013, the number of youth organizations in Azerbaijan started to grow as well as a result of funding to active young people and youth NGOs. Some of these projects are socially oriented and offer a lot of training on capacity building for their beneficiaries.

There is however a lack of statistics as to the exact number of social enterprises in Azerbaijan or organizations and entities with social enterprise elements. Nearly all interviewed stakeholders had difficulty in identifying themselves as social enterprises due to a lack of a definition of a social enterprise in the national legislation of Azerbaijan. Thus, the majority of SEs in the country are in very early phase of their development.

3.3. Funding and financial tools social enterprises use

Social enterprises operating through associations mostly started their business with the support of a donor in a form of a financial aid or in-kind contribution (sewing machines, cooking equipment, etc.). However, due to an absence of sufficient business and marketing skills those start-ups were not sustainable. For example, the cake shop in Sumqait established by the Young Accountants' Union worked less than two years before it closed for good.

On the contrary, social enterprises operating as small enterprises mostly started by loans from the government or other institution but prove to be more sustainable at least driven by the need to repay the loan.

In view of the reduction of loans by local banks, pawnshops became more active. Certain people deposit their valuables (mostly jewellery) to take a loan from pawnshops in order to set-up a small business. SMEs also utilize the funding offered by the National Fund for Support to Entrepreneurs. For example, small loans in the amount of 5,000-50,000azn are issued for a 3 year repay period, with 6% annual interest¹².

3.4. Monitoring and evaluation of the financial and social return

There is no overall statistical data on the impact of social enterprises on their target groups. Social enterprises develop their own monitoring tools and measure their success. For example, Camping Azerbaijan ensures monitoring and evaluation of its projects by participation of supporters directly in their projects, photo and video with beneficiaries, feedback of the community they target, etc. They

¹⁰ Criteria for big, medium and small entrepreneur, approved by the Cabinet of Ministers of Azerbaijan on 5 June 2015.

¹¹ National report on situation of NGOs in Azerbaijan, 2010.

¹² See <http://anfes.gov.az/az/pages/763b283c-2298-11e0-b17e-0022190362dd/En-chox-verilen-suallar.html>

have identified transparency as their major success in gaining the trust of the broad public. For instance, all payments and expenditures made with donations are posted online and are made by bank.

Funders and SEs need to pay more attention to monitoring and evaluation in order to ensure trust of their beneficiaries, which is also important for their sustainability.

4. THE ECOSYSTEM FOR SOCIAL ENTERPRISE DEVELOPMENT

4.1. Relevant policies, regulatory and institutional framework

4.1.1. The legislative and regulatory framework related to social economy

The basis for social economy in Azerbaijan originates from the Constitution of 1995. According to article 15 of the Constitution, ‘the Azerbaijani state creates conditions for development of a socially oriented economy’. At the same time, Article 59 guarantees the right to business activity, according to which ‘Everyone may, using his/her possibilities, abilities and property [...] carry out business activity or other kinds of economic activity not prohibited by the law’.

Different aspects of setting-up and doing business are regulated in the Civil Code, Tax Code, Labour Code, Migration Code, Law on entrepreneur activity, Law on state support to small businesses, and other normative-legal documents including some state programmes and Presidential Decrees.

For now, the existing legislation doesn’t recognize social enterprises and targeted public policies are yet to be adopted. Nevertheless, progress has been made and the Government’s increasing attention to SMEs and improving the overall business environment will stimulate the development of the sector.

Social enterprises in the country can operate under several legal forms:

- Associations and foundations under the Law on NGOs,
- Companies under the Civil Code,
- Public legal entities under “Law on Public Legal Entities”,
- Cooperatives under “Law on Agricultural Cooperatives”,
- Family farm associations under “Law On Family Farming”,
- Individual entrepreneurs under the Civil Code.

The Law on NGOs allows the organisations to demonstrate all features of social enterprise in line with the EU definition. As such, the provisions of the law safeguard the social and governance criteria of the social enterprises. At the same time, the Law allows CSOs to engage in economic activities in line with their mission as long as income generated is not distributed among the founders or members. Noteworthy, there is no limitation in Azerbaijan on the income of NGOs generated from economic activity. This provides the opportunity for the SE to grow their business. If the NGO wants to pursue non-mission related economic activities they have to establish a Company, usually an LLC. The Law allows formal partnerships between several legal entities (CSOs, commercial legal entities, municipalities etc.) in establishing joint social enterprise usually entitled ‘union of legal entities’.

Speaking about establishing social enterprises by NGOs, one has to mention that an impulse indicating a political will to address the issue through public policies was the *Concept on State Support to NGOs (2007)* which, inter alia, highlighted attracting NGOs to solve problems of social importance among state supported aims¹³. Indeed various ministries and agencies have financed dozens of socially oriented projects of NGOs in Azerbaijan so far.

¹³ See Preamble, at <http://e-qanun.az/framework/13653>

However, since 2015 the legislation contains a requirement to register service contracts of NGOs from a foreign source. Such registration is to be done with the Ministry of Justice and usually takes a few weeks. Without this registration, no operations can be conducted by NGOs, even if they are related to social aims.

Income from entrepreneurial activities, whether conducted by NGOs or businesses (enterprises), in Azerbaijan is taxable. Certain entrepreneurial activities are subject to licensing requirements whether performed by NGOs or other entities, but only a few activities subject to licensing are likely to be relevant to NGOs (e.g., medical activities)¹⁴. At present there are no tax incentives or exemptions for NGOs. NGOs are required to have separate accounting for their income from economic activity.

According to the Tax Code of Azerbaijan, if the NGO has more than 50% of disabled people on its staff, its tax on profits will be reduced by 50%. (Article 106.2). At the same time, these organizations are exempt from property tax. (Article 199.1).

Usually NGOs in Azerbaijan register the company in two forms:

- a) NGOs' key person (chairman, founder, etc) registers an LLC as a sole founder or together with other individuals.
- b) NGO itself becomes a founder of LLC.

In both cases the registration of a company is a straightforward process that takes no more than 3 working days. The legislation also allows for online registration of certain commercial entities in which case the company is registered within 1 day and there is no state fee for the registration. In general, the state fee for registering an NGO or a commercial entity is rather low (11azn or 5,5euro). However, foundations are required to have minimum capital of 10,000azn (about 5000 euro).

The legal form of LLC also allows SEs to access a wider variety of financial instruments to grow their business. The distribution of profits of such entities is usually not restricted. However, the income of an LLC founded directly by an NGO can be spent only on statutory purposes of the founding NGO. The major concern here is that such LLCs are not eligible for EU grants due to their commercial status. Certain foreign donors do practice services contracts with LLCs for non-profit related activities.

SMEs have been receiving significant support from the Government with the adoption of the Law of the Republic of Azerbaijan 'On state support for small business'¹⁵ and establishment of the National Fund for Assistance to Small Business. In particular, said Law specifies the following areas for support to small business:

- the development of infrastructure to ensure support for and development of small business;
- the development of support programs for small business and the coordination of the implementation of such programs;
- ensuring preferential conditions for small business entities to obtain financial, material, information, scientific and technical resources;
- supporting small business entities in the training, retraining and professional development of their employees;
- supporting the external business activities of small business entities, including the establishment of production, financial and lending, trading, scientific, technical and informational contacts with foreign partners;
- the introduction of a simplified system of official registration (accounting), presentation of statistical and accounting reports, licensing, and certification of manufactured products for small business entities;
- conducting of research into the development of small business.

