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# EU BUSINESS CLIMATE REPORT AZERBAIJAN 2017

Perceptions of EU Businesses  
active in Azerbaijan

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# **EU Business Climate Report Azerbaijan 2017**

**Perceptions of EU Businesses active in Azerbaijan**

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# Forewords



## Taking EU-Azerbaijan Economic Cooperation to the Next Level

Last year marked the 25th anniversary of the EU-Azerbaijan partnership. From the early 1990s, EU-Azerbaijan relations have developed and moved from an initial focus on humanitarian and financial assistance, to a strong and broad partnership of mutual benefit.

At present, over 300 EU companies are doing business with Azerbaijan; and the EU countries account for 35% of Azerbaijan's total foreign trade. The EU continues to be Azerbaijan's main export and import market, with a 43% share in Azerbaijan's total exports and a 26% share in Azerbaijan's total imports. The EU is also the biggest investor in Azerbaijan, both in the oil and non-oil sector. This clearly shows the importance of our bilateral relationship with Azerbaijan. The negotiations on a new agreement between the EU and Azerbaijan, launched in February of this year, allows us to look forward to a more comprehensive partnership, taking our cooperation in a range of sectors to the next level.

Azerbaijan has made tremendous achievements over the past 25 years. There are, however, some challenges ahead. As the recent impact of low global oil prices has shown, the diversification of the economy is obviously one of the key challenges. The EU is ready to stand by the side of Azerbaijan to bring in its experience with economic transformation, the development of a highly qualified human resource base, and a strengthened rule of law.

On behalf of the EU and the EU Member States, I am pleased to present the "EU Business Climate Report 2017", published by the German-Azerbaijani Chamber of Commerce (AHK Azerbaijan). As last year, also the 2<sup>nd</sup> edition of the Report presents the views of EU businesses active in Azerbaijan on the business environment, key reform achievements and remaining bottlenecks and recommendations. We are convinced that this first-hand and annual assessment of the current business, economic and regulatory environment in Azerbaijan provides valuable information for all relevant stakeholders from both the EU and Azerbaijan, pointing to accomplishments made and giving suggestions to shape the future reform agenda in view of our joined wish to further enhance and strengthen EU-Azerbaijan business cooperation and ties for years to come.

A handwritten signature in black ink, appearing to read 'Malena Mård'.

**Malena Mård**

Ambassador - Head of Delegation  
Delegation of the European Union to Azerbaijan



## Shedding light on the Business Climate in Azerbaijan

I am gratified to introduce the EU Business Climate Report Azerbaijan 2017, which is the result of a fruitful cooperation between the EU Delegation to Azerbaijan, Eurochambres and the German-Azerbaijani Chamber of Commerce (AHK Azerbaijan) within the East Invest Programme of the European Commission.

The objective of the EU Business Climate Survey 2017, whose findings constitute the present report, was to assess the current conditions for doing business and making investment in Azerbaijan and to develop recommendations to further improve them. Dropping oil prices and stagnating economy coupled with financial sector vulnerabilities have set the agenda. The government of Azerbaijan has been addressing these challenges by carrying out a number of structural reforms and the results of the survey indicate that the implemented policies to date are generally well perceived by EU businesses. Yet the picture is diverse and it goes without saying that some issues require further consideration and remain to be tackled.

Based on the findings of the survey, we can highlight increased medium-term optimism among EU businesses. Compared to 2016, the share of those who would again invest in Azerbaijan has risen by 22% this year. This obviously displays the market and business potential of Azerbaijan assessed by European businesses.

We do hope that this report will serve as a business climate directorate and give orientation to the EU companies doing business and exploring conditions in Azerbaijan. AHK Azerbaijan will continue to provide comprehensive assessments of the business environment in Azerbaijan and thus to contribute to a positive and outreaching business climate in the country.

I extend my gratitude to our partners for this productive collaboration. We are grateful to the EU company representatives who shaped this report with their valuable insights. And I would like to particularly thank the 14 CEOs and senior representatives of EU companies who provided us with their in-depth comments on current developments in the country, which are cited throughout this report.