¹⁴ Assessment of the regulatory framework for NGOs in the Republic of Azerbaijan, ICNL, 2017, at www.icnl.org.

¹⁵ See at <http://ereforms.org/store//media/documents/kic-sah-dd-en.pdf>

The same law (Article 13) requires that no less than 15 percent of state contracts for the production of commodities, performance of works and provision of services are concluded with small business entities.

At the same time, with an aim to encourage crafts and self-employment, the legislation exempts the following professions from income tax¹⁶: income received directly from production of agricultural products; income of physical persons engaged in craft production of copper, tin and pottery products, house appliances, gardening instruments, national music instruments, toys, souvenirs, house appliances made of reeds and cane, involved in embroidery and production of house appliances from wood.

Notably, income from financial aid made by public entities, charitable societies and funds is also exempt from income tax for the recipient¹⁷.

Taxation of small businesses is also rather simple and affordable. If annual turnover is less than 200,000 azn (100,000 euro), then the entrepreneur or LLC pays only 4% income tax in Baku and 2 % in the regions. If this threshold is exceeded, 18% VAT would apply.

Certain Presidential decrees also stimulate the development of SME in Azerbaijan. For example, on November 3, 3017 President Aliyev signed a Decree on extending the moratorium on inspections of business for another 4 years. With this, businesses are not inspected by various state bodies for six years (since 2015 till 2021).

In view of the increasing importance of SMEs, on 21 April 2016 the President of Azerbaijan approved April 25th as ‘Entrepreneur Day’ in Azerbaijan.

During the last decade a number of techno parks and industry parks have been established in Azerbaijan as **public legal entities** (for example, Sumqait Chemical Industry Park, Masalli Industry Park, High Technologies Park, Mingechevir Industry Park, etc). These parks create favorable business environments for their registered residents and provide certain exemptions from import tax, land tax, etc.

Besides the above, ABAD centers¹⁸ (public legal entities as well) are established to carry out socially oriented projects aimed at ensuring the active participation of the citizens in the social-economic life of the Republic of Azerbaijan, developing small and medium enterprises, raising the employment rate of the population and supporting the establishment of competitive family businesses in the country¹⁹. ABAD’s support appears in the form of consulting, design, branding but also includes access to real market and in certain cases, financing.

Cooperatives can be established under the Law on Agricultural Cooperatives of 2016 and have a potential to grow into a SE. However, this legal form has not proved to be popular in Azerbaijan so far. This law, among others, aims to protect economic, social and other interests of members of cooperatives. As such, these cooperatives are eligible to sign contracts with private companies and NGOs (Article 4.4). The law also mentions the assistance to social protection and care of members and staff as part of responsibilities of the cooperatives (Article 4.5). The operational area of the cooperatives can be, among others, services, ecological restoration and consultation. The Government’s responsibility in relation to cooperatives, includes, for example, provision of loans with preferential terms. However, the law obliges the cooperatives to use at least 70 per cent of their works (services) for its members.

Individual entrepreneurship is yet another popular format for business start-ups. Any individual can register within two working days with the Tax Ministry and start his/her own business under the simplified tax scheme applicable to SME. At the same time, there seem to be legislative barriers for

¹⁶ Article 102.1.11-102.1.12 of the Tax Code of Azerbaijan, 2000.

¹⁷ Ibid, Article 102.1.14.13.

¹⁸ ABAD – Easy Support to Family Business, www.abad.gov.az

¹⁹ *Ibid*

using financial aid in a form of grant for starting an economic activity, even if it is a socially oriented one. Not surprising that the Chairman of Youth Fund under the President in his recent interview expressed his concern that the Law on Grants does not allow individuals to engage in commercial activity with the funds that they receive as grants.²⁰

The Law on Family Farming of Azerbaijan (2005) enables families running farm to unite and establish associations. Whereas family farms are not required to be registered, they can still open a bank account and receive support from donors. However, family farms cannot engage in ‘entrepreneurial’ activity²¹. According to Uluchay NGO, there are some 800,000 small family farms in Azerbaijan and the mechanism of cooperation can help to consolidate them²². Indeed, the old Law on Cooperatives of 1996 has been replaced with a new Law on Agricultural Cooperatives in 2016. But at the moment of writing the report, there were no single agricultural cooperatives established in Azerbaijan.

Major success was also achieved in Azerbaijan with the adoption and implementation of the *State Programme On Socio-Economic Development Of Regions for 2014-2018*²³. The main objective of this Programme is ‘continuation of activities aimed at the development of the non-oil sector, diversification of economy, rapid development of regions, in particular, further improvement of infrastructure and social services related to rural development’²⁴. To this end, the main priority directions of the state investment policy for years 2014-2018 include, among others: i) Investment to the non-oil sector and development of regions; ii) Further strengthening of social orientation of investment activity in the country [...]²⁵.

4.1.2. Institutional framework

Currently, there is no designated institution responsible for merely social entrepreneurship in the country. The Ministry of Economy is formally responsible for drafting the legislation and other policies on entrepreneurship in general. However, other line ministries, for example the Ministry of Youth and Sports, can submit its own suggestions as to increasing employment among youth. Similarly, the Ministry of Labour and Social Protection of the Population can submit its suggestions as to introducing socially oriented projects in Government loan programmes, including the National Fund for support to entrepreneurs. It is usual practice that in any case when state budget is affected, all state bodies need to obtain the opinion/support of the Finance Ministry which is in charge of finances in the country.

On a legislative level, specialized parliamentary committees also play an important role as they make a decision on whether to bring the draft to the Parliamentary hearing. Such committees are, for example, the Committee on regional affairs, the Committee on agrarian policy, the Committee on labour and social policy, the Committee on economy policy, industry and entrepreneurship, etc.

In addition to the sectorial Ministries, the institutional framework includes other public bodies which can play an important role in creating supportive eco-systems for SE and are listed in the table 1.

Unfortunately, municipalities in Azerbaijan do not play an important role in the development of social entrepreneurship at the local level due to lack of power and funding. At the same time, the vast majority of the municipalities lack awareness and understanding about the concept of social enterprise.

²⁰ See http://www.qht.az/index.php?action=static_detail&static_id=23906

²¹ See <http://www.taxes.gov.az/modul.php?name=qanun&news=264>

²² Agricultural cooperatives in Azerbaijan: problems and perspectives, report by Uluchay NGO, 2013, p.17.

²³ See <http://www.area.gov.az/public/uploads/DovletProqramlari/2014-2018.pdf>

²⁴ The State Programme of the Republic of Azerbaijan On Socio-Economic Development Of Regions for 2014-2018, approved by the Decree of the President of the Republic of Azerbaijan N 118 dated 27 February 2014, at http://www.economy.gov.az/index.php?option=com_content&view=article&id=2097:state-programs&catid=116&Itemid=263&lang=en

²⁵ Ibid.

4.1.3. Links with existing Social Protection and Social Inclusion systems

Adoption of the Law of the Republic of Azerbaijan on Social Service²⁶ (hereinafter Social Service Law) in 2011 allowed state bodies to outsource social services to NGOs.²⁷ On December 30, 2012, the Cabinet of Ministers adopted two decisions to facilitate social contracting: i) the Rules of Provision of Social Services at Homes and State Social Service²⁸ and, ii) the Rules on Approving Rules of Providing State Orders in the Area of Social Services²⁹. These Rules cover a number of issues including: budgeting for social orders, the procedure for tender commissions, membership in such commissions, participation of NGOs in tenders, and designation of responsibility and supervision over the process³⁰.

Tenders for social orders are open for NGOs and municipalities. An NGO shall meet the following requirements in order to participate in the tender for a social order:

- the NGO shall fully or partially specialize in the provision of the social service that is being outsourced;
- the NGO shall possess professionalism, experience, technical and financial resources, human resources, management competence, and the reliability necessary to perform the contract; and
- the NGO shall not have outstanding tax or other mandatory payment debts.³¹

In January 2013 the Government of Azerbaijan allocated 2 million manat (about 1 million euros) from state budget funds for the procurement of social services from NGOs in order to implement the Law on Social Service.³² Statistics for subsequent years are not available, but the experts say this practice continues at present with nearly the same amount for each year.

Azerbaijan has undertaken certain measures in order to ensure a social inclusion. In accordance with the law on targeted state social assistance, a mechanism of targeted social assistance has been in place since July 2006. This covers groups within the population who are most vulnerable to poverty and exclusion³³. However, social enterprises are not reflected in them as an independent concept. It shall be noted that in 2015 the number of people benefiting from this targeted social assistance dropped to 415,000 compared to 590,000 in 2013³⁴. Nevertheless, social inclusion in education will continue to improve as in December 2017 President Aliyev approved the State Program on Development of Inclusive Education for Persons with Disabilities in 2018-2024³⁵. This program will create the necessary environment for education and integration into the community of disabled people through inclusive education. State policies on unemployment as reflected in the State programme for 2011-2015 on realization of Employment Strategy of the Republic of Azerbaijan as a part of overall Employment Strategy for 2006-2015 has a long list of duties, including the following:

- encourage development of SME;
- reduce migration among the population and youth in villages by developing social and communal infrastructure;
- assist with employment of persons who have difficulties in finding jobs;

²⁶ Law of the Republic of Azerbaijan on Social Service № 275-IVQ (30 December 2011.)

²⁷ Article 26 of the Social Service Law.

²⁸ Cabinet of Ministers Decision № 328 on Rules of Provision of Social Services at Homes and State Social Service Institutions on a Paid and Partially Paid Basis" (30 December 2013).

²⁹ Cabinet of Ministers Decision № 330 on Approving Rules of Providing State Orders in the Area of Social Services to Municipalities, Physical and Legal Entities, Including Non-governmental Organizations (30 December 2013) (Cabinet of Ministers Decision № 330).

³⁰ Assessment of the regulatory framework for NGOs in the Republic of Azerbaijan, ICNL, 2017, at www.icnl.org.

³¹ Article 3 of the Rules on State Orders for Social Services, approved by Cabinet of Ministers Decision № 330.

³² Assessment of the regulatory framework for NGOs in the Republic of Azerbaijan, ICNL, 2017, at www.icnl.org, p. 59.

³³ Social protection and social inclusion in Azerbaijan, European Commission Report, 2011, p.102.

³⁴ See <https://az.trend.az/azerbaijan/society/2483718.html>

³⁵ https://azertag.az/xeber/2018_2024_cu_illerde_Azerbaycan_Respublikasinda_saglamliq_imkanlari_mehdud_s_exsler_uchun_inkluziv_tehsilin_inkisafi_uzre_DOVLAT_PROQRAMI-1121083

- Increasing skills of women to make them competitive, develop as entrepreneurs and join vocational training;
- Increase employment among disabled³⁶.

Despite progressive provisions of these documents, they do not envisage social enterprise as a tool to address some of the targets set for the strategy. Nevertheless, the **unemployment rate** has decreased from 17,2% in 1995 to 5,6% in 2010³⁷. For 2017 the official unemployment rate in Azerbaijan was nearly 5%³⁸. In 2017 alone a total of 221,000 work places were established, of which 177,000 were permanent³⁹.

Table 1: Comparative analysis of unemployment rate in Azerbaijan covering period from 2008 - 2017



A strong impetus for development of SMEs in Azerbaijan was made with the adoption of the One Stop Shop principle in registration of businesses since 2008. At the same time, a number of auxiliary services were provided by *Citizen Services and Social Innovations State Agency* with the President of the Republic of Azerbaijan (so-called ‘ASAN services’), established in 2012. These centres ensure that all services are rendered to citizens and legal entities from a single source, with great transparency and lack of any signs of corruption (any notarial services, obtaining IDs, permits, acts of civil registry, etc.).

The Government has acknowledged that corruption can impede the development of the economy and social welfare and for this reason the measures under the National Strategy on Increasing Transparency and Combating Corruption (2007) also aim at ‘eliminating factors impeding economic and social development’.⁴⁰ Further actions to eliminate corruption were planned under Open Government Initiative National Action Plan for 2012-2015⁴¹.

Certain activities on reducing poverty and increasing employment opportunities were envisaged in the State Programme on poverty reduction and sustainable development for 2008-2015⁴². However, we have

³⁶ State programme for 2011-2015 on realization of Employment Strategy of the Republic of Azerbaijan, at <http://www.president.az/articles/3565>

³⁷ State programme for 2011-2015 on realization of Employment Strategy of the Republic of Azerbaijan, at <http://www.president.az/articles/3565>

³⁸ Speech of the President Aliyev on results of 2017. See <http://www.1news.az/news/indeks-inklyuzivnogo-razvitiya-2018-azerbaydzhan-zanimaet-tret-e-mesto-sredi-razvivayuschih-sya-stran>

³⁹ Ibid.

⁴⁰ See National Strategy on Increasing Transparency and Combating Corruption (2007), at www.genprosecutor.gov.az/uploads/.../263_86_1_en.doc

⁴¹ See <http://antikorrupsiya.gov.az/upload/file/OGP%20AP%20Azerbaijan%202012-2015%20Eng.pdf>

⁴² See State Programme on poverty reduction and sustainable development for 2008-2015, at <http://www.ssp.gov.az/eservices/DP/2008-2015.html>

not come across any specific references to social enterprises in this document. With official statistics of 5.4% poverty in 2017 and economic reforms, Azerbaijan got ranked by the World Economic Forum with 3rd place in the Index of the Most Inclusive Economies-2018 among emerging economies⁴³.

4.2. Key stakeholders and existing coordination mechanisms

Table 2 below shows all relevant stakeholders.

Table 1: Key Stakeholders in the Social Enterprise Ecosystem in Azerbaijan

Organization	Role
Policy Makers	
Ministry of Labour and Social Policy	<ul style="list-style-type: none"> • Responsible for drafting and implementation of the strategies and programmes related to employment and social welfare
Ministry of Finance	<ul style="list-style-type: none"> • Responsible for drafting fiscal regulation for SEs • Responsible for authorization of any budget expenditures • Responsible for issuing an opinion on financial-economic expediency of grants (so called ‘donor registration’)
Ministry of Economy	<ul style="list-style-type: none"> • Responsible for drafting and implementation of legislation and strategies related to SMEs • Implements the Program for support of SMEs • Contracting Authority for EU Responsible for registering grants issued to commercial entities
Ministry of Agriculture	<ul style="list-style-type: none"> • Responsible for legislation related to agricultural cooperatives
Ministry of Taxes	<ul style="list-style-type: none"> • Responsible for drafting taxation regulation • Responsible for drafting tax exemptions and incentives for businesses and NGOs • Responsible for registration of individual entrepreneurs • Responsible for registration of commercial legal entities
Ministry of Justice	<ul style="list-style-type: none"> • Responsible for registration of foreign and local non-commercial entities • Responsible for registering grants issued to non-commercial entities • Responsible for registering foreign donations issued to NGOs • Responsible for registering service contracts of NGOs with a foreign source
State Employment Agency	<ul style="list-style-type: none"> • Provides training • Organize job fairs
Funders	
Council on State Support to NGOs under the President	<ul style="list-style-type: none"> • Plays a role of a ‘bridge’ between NGOs and Government - provides financial support to NGOs
Youth Fund under the President	<ul style="list-style-type: none"> • Provides financial support to young activists and youth NGOs
National Fund for Support to Entrepreneurs	<ul style="list-style-type: none"> • Responsible for implementation of Government’s policies on SME development • Finances SMEs