**Tobias Baumann**

Executive Director  
The German-Azerbaijani Chamber of Commerce

# Introduction

This report is based on the cumulative responses of the EU Business Climate Survey Azerbaijan conducted by the German-Azerbaijani Chamber of Commerce (AHK Azerbaijan) in February- March 2017, with the support of the EU Delegation to Azerbaijan and Eurochambres. This study provides an insight into the current economic situation and business environment in Azerbaijan perceived by EU companies operating in and cooperating with Azerbaijan, alongside presenting major opportunities for and challenges faced by them in the region. The report also displays the evolution of the business and investment climate in Azerbaijan within the one-year period between the 1<sup>st</sup> EU Business Climate Survey conducted in early 2016 and the current one. The snapshot of perceptions drawn from the survey is supposed to act as a gauge to measure business confidence of EU companies in Azerbaijan and will be used to further enhance EU-Azerbaijan business relations.

**100** online responses

In total, the survey comprised of 20 questions building on an initial survey conducted in early 2016 and focusing on the company demographics, the current economic situation in Azerbaijan, the impact of Azerbaijan's business environment on individual companies. Moreover, this year companies were asked to evaluate the effectiveness of the economic reforms enforced since the economic slowdown in 2015. After data quality control, 100 valid and complete responses were collected to have a representative and statistically significant sample for the analysis of the business sentiment of EU companies operating in Azerbaijan. Comparison of the findings with the previous year and cross-tabulation analysis has been made to investigate the possible correlation between the data.

**16** represented sectors

The respondent base represents a broad range of 16 sectors, with major responses received from the industries involved in Mining, Oil and Gas; Construction and Professional, Scientific and Technical activities. Of all EU businesses participating in the survey, 30% represent Germany, while 16% and 11% respectively represent the UK and French companies operating in Azerbaijan. Companies also vary in their size, i.e. 38% represent companies with less than 500,000 € total revenue, whereas 7% have the revenue amounting to more than €50 million. It is worth mentioning that majority of the respondents are Directors/CEOs (45%) and General Managers (16%). In addition to the completed questionnaire, in-person interviews were conducted with the CEOs and senior representatives of 14 EU companies in order to endorse the collected quantitative data with the qualitative information.

The annex explains the survey methodology in more detail and provides aggregated information on the responses.

**14** in-person interviews

We express our utmost gratitude and appreciation to the respondents contributing to the survey with their valuable thoughts and remarks. Moreover, our sincere thanks are due to the companies taking part in the interviews and focus group discussions to shape this report with their precious insights.

# Key Survey Findings

While most of the “ad-hoc” measures implemented to date are positively assessed by EU businesses, carrying out the structural reforms agenda as set out in the Strategic Roadmaps remains imminent.

## Top 3 reforms to date


**77%**   
Launch of the ASAN Visa portal

**67%**   
Licensing procedure through ASAN services

**49%**   
Suspension of inspections related to entrepreneurial activities

## Top 3 priorities to be achieved by the government

 Addressing structural shortfalls in the financial sector

 Improving transparency in the tax system

 Enhancing the legal environment

The survey findings highlight increased medium-term optimism about the economic situation in Azerbaijan among the EU businesses.

**€ 53%**  
report a stable and an improving outlook for the economy

**62%**   
say they would again invest in Azerbaijan

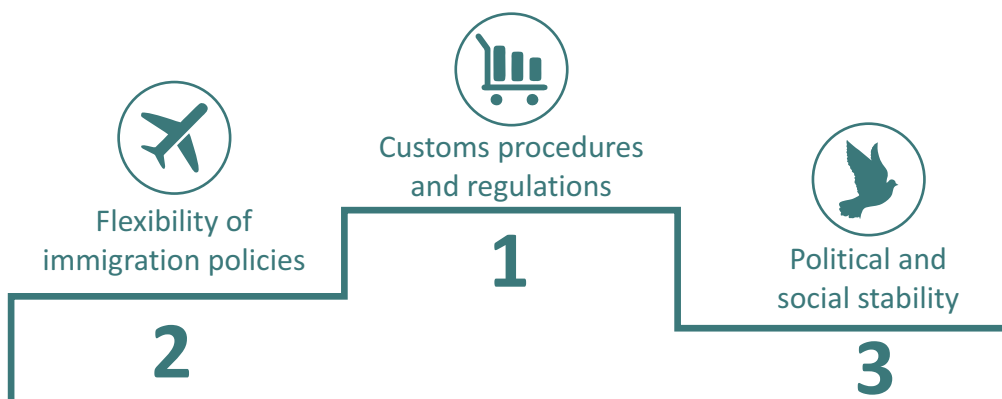
**34%**   
expect their revenues to increase

**73%**   
do not consider a staff reduction

**43%**   
expect their capital expenditures to remain stable

The most remarkable positive trend is reported in the customs system, whereas productivity of employees is the factor with the most noticeable negative shift compared to 2016.