⁴³ See <https://www.weforum.org/agenda/2018/01/these-are-the-world-s-most-inclusive-economies/>

Science Development Fund	<ul style="list-style-type: none"> • Provides financial support for scientific projects
Microfinancing institutions	<ul style="list-style-type: none"> • Provides micro credits to SMEs and informal businesses (i.e. by community groups)
Agroleasing	<ul style="list-style-type: none"> • Leases agricultural machinery and equipment for SME and farmers
EU Funding (Civil Society Facility, etc)	<ul style="list-style-type: none"> • Provides grant funding to CSOs for projects in various areas including social inclusion, employment of vulnerable groups, entrepreneurship development etc. • Provides grant funding to CSOs for capacity building programs • Provides technical assistance support to public institutions in developing SME policies
ABAD ⁴⁴	<ul style="list-style-type: none"> • Supports farmers and craftsman with design, access to market, certification, etc. • Provides financial support
Support Organizations and Institutions	
GİZ - Deutsche Gesellschaft für Internationale Zusammenarbeit ⁴⁵	<ul style="list-style-type: none"> • Supports SME
EWMI ⁴⁶ – East-West Management Institute	<ul style="list-style-type: none"> • Supports local community groups

4.3. Existing funding strategies for social economy

4.3.1. National public funding schemes

The National Fund for Support to Entrepreneurs has been providing funding to SMEs since 2002. If a starting number of credit organizations was 6 back in 2002, at present there are 54⁴⁷.

In 2016 it provided funding/loans to 2477 business projects in total amount of about 190 million manat (approximately 95 mln euro)⁴⁸. Some 94% of these projects were related to the production of agricultural products. However, priority areas of the funding also include support to small business, such as involving youth, woman, disabled and IDPs⁴⁹. In general during 17 years of its activity this Fund has financed more than 34,000 projects with a total amount exceeding 2 billion manat (some 1 bln euro).⁵⁰

The Council on State Support to NGOs under the President of Azerbaijan (NGO Council) provides financial support to NGOs since 2008. Since its establishment the NGO Council has provided support for over 2,500 projects, with a value over \$20,000,000⁵¹. Out of these projects, dozens were in the social area. This funding mechanism is available only for registered NGOs and not for initiative groups, individuals or commercial entities.

According to Presidential Decree # 652 of 21 October 2015, all state bodies need to coordinate the topics of their grant competitions with the Council on State Support to NGOs under the President of

⁴⁴ ABAD – Easy Support to Family Business, www.abad.gov.az

⁴⁵ See www.giz.de

⁴⁶ See <https://ewmi.org/Azerbaijan>

⁴⁷ See full list at <http://anfes.gov.az/az/show.page.php?guid=07ed3976-86b6-11e0-9371-001ec9df179b>

⁴⁸ <http://anfes.gov.az/az/news/30a1f3e5-0306-11e7-85c7-000c29864286/15.02.17.html>

⁴⁹ <http://anfes.gov.az/az/pages/2815fbc0-1f2c-11e0-abe4-2f80f755c2ce/Guzeshtli-kreditlerin-verilmes-i-istiqametleri.html#submenu>

⁵⁰ See www.anfes.gov.az

⁵¹ Assessment of the regulatory framework for NGOs in the Republic of Azerbaijan, ICNL, 2017, p.56, at www.icnl.org.

Azerbaijan (NGO Council). In 2017 the NGO Council provided a positive opinion on the following grants:

- 10 grants of the Ministry of Culture and Tourism;
- 13 grants of the Ministry of Youth and Sports;
- 1 grant of the Ministry of Education;
- 3 grants of the Commission on fight against Corruption.⁵²

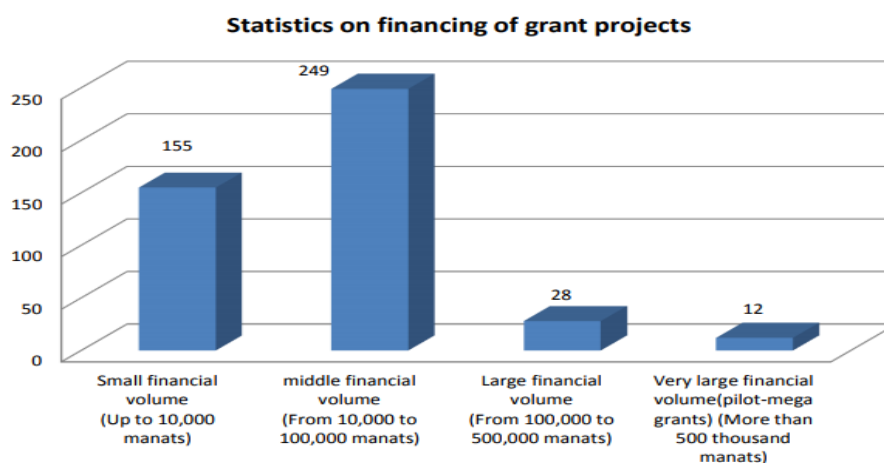
In 2016 these figures were somewhat similar except for the Ministry of Culture and Tourism:

- 56 grants of the Ministry of Culture and Tourism;
- 12 grants of the Ministry of Youth and Sports;
- 1 grant of the Ministry of Education.⁵³

Another national donor is **the Youth Fund** under the President of Azerbaijan which financed 3909 projects by youth and youth organizations within 10 grant competitions since its establishment in 2012⁵⁴. Of these, 568 were financed in 2017.

Science Development Fund under the President established in 2009 aims, inter alia, *‘to finance the projects that serve social and moral development of the society and scientific-research works implemented on humanitarian and social sciences sphere by grants’*⁵⁵. The beneficiaries of this fund are individual scientists, academic and educational institutions, state bodies, commercial entities and NGOs (1 case).

Table 3 shows grants approved by the Science Development Fund for the years 2009-2017.



Source:

http://www.sdf.gov.az/development/uploads/neticeler_ve_statistika_en/13_maliyyelesdirilme_hecmi_uzre_en.pdf

Procurement of social services from the state budget can serve as another source of national funding for NGOs. Since 2013 the Ministry of Labour and Social Protection of Population annually finances some 20-30 projects of NGOs related to social issues totalling to annual 1.7 million AZN (850,000 euro).

Active Labour Market Measures

⁵² See <http://cssn.gov.az/catsen.php?cat=85&lang=az>

⁵³ Ibid.

⁵⁴ See www.youthfoundation.az

⁵⁵ See <http://www.sdf.gov.az/en/generic/menu/Detail/100/menu/>

The State Employment Agency actively takes measures to ensure employment of the citizens. As such they: a) find jobs for unemployed people; b) offer training programs and re-training; c) organize paid public works; and f) organize job fairs with the participation of employers⁵⁶.

4.3.2. European Union funding

The EU has not had any specific project related to social enterprise in Azerbaijan. The EU had projects related to SME development, vocational training, social welfare reform, tax reforms etc. but those only indirectly affect the environment for SE in Azerbaijan.

The following are the ongoing and most recent EU projects in Azerbaijan:

- 1) **"Support to the Government of Azerbaijan in development of SMEs"**.
- 2) **Rural Sustainable Development Initiative**, implemented by 'Umid' Support to Social Development Public Union.
The project aims to "Advance the sustainable development of rural areas in Guba-Khachmaz economic zone through an economic development model that integrates agriculture and non-agriculture sectors. One of the expected results of this project is to set-up 40 new value adding performance fields (beauty salons, mobile phone services).
- 3) **Enhancing the livelihoods of IDPs in Goranboy district through tangible agricultural advancement**, implemented by GABA.
One of the aims of the project is to provide business skills trainings for 500 rural farmers.
- 4) **Building female professionals and promoting women entrepreneurship development in rural regions of Azerbaijan**, implemented by AMFA.
One of the aims of this project is to increase employment opportunities among women in the rural areas in Azerbaijan, including 300 women to start or expand their own business.
- 5) **Supporting Community-Focused Tourism Initiatives as Rural Development Strategies**, implemented by LGA.
The project aims to improve income generation, business management, and job creation of micro, small and medium size enterprises (MSMEs, with total target of 500) in rural communities; increase employability of youth interested in a career in tourism; and facilitate public-private partnerships to promote the tourism sector.

4.3.3. Social Investors, Social Impact Funds and other socially drive financing institutions

In principle ABAD can be considered as a social investor because they offer great opportunities for craftsman and farmers to generate income. ABAD's assistance to them is not limited to consulting, design, branding but also includes access to the real market and in certain cases financing. ABAD generates certain income from the sale of the goods produced by its craftsman and farmers but reinvests most of it into further start-ups.

4.3.4. Private sector

⁵⁶ See more at: <http://www.ses.gov.az/az/menu-58.html>

Since there are no social enterprises per se, it is early to judge about the private sector's support to them. However, practice shows that the private sector is interested in supporting charity oriented and social oriented projects, although they are not exempted from tax when donating. For example, a local coffee shop in Baku has a cash-box for supporting social projects as well as offering free tea and coffee for the project team. There are also cases of direct financial support by private companies, as is the case with business incubators.

Beyond these initiatives, traditional financial institutions have not yet recognised social enterprises as a viable market. As a result, the banking sector focuses on SMEs and does not offer any differentiated loan schemes for social oriented projects.

4.3.5. Microfinancing

Due to the recent collapse of the banking sector in Azerbaijan, microfinancing has seen a significant decrease. At the same time, hundreds of SMEs who had loans in foreign currency had to close their businesses or encountered major difficulties in returning the debt due to a devaluation of national currency by 50%.

By early 2018 some microfinancing existed in the country but an increase has more obviously been seen with pawnshops. For some start-ups at present this is one of the few options for their initial capital. As with bank loans, microfinancing also does not provide any preferential terms for social oriented start-ups.

4.3.6. Development Aid Agencies

There are several development aid agencies active in Azerbaijan. The United States Agency for International Development (USAID) is providing financial support to SMEs through their existent project. There has not been any financing of SE specifically so far, however many NGOs have been supported in their capacity building.

The financial products available to SMEs through the European Bank for Reconstruction and Development (EBRD) could also be considered by SEs which are registered under the Civil Code. The financing is available through the commercial partner banks or through direct financing instruments. Nevertheless, for now these financial products are not suitable to the needs and absorption capacities of the existing SE.

Cumulative disbursements to Azerbaijan for lending and grants financed by ordinary capital resources, the Asian Development Fund (ADB), and other special funds amount to \$2.11 billion.⁵⁷ In 2014, the ADB approved a comprehensive country partnership strategy 2014-2018 for Azerbaijan which aims to diversify Azerbaijan's economy, foster new economic opportunities, promote inclusive growth, and reduce disparities between urban and rural areas.

The World Bank and Government of Azerbaijan have been implementing the Azerbaijan Rural Investment Project (AzRiP) since 2005. Under this project more than 2000 projects have been completed and in total 130 million USD were allocated for rural development, including small grants to communities, in Azerbaijan. The number of beneficiaries under those projects exceeded 3,5mln persons⁵⁸.

4.4. Type of additional non-financial support to social economy

⁵⁷ ADB, Member Fact Sheet, Azerbaijan, at <https://www.adb.org/sites/default/files/publication/27752/aze-2016.pdf>

⁵⁸ See <http://azrip.net/maps/index.html>

4.4.1. Business Development Services

If in the past business development services were primarily financed by foreign donors, at present it is mostly done by the Government, since setting-up of business incubators is envisaged in the State programme on Youth 2011-2015 as well as in Azerbaijan 2020 Concept. These services include training, capacity building, initial financing and other services usually offered by business incubators⁵⁹.

Presently there are some ten business incubators⁶⁰ in Azerbaijan operated by various state bodies (Ministry of Economy, Academy of Sciences, etc.) or even private business (for example, by mobile operator Azercell). All of the incubators are commercially oriented, not having social impact as part of their agenda.

There are several examples of establishing business incubators in educational institutions where teaching personnel and students can come together to develop their business ideas. In 2014 Azerbaijan Economic University initiated an **Innovative Business Incubator** (IBI). Presently this incubator is registered as a commercial entity and has a set of services including: training on management, sales skills, communication; support to start-ups and financing⁶¹. During three years of its activity they launched 12 start-ups of which four were later financed by the grant of the State Fund on Development of Information Technologies. IBI receives its income from start-ups only when they make net profit. At the same time, IBI attracts private companies for joint projects.

In 2015 the Azerbaijan Architecture and Construction University set up the **Innovative Business Incubator Center** (IBIC) to support students and young start-ups with office space, consultation and other forms. Under its projects IBIC made 3-D models of certain historical monuments of Azerbaijan and set-up a mobile application for tourists, which was financed by the State Fund on Development of Information Technologies⁶².

In 2009 leading mobile operator Azercell launched Barama Innovation Center (later renamed to Barama Innovation and Entrepreneurship Center) in order to support start-ups. The Center has started about 30 projects so far and 20 have been successfully completed whereas only 4 successful companies presently continue their work in the market⁶³.

A rather successful experience was gained by the ‘Idea Wins’ TV programme which brings together local investors to assess and finance the start-up ideas of young people⁶⁴. These debates became a learning platform for those who want to start a business as they understand better the attitude of the investor when selecting the ideas, learn how to make SWOT analysis, etc.

Business incubators have also been established outside of the capital, Baku. For example, in 2014 the Ministry of Economy established a Business Incubator in Khachmaz, an agricultural region of Azerbaijan, and provided 500 sq/m space and relevant equipment for its activity⁶⁵. Another example is establishing of Barama Innovation and Entrepreneurship Centre office in Ganja, second largest city in Azerbaijan, with support of Pasha Bank and Azercell. This regional office was established at Azerbaijan Technology University in Ganja in 2017.

4.4.2. Local/national and/or Regional Networks

⁵⁹ More on national start-up platform at <https://startup.az/>

⁶⁰ The list of business incubators and their services is available at <http://technimum.com/blog/start-up/5643.html>

⁶¹ See <http://unec.edu.az/innovativ-biznes-inkubator/>

⁶² See http://azmiu.edu.az/pages/getPage?p=sp_biznes_inkubator

⁶³ See <https://www.azercell.com/az/news/show/709/>

⁶⁴ See more at: <http://idevaqazandi.az/bizim-haqqimizda/>

⁶⁵ See <https://az.trend.az/business/economy/2310239.html>

Being a new, emerging sector, which is still developing its identity, the existing social enterprises in the country have not yet identified the need for connecting and networking. At present, there is no local or national network.