## Top 3 positive trends



# Chapter 1

## How Do EU Businesses Perceive Economic Reforms?

The year 2016 witnessed a number of important reforms in Azerbaijan, aimed at stabilising the financial sector and creating a basis for sustainable, private-sector led non-oil economic growth and exports. Azerbaijan ranked 37<sup>th</sup> out of 138 countries and was labelled top performer in the Eurasia region by the World Economic Forum's "Global Competitiveness Report 2016-2017".<sup>1</sup>

While the government took several "ad-hoc" measures to improve the business climate and to enhance the country's competitiveness, in December 2016 Azerbaijan also endorsed a Strategic Economic Reforms Roadmap outlining key reforms for the national economy and for 11 priority sectors of the economy to ensure resilience and to accelerate the diversification of the economy.<sup>2</sup> The roadmaps outline a "sustainable economic development concept", including action plans for 2016-2020, a long-term outlook by 2025 and a target vision beyond 2025. This government agenda, setting also the ambitious goal of generating up to 450,000 additional jobs by 2025 through non-oil economic growth, requires adequate and sustained commitment of time, resources and political effort in order to bear fruit.

The EU Business Climate Survey Azerbaijan 2017 has been conducted at this important juncture, at which the government's long-term reform agenda has thus been clarified, while the effectiveness and perception by EU businesses of certain "ad-hoc" measures pursued to date by the government can be gauged.



**450.000**  
**jobs by 2025**



# ASAN is the top rated reform project by the government

Of the various reforms recently conducted by the government, the ones that have been implemented by ASAN (Azerbaijan Service and Assessment Network) are seen as most “helpful” in terms of improving the business environment. These relate to the introduction of ASAN e-visa since 10 January 2017 as well as the single window established in ASAN since October 2015 for business licensing.



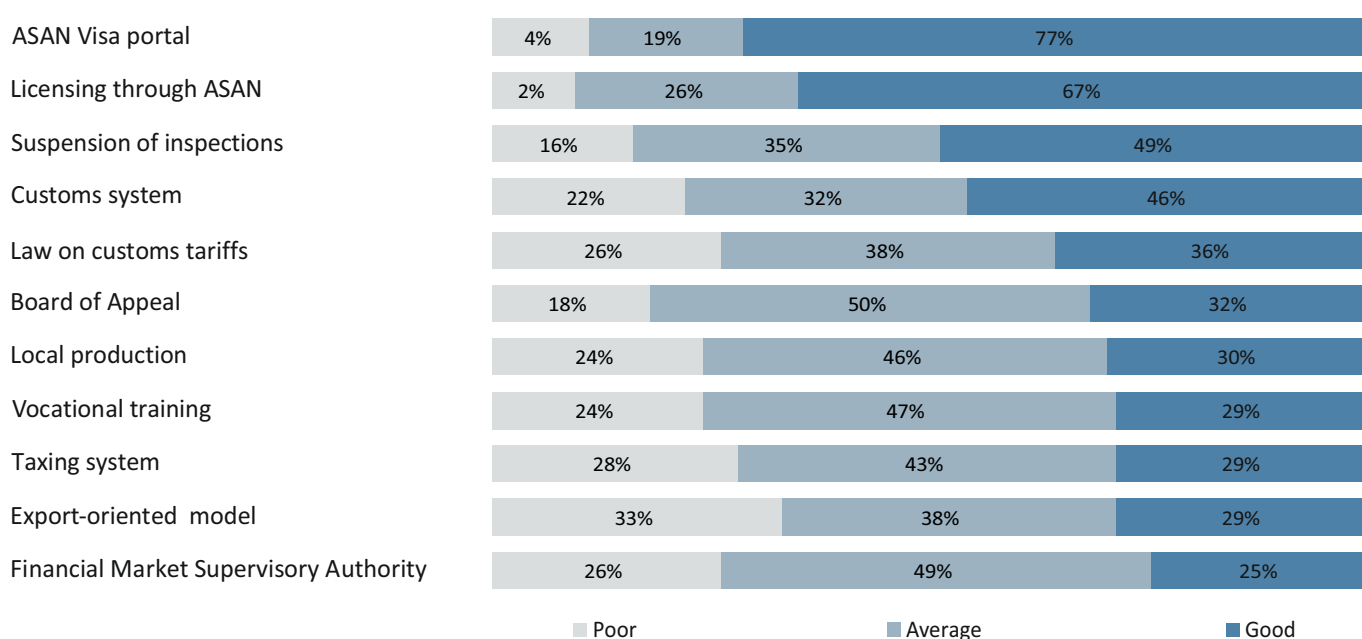
The survey findings show that 77% of respondents laud the launch of the ASAN e-visa portal, simplifying and substantially shortening the procedure of issuing visas to foreigners. In the same way, 67% of EU businesses believe that the provision of business licenses by the Ministry of Economy through ASAN services has been a welcome reform. EU businesses indicate that this reform has