4.4.3. Academia

Social entrepreneurship has not been fully recognised in the education system yet. Most of the education on social entrepreneurship happens via non-formal education, mostly through training courses provided by different CSOs with grant funding.

In the management, law and entrepreneurship programs of the universities, social entrepreneurship is mostly integrated with a few classes within the mainstream curricula. For example, at Baku State University social enterprises are covered within the course ‘NGOs and Human Rights’ taught in the Master level Programme in Human Rights. However, since September 2018 the Azerbaijan Tourism Institute will introduce an elective course ‘Social Enterprise’.

More commonly, education institutions in Azerbaijan host business incubators. For example, Ganja Technological University, Azerbaijan Economic University, Azerbaijan Architecture and Construction University etc. still maintain their business incubators.

4.4.4. On-going and planned initiatives addressing social economy issues

“Azerbaijan 2020: Look Into The Future” Concept Of Development which was adopted by the President of Azerbaijan in 2011 envisages some plans for addressing social economy issues in Azerbaijan in the future. For example, this document mentions the plans of increasing employment opportunities and social and professional rehabilitation enterprises⁶⁶. At the same time, according to the document, *‘The creation of a national donor institute will give an impetus to the formation of corporate culture of social responsibility and increase social investment programmes by transnational companies and large business organizations. In order to achieve this, a strategy and state programme on corporate responsibility will be prepared and appropriate changes will be made to the legislation.’*⁶⁷

4.5. Best practices in the country and replicable models

One of the successful examples of social enterprise is **Kendistan/Camping Azerbaijan**⁶⁸ which has a sole founder and now acts more as an informal youth group, which collects funds using social media to support social projects in distant villages. For example, for three years they have been organizing the Santa Clause for village project which reached out to more than 1000 kids in a dozen distant villages. At the same time they finance the School Bus Project which aims to bring kids from one village to another due to absence of a secondary school and heavy weather and terrain conditions. Due to an absence of legal framework for SE, they have to operate in a semi-legal format with all the potential risks. Even so, they succeeded in gaining the trust of their followers and nearly have no difficulty in gathering funds for their initiatives. At times when Kendistan has no finances to support their project, Camping Azerbaijan, which has the same founder but is a registered commercial entity, provides funding from the income that they generate from tourists visiting rural areas of Azerbaijan. Kendistan has no permanent staff and relies exclusively on volunteers. Camping Azerbaijan has only one full time staff.

⁶⁶ “Azerbaijan 2020: Look Into The Future” Concept Of Development, p. 26. At http://www.president.az/files/future_en.pdf

⁶⁷ “Azerbaijan 2020: Look Into The Future” Concept Of Development, p. 30. At http://www.president.az/files/future_en.pdf

⁶⁸ See <https://ru-ru.facebook.com/campingazerbaijan2014/>

5. GAP ANALYSIS AND NEEDS ASSESSMENT

5.1. Macro-social factors determining the sector

Azerbaijan has experienced an overall positive economic performance and was ranked 65 among 190 countries in Doing Business rating⁶⁹. Social entrepreneurship in Azerbaijan still has a long way to go as it is rather a new concept which needs both legislative reforms and institutional support.

Despite the legislation allowing for establishment of agricultural cooperatives, in practice they are non-existent. Since the legislation does not specifically recognise SE, the choice mostly ends with registering them as NGOs or LLCs. Most probably the absence of a separate legal form for SE is the reason why in numerous state programmes social enterprises are not specifically targeted.

Development of SE ideas among CSOs also encounters certain problems due to difficulties in the registration of income from foreign sources (grants, donations or even service contracts). Foreign donors may provide grants to Azerbaijani NGOs if they have an agreement with the MoJ, a registered branch or representation in Azerbaijan, and they have obtained the right to give a grant in the Republic of Azerbaijan (i.e. an opinion on the financial-economic expediency of the grant issued by the Ministry of Finances). Likewise, any donation or service contract of NGOs from a foreign source must be registered with the MoJ.

Lack of tax exemptions and incentives do not encourage commercial entities to become social enterprises nor support them actively, as such contributions cannot be accounted for as expenses and are subject to taxation.

5.2. Access to finance

Social enterprises in Azerbaijan are underdeveloped. Young businesses start with financial support from family and friends, bank loans, pawnshop loan, sometimes public funding. They used to start also based on grant funds but due to legislative restrictions during 2014-2017 there were barely any foreign grants available for such purposes. It is hoped that the situation improves with the President's Decree on application of Single Window principle in registration of grants of October 2016.

Public grant schemes are mostly designed for NGOs and usually are limited to one project per year with average funding of 2000-5000 USD per project.

There is a lack of internal and external incentives for financial institutions to finance specifically social entrepreneurship.

A better picture is seen with SME. During 2002-2014 some 3040 young entrepreneurs received more than 278 000 000 manat loans which lead to the establishment of 13,000 new work places. At the same time under the joint programme between Germany and Azerbaijan some 200 entrepreneurs attended various business courses in Germany during 2009-2014⁷⁰.

5.3. Lack of relevant skills to access market

Azerbaijan's population has a big portion of youth which utilizes social networks and internet to gain new skills and knowledge to increase competitiveness in employment and business markets. At the same time, various state bodies and private business incubators offer training schemes on business planning, management, marketing and other important disciplines.

⁶⁹ See <http://ru.echo.az/?p=49606>

⁷⁰ See <https://az.trend.az/business/economy/2310239.html>

ABAD has solved the problem of accessing the market for its beneficiaries. They run several shops in Baku (in the Old City, at the central railway station and duty free shop of the airport).

5.4. Opportunities and key drivers boosting the development and scaling up social economy

As we see there is the lack of a comprehensive sustainable ecosystem that will provide ongoing support to social enterprises in Azerbaijan. On a positive note, there are a number of state programmes and national action plans that target the development of SMEs, as well as creating new workplaces. Social enterprises do use social media to generate funds for their social projects but fee-based services are not too sustainable on their own. There is a wide range of support in the form of training or workshops which is offered by universities, NGOs, state bodies as well as business incubators. Socially-responsible companies show initial interest in supporting individual SEs but it is still in an early stage of development and often lacks strategic focus.

Like in other EN countries, there are no social enterprise networks in Azerbaijan to provide an exchange of ideas and best practise learnings. This might explain why potential stakeholders do not know much about social enterprises and their needs.

Despite the numerous challenges, the potential for the Azerbaijani SE sector is significant. Mostly these are NGOs, SMEs and young individuals that are the ‘drivers’ of social enterprises in Azerbaijan. It will likely remain the same for a period of time. This picture, complied with further political, financial and technical support can help to boost the development of the sector.

6. CONCLUSIONS AND GENERAL POLICY RECOMMENDATIONS

In Azerbaijan the social welfare system and business environment are developing separately, without much synergy can be offered to the social enterprise. Economic slowdowns of the recent years have not affected the legislative framework and still today there is no legal regulation of a social enterprise per se. The sector’s development is also hindered by bureaucratic impediments which can be seen both on the local and central levels. At the same time, the requirements for NGOs to register the income from foreign sources also slows down the development of SE in Azerbaijan.