increased transparency, reduced costs and accelerated the process of obtaining licenses. Moreover, the number of licensed activities dwindled significantly from 59 to 29.<sup>3</sup>

Other reforms that are particularly positively assessed by EU businesses, relate to the temporary suspension of inspections (in effect since 1 November 2015) as well as the reform of the customs system (implemented since January 2016). Almost half of the companies represented in the survey state that the suspension of inspections related to entrepreneurial activities by government agencies has been strengthening the business environment for EU companies.

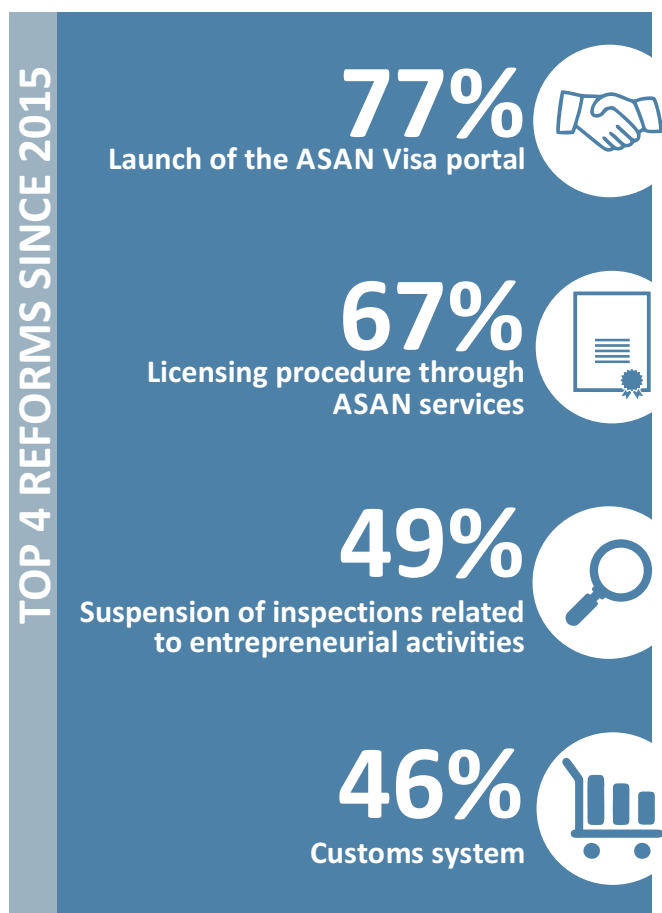
A substantial number of, usually bureaucratic and non-transparent, inspections have long been one of the most frequently cited obstacles impeding development of the private sector in Azerbaijan. Since the adoption of the Presidential decree suspending inspections for a period of two years (from 1 November 2015) the number of inspections dropped sharply: from about 60,000 in 2015 to only 60 in 2016.<sup>4</sup> In view of the positive assessment of EU businesses, a prolongation of the moratorium on business inspections should be positively considered.