- **Legislation and policy framework**

The Azerbaijani government can consider additional incentives for NGOs to engage in entrepreneurial activities, for example, in the social, cultural, or health care fields. At the same time, policy instruments might contribute to developing of SE if they specifically mention SE as part of those documents. Likewise, the tax legislation would need certain revision in order to introduce tax exemptions for businesses that implement or support social projects. Experience of various European countries can be studied for this purpose as part of technical assistance from the EU.

It would be also beneficial to regulate collection of funds through cash-boxes. It appears that this is not sufficiently regulated despite its wide practice in Azerbaijan. For example, the law requires that NGOs report the names and passport information of each person who gives a donation, which is impossible to comply with when it comes to cash-boxes.

- **Access to finance**

Alongside the Government’s ongoing financial support to SME and NGOs, certain measures can be taken to improve access to foreign financing for individuals and NGOs. For example, the following suggestions can be considered:

- i) Eliminate the necessity for a foreign donor to have an agreement with the MoJ and register its representation in Azerbaijan, in order to be a grantor⁷¹;
- ii) Eliminate the need to obtain the opinion on ‘financial-economic expediency’⁷²;
- iii) Exclude foreign donors that operate on the basis of bilateral and multilateral agreements with Azerbaijan from the obligation to obtain the right to provide grants⁷³.
- iv) Introduce changes to the Law on Grants to allow individuals to engage in commercial activity with the funds that they receive as grants.

- **Other support infrastructure**

Using the resources of the existent business incubators, targeted technical assistance and mentoring can be offered for SE projects.

At the same time, there shall be coordination of any support to SE in order to avoid duplication and achieve better results. This coordination can be performed well either by the respective state agency or NGOs.

Further support can aim at increasing visibility of existing social enterprises and initiating a network of support for SE.

6.1. Priority sectors for country level intervention

The priorities in each area of support below are listed in such a way as to show the urgency and the sequencing of the needed interventions. It emerges that the most urgent support needed is within the **policy, legal and institutional framework** and **coordination mechanism** which needs to be established. Further support is needed with **capacity building** and **awareness** raising.

With regard to **funding** certain measures can be taken to improve access to foreign financing. The table below shows the areas of intervention, priority areas and possible modality of support.

Areas of intervention in order of importance	What needs to be covered - priority areas	Modalities of support
<u>First area of intervention:</u> Coordination	<i>Priority area 1: Coordination</i> <ul style="list-style-type: none"> • Define a state institution responsible for the coordination and the development of social entrepreneurship sector • Set-up a coordination mechanism between various stakeholders (NGOs, Gov., donors, business, etc.) • Gather all relevant stakeholders to form a network or platform for idea exchange 	Bilateral envelopes (technical assistance, grants, CfP, twinning, direct award etc.) Regional programmes (technical assistance, grants, etc.)
<u>Second area of intervention:</u>	<i>Priority area 1: Policy development, cooperation and awareness</i>	Bilateral envelopes (technical assistance, grants, CfP, twinning,

⁷¹ This recommendation was made by the International Center for Non-for-profit Law in 2017. At file with author.

⁷² This recommendation was made by the International Center for Non-for-profit Law in 2017. At file with author.

⁷³ This recommendation was made by the International Center for Non-for-profit Law in 2017. At file with author.

Policy, legal and institutional framework	<ul style="list-style-type: none"> • Increase awareness • Develop state strategy and action plan • Create more favourable institutional framework for foreign funding by simplifying the procedures • Introduce tax incentives 	<p>direct award etc.)</p> <p>Other support schemes (indirect management)</p>
<u>Third area of intervention:</u> Skills and access to market	<p><i>Priority area 1: Capacity building and promotion</i></p> <ul style="list-style-type: none"> • Provide access to SEs to existing state body business trainings. • Organize various events to raise awareness of Venture Philanthropy approach 	<p>Bilateral envelopes (technical assistance, grants, CfP, twinning, direct award etc.)</p> <p>Regional programmes (technical assistance, grants, etc.)</p>
<u>Fourth area of intervention:</u> Funding	<p><i>Priority area 1: Funding</i></p> <ul style="list-style-type: none"> • Enable foreign donors to provide grants (note that legal framework needs be changed) • Enable SEs to apply to private business incubator business training programs. <p><i>Priority area 2: Consider SE for Government grant competitions that would include capacity building</i></p>	<p>Government support</p> <p>Other support schemes (indirect management)</p> <p>Government support</p>

Should you need information on the suggested horizontal or regional approach see the final report for this contract (contract details on pg. 2 of this report), a very general overview is provided here:

- The analysis of SE in the Eastern Neighbourhood and in the Western Balkan countries shows that even though there are some differences, the **approach in prioritising the support in both regions could be the same.**
- Due to a **big number of stakeholders, fragmented support and lack of coordination**, it is of a paramount importance that the European Commission takes the lead in setting the **approach**, the **priorities** and in **defining the roles and responsibilities** for **EU horizontal approach**.
- When examining the needs in various countries the **current support** in terms of the format and amounts **dedicated to SE might not be adequate** or sufficient anymore.
- The analysis showed that **some areas should be covered on a country-by-country basis**, but **many priorities could be addressed through regional programmes**

7. ANNEXES

7.1. Annex 1 - Questionnaire survey

I. Questionnaire for the Delegations of the EU

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. EUDEL Country:
5. Position:
 1. What is the key responsibility of your Section? What programmes/project you carry out?
 2. Is your Section aware of the concept of social economy? If yes, can you provide your definition and/or understanding of the social economy and social enterprise concept?
 3. Is there a law on social economy in the country? Or Strategy or Action plan? If not, under what regulatory framework social enterprises operate? Under whose jurisdiction social enterprises fill in?
 4. Based on your opinion, is there an enabling environment for social enterprise development in the country? Were there any changes in the perception in the past years?
 5. Does your Section have a social enterprise strategy/action plan? What are the key elements, if exist.
 6. What type of programmes or facility EUDEL provide to the Civil Society Organizations in the country? Does your Section contribute to these programmes financially or otherwise?
 7. Are there any support schemes that might be suitable for the needs of the social economy actors? For example, support to women, youth, civil society? Could they be suitable for social enterprises as well?
 8. What type of capacity support exist in the country? Networks, HUBs, network of impact/patient investors, incubators, start-up competitions, mentoring, etc. Are there any synergies with existing support programs within the country?
 9. Does your Section work with foreign partners implementing any social enterprise programme(s)? If not, do you think such partnership might be established?
 10. Are you aware of any special development programme that contribute to the competitiveness or sustainability of social enterprises? Please explain if positive.
 11. Based on your experience what is the nature and size of the social economy sector in the country? What are the key sectors/industries they cover? Are you aware of any assessment of the size of the sector? If not, what do you think is the reason?
 12. What are in your opinion limitations or challenges preventing social enterprises from obtaining financing?

II. Questionnaire for the Government institutions

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. Government Authority:
5. Position:

B. REGULATORY FRAMEWORK

1. What is the key responsibility of your Government Authority?
2. Is there a law on social economy in the country? Or Strategy or Action plan? If not, under what regulatory framework social enterprises operate?
3. What kind of support social enterprises may receive from the Government bodies (such as that grants, subsidies, incentives, TA). Are there any incentives for companies to employ marginalized individuals?
4. Based on your opinion, is there an enabling environment for social enterprise development in your country? Were there any changes in the perception in the past years?
5. Please assess the importance of the topic to the political and economic agenda of the country.