Figure 1: The effectiveness of the structural reforms in Azerbaijan since 2015



# Customs system is an instructive model amidst recent reforms

According to the survey results, and further emphasised through interviews and focus group meetings with selected EU businesses, the most systemic changes effectively implemented by the government to date concern the reforms in the customs system - which had been a long-standing obstacle to doing business in the country.

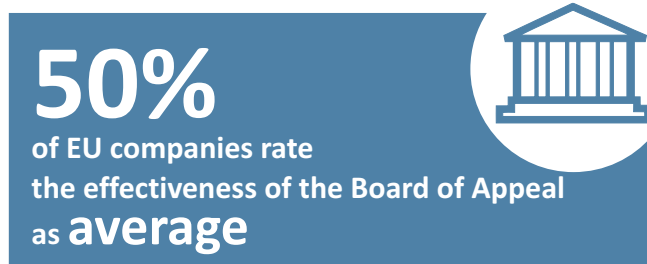


The amendments made to the Customs Code and the implementation of e-declarations in the customs clearance have increased both efficiency and transparency of customs procedures. Although higher rates of customs duties on some imported goods have resulted in a number of complaints, corruption has been reduced with this measure. The latter is reflected in the customs revenues transferred to the state budget which saw an increase of 57% in January-April 2017 compared to the same period of 2015 (also owing to a steep national currency devaluation vis-à-vis the USD in 2015) and an increase of 18% compared to the same period of 2016, despite reduced trade flows.<sup>5</sup>

The State Customs Committee intends to further expand customs reforms; e.g. by channeling certain customs services through the “ASAN pay” portal in 2017, while also looking at the possibility of introducing risk management and other forms of trade facilitation into its procedures.<sup>6</sup> Summarising the feedback given by EU businesses, the positive effects of genuine reforms carried out in customs are expected to galvanise the implementation of similar policy actions in other spheres of the economy, and in particular in the tax system and financial sector.

A Board of Appeal under the President of the Republic of Azerbaijan (hereafter referred to as “Board of Appeal”) was established in February 2016. It allows companies to look for recourse outside of the legal system in case it considers itself wrongly treated by the public administration. This reflects the government’s will to take some steps to enhance the legal environment and regulatory framework for the private sector.

However, the survey results suggest that the establishment of the Board of Appeal has not (yet) yielded significant results. Roughly half of the respondents rate the effectiveness of the Board of Appeal as average. This indicates that the EU business community still sees potential for improvement; and additional adjustments could increase the effectiveness of the body. In more general terms, the importance of rule of law was emphasised more strongly by EU businesses in this year’s survey than in its 2016 predecessor.



Other policies assessed as moderately effective by EU businesses are the measures to stimulate local production and establishment of the State Agency for Vocational Education and Training.

# EU businesses call for more (effective) reforms to address vulnerabilities in the financial sector and to modernise the tax system

As acknowledged by both the International Monetary Fund (IMF) and the government, the financial sector of the country has particularly suffered from the reduced oil price and subsequent rounds of devaluations. The high level of non-performing loans, limited trust in the national currency and an inadequate capital ratio have increased the vulnerability of the financial sector.

Starting from March 2, 2016 the Azerbaijani Deposit Insurance Fund provided full deposit insurance of local currency deposits at an interest rate of 15% (versus 3% in the foreign currency), for a period of three years. Yet the dollarisation, one of the main culprits of the financial distress, remained high with 75% of deposits having been in foreign currency by the end of 2016.

A promising step towards alleviating uncertainty in the banking sector and sanitising the sector was the establishment of the Financial Market Supervisory Authority (FIMSA) in early 2016. FIMSA has not (yet) been as positively perceived by EU businesses as some of the previously mentioned reforms - possibly because the financial sector stabilisation is still an on-going process. However, FIMSA has taken resolute steps to consolidate the financial sector by revoking the licenses of 10 unhealthy banks, while recapitalising remaining banks and preparing the ground for privatisation of the International Bank of Azerbaijan.



**CEO from the financial sector**

*Stabilisation of the local currency is the key to revitalise the financial sector in the country and to regain public trust.*

Nevertheless, EU companies underscore the need for more coherent and well-sequenced measures to address structural shortfalls in the financial sector, along with a stabilisation of the local currency and the restoration of public confidence in the banking system.

The Strategic Roadmap for the development of financial services in Azerbaijan includes short, medium and long-term action plans, which aim to consolidate financial institutions, to solve the problems of liquidity and capitalisation, and to establish new infrastructure (e.g. Credit Bureaus) for an improved flow of information and transparency in the sector. In this context, the recently launched second phase of the Financial Sector Modernisation Project is worth mentioning. This project envisages the modernisation and stabilisation of Azerbaijan's financial sector by strengthening its oversight and enhancing its legal and regulatory framework with technical support of the World Bank and the Swiss State Secretariat for Economic Affairs (SECO).<sup>7</sup>



**Interviews and focus group discussions**

*A recent decision on the restriction of cash payments is largely considered to be effective. However, there is still an obvious lack of visibility and transparency in the tax system*

The tax system, yet another central point of concern for the companies, continues to be reported as below average by the European businesses participating in the survey. According to the feedback received, taxation continues to create obstacles for companies and demotivates foreign investments. In fact, ambitious short-term revenue targets set for the tax authorities may not be fully in accordance with the government's longer-term efforts to create a more agile and benign business environment capable of attracting non-oil investments. EU companies suggest that more actions could be taken to enhance transparency, predictability and clarity of the tax system. Similarly, there is less enthusiasm among EU companies regarding the measures to stimulate the export of non-oil products.

# Chapter 2

## Macroeconomic and Sector Context : EU Business Perspective

Negative implications of the sustained low oil price in 2016 have hit particularly severely the oil-exporting countries, including Azerbaijan. Amid a contracted economy (by 3.8% in 2016, i.e. the first negative growth in two decades), the national currency depreciated by a further 12.5% (following almost 50% devaluation of the national currency vis-à-vis the USD in 2015), and the inflation rate accelerated to double digits (12.4% in 2016 compared to 4% in 2015). Nevertheless, the share of the non-oil sector in GDP grew by almost 5% in 2016 and accounted for 66% of the total GDP. The non-oil sector is predicted to grow by a further 2.5% in 2017.<sup>8</sup>

Among projections for 2017, the World Bank appears to be the most optimistic with a sluggish 1.2% GDP growth, while both IMF and the Asian Development Bank (ADB) expect the recession to continue in 2017 (both -1.1%). A recovery in Azerbaijan is forecasted to take hold in 2018 with the gradual increase of the non-oil private sector and the beginning extraction from the Shah Deniz gas fields.<sup>9</sup>

Figure 2: Structure of Gross Domestic Product in 2016  
Source: The State Statistical Committee of the Republic of Azerbaijan, 2017

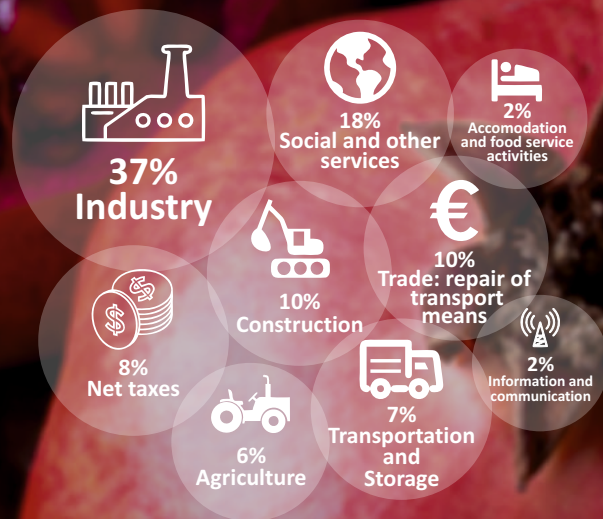
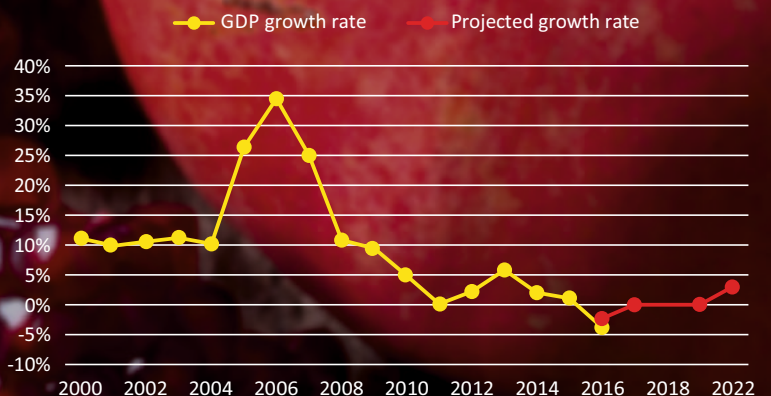