C. SPECIFIC SUPPORT TO SOCIAL ENTERPRISES

6. Is your Government Authority aware of the concept of social economy? If yes, can you provide your definition of the social economy and social enterprise concept?
7. Does your Government Authority have a social enterprise strategy/action plan? What are the key elements, if exist.
8. Do you support social enterprises directly or indirectly? If yes, what type of support your Government Authority provide: technical assistance, capacity building, financial, access to market, access to capital. Please provide details of such support; range of support, conditions, years of support, type of support (grant, investment, etc...)
9. Are there any support schemes that might be suitable for the needs of the social economy actors? For example, support to micro, small and medium entrepreneurs? Could they be suitable for social enterprises as well?

D. OTHER MAIN STAKEHOLDERS

10. Who are the main stakeholders in the social enterprise eco-system in the country? Are there any support organizations, what type of support they provide, do you cooperate with them in any way?
11. Who are the main donor to the social enterprises (this may include national or foreign foundations, government grant schemes, EU funding, impact investors, individual family support, diaspora, angel investors network, etc.).
12. What are your Government Authority plans for the further social economy development?

E. EU SUPPORT TO SOCIAL ENTERPRISES

13. Are there any EU programmes or facilities that benefits social enterprises in your country? Please provide details, if positive. Does your Government Authority contribute to that programmes financially or otherwise?
14. Does your Government Authority work with foreign partners implementing any social enterprise programme(s)? If not, do you think such partnership might be established?

F. STATE OF PLAY OF SOCIAL ECONOMY

15. Based on your experience what is the nature and size of the social economy sector in the country? What are the key sectors/industries they cover?

16. How would you assess the level of development of social enterprise sector in general in the country; start-up stage, validation stage, scaling stage?
17. What are the key challenges social enterprises face in the country?
18. What type of support social enterprises need? How do they fill it at the moment?
19. Please provide few examples of good practice of social enterprises in the country?

III. Questionnaire for the funders and supporters

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. Company name:
5. Position:

B. SUPPORT TO SOCIAL ENTERPRISES – SUPPLY SIDE

1. What type of support you provide to social enterprises? Please explain what products or services you offer?
2. What requirements you have in order to provide support to social enterprises?
3. What type of financing instruments you provide do social enterprises? Please explain the range of support, type of support (grant, loan, equity), typical amount, length of the support, additional capacity building attached to the financing, etc.
4. What products or services you offer to SMEs? Could they be suitable for social enterprises, if exist?
5. Do you have any future plans to create a more enabling environment for social economy development in the country or region? Who do you think should be responsible for social economy development within existing Government structure?
6. Would you consider partnering with similar organizations in order to provide additional support? Are you aware of any other support to social enterprises in the country/region?
7. How do you monitor and evaluate the progress of your support/investment?

C. SOCIAL ENTERPRISE NEEDS - DEMAND SIDE

8. What type of financing needs social enterprises usually have? What is the purpose of the support, typical amount they need, type of support they require?
9. What type of business advices, technical assistance and/or capacity building social enterprises typically have. Please explain.
10. What do you see as the key challenges social enterprises face when it comes to financing?
11. What do you see as the key challenges social enterprises face when it comes to capacity support?
12. What do you see as the key challenges social enterprises face when it comes to management and governing?
13. What are the key challenging in accessing the market for social enterprises?

IV. Questionnaire for the social enterprises

Note: Revised version of the questions was used for consultation meetings with the SEs

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

Name:

Email address:

Telephone number:

Social Enterprise:

Position:

B. SOCIAL ENTERPRISE INFORMATION

1. Please explain the mission of your organization/social enterprise?
2. What is your legal status of your social enterprise? How are you registered and under what law? Why did you choose that legal entity? Does it provide any benefits/subsidies?
3. What are the main social issues your organization is working on? Who are your main beneficiaries and/or clients?
4. What was the reason of establishing social enterprise?
5. What products/services your social enterprise is offering to the clients? Who are your main competitors? Who are target customers of your social enterprise?
6. How many people work in your social enterprise? Please specify how many comes from the beneficiary group, how many are full time, part time, volunteers?

C. FINANCIAL INFORMATION

7. What is your annual turnover? Did you have any profit in 2016, or years before? How do you distribute profit, if any?
8. Please evaluate the current financial status of your social enterprise:
 - a. We are losing money
 - b. We are breaking even
 - c. We are generating a profit (surplus of income beyond costs)
9. What tax you need to pay for the commercial activities within existing legal framework?
10. How did you get seed funding for your social enterprise? Please specify the source of funding:
 - a. grant (domestic or international donors)
 - b. own funds
 - c. loan from a bank
 - d. loan guarantee
 - e. support from government funding
 - f. impact investment
 - g. angel investment
 - h. equity
 - i. diaspora
 - j. other (please specify)
11. Please specify the purpose of funding and specify the amount provided including terms of funding:
 - a. operating cost
 - b. cost for the project activities
 - c. employment
 - d. start-up cost
 - e. other
12. Did you get sufficient amount of money to start your business? If not, how did you cover the rest?
13. What type and amount of funding your organization need at this stage of social enterprise development?

D. HUMAN RESOURCES

14. Did you have the necessary skills and experience to start your operations? If not, how did you obtain it? What type of support was provided?
15. What type of expertise and skills your social enterprise currently have? Do you know where you can obtain those?
16. Did you use any consulting support, capacity support, technical assistance, and networking?
17. Would you need additional consulting/mentoring/advisory support in the future? For what purposes? What specific skills your employees need?

E. OPPORTUNITIES WITHIN THE SECTOR

18. Is there an enabling environment for social enterprise development in your country?
19. Did you benefit from a membership in any social enterprise network? If yes, please specify the name of the network and type of support. What would you expect from such a network, what kind of peer support is most needed?
20. Are there any special development programs in your country supporting social enterprises?
21. Is there available EU support infrastructure for social enterprise development in your county?
22. Based on your experience what are the main challenges of social economy sector in your country?
23. Based on your experience what are the key opportunities for social economy in your country?
24. Please estimate the size of the social economy sector. Can you list some of the social enterprises in the country, giving us examples?

7.2. Annex 2 - List of Interviews

Stakeholders are divided into three main groups:

- Group 1: Representative of the public institutions
- Group 2: Representatives of support organisations and funders
- Group 3: Social entrepreneurs

Note: With some of the stakeholders were consulted over meetings and were not subject of full interview (as a follow-up of previous studies)

N	Organization	Representative Name Surname	Position
Group 2			
1	Delegation of the European Union, Baku	Ms. Ulviya Abdullayeva	Programme Manager, Neighbourhood Policy - Cooperation
2	Azerbaijan Microfinance Association	Mrs Jhale Hajiyeva	Executive Director
3	East-West Management Institute	Mr. Timothy Madigan	Chief of Party Socio Economic Development Activity in Azerbaijan (SEDA)
4	Eurasia Partnership Foundation	Mrs Naila Hashimova	President
5	Swiss Development and Cooperation (SDC) Office	Mrs Simone Haerberli	Deputy Regional Director
6	UMID Social and Humanitarian Support Center	Mr Israil Isgenderov	Executive Director
7	Entrepreneurship Development Foundation	Mr Sabit Bagirov	President
8	Young Accountants' Union	Mrs Solmaz Aliyeva	President

9	Center for Ecomic and Social Development	Mr Vuqar Bayramov	Chairman
Group 3 – Social enterprises			
1	Kendistan/Camping Azerbaijan	Mr Javid Qara	Founder/Project Manager

7.3. Annex 3 – Bibliography

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