Figure 3: The GDP growth rate of Azerbaijan, 2000 - 2016  
Source: The World Bank Group, 2017

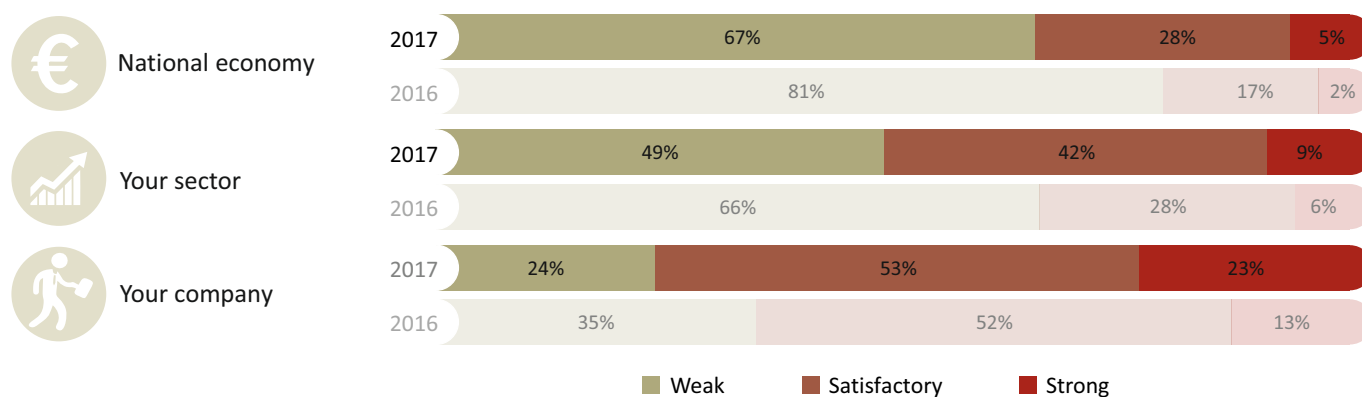


# Increased medium-term optimism among EU businesses

The ongoing macroeconomic and financial sector difficulties are reflected in the below-depicted EU business perceptions on the national economy, with 67% of correspondents considering the national economy as weak. This represents nevertheless a notable improvement in the EU businesses' perceptions of the current economic situation in Azerbaijan compared to 2016 when the same indicator was assessed as weak by 81% of EU businesses.

As in the 2016 survey, EU companies have a more favorable view of their own businesses than of the overall economy and their sectors. 42% of respondents this year (up from 28% in 2016) believe that the current situation in their respective sectors is satisfactory, and slightly more than half of the respondents feel satisfied with the current performance of their companies.

Figure 4: Assessment of the current situation in Azerbaijan, 2017 vs 2016

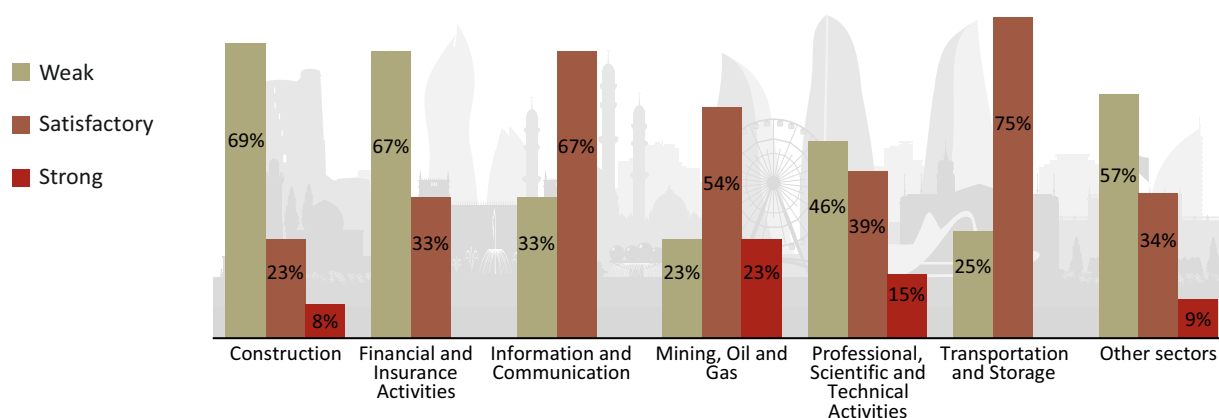


## Across sectors

Looking more deeply at individual economic sectors, important differences become apparent. According to the findings, construction is the least confident sector (9 out of 13 EU businesses working in the sector assess it as weak). Indeed, in 2016 the construction sector witnessed a 27.6%

contraction compared to 2015, largely due to cuts in public investments. Hence the sector accounted for 10% of the country's GDP in 2016 as opposed to 12% in 2015. In 2017, the construction sector is anticipated to shrink by a further 10%, followed by a gradual recovery in 2018.<sup>10</sup>

Figure 5: Assessment of the current situation across sectors, 2017



Not surprisingly, the comparatively weak performance of the construction sector, as viewed by EU businesses, is closely followed by the financial sector, with 6 out of 9 respondents from this sector saying that it is weak.

On the other hand, EU business optimism can be noted in the sectors of oil and gas (10 companies out of 13 consider performance satisfactory to strong), followed by transport (6 out of 8 companies) and ICT (6 out of 9 companies).

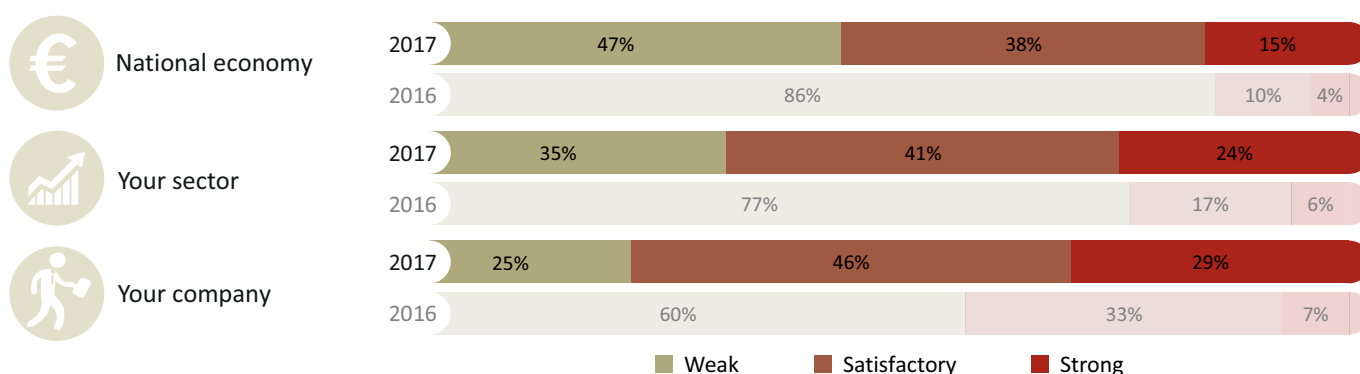
## Economic Trends and Prospects for 2017

Despite of rather negative assessments of the current situation, the EU businesses' outlook turns for the better in 2017. Also, the overall prospects for 2017 are remarkably optimistic compared to 2016.

More than half of the respondents expect the overall economic perspectives to stabilise or to further improve; whereas 47% expect the economic conditions to deteriorate. The findings explicitly indicate that the

companies regard prospects of their own sectors and businesses as more positive than the outlook of the overall economy. As many as 75% of the surveyed EU businesses report a stable and/or an improving outlook for their own businesses (a substantial increase compared to last year's 40%); and 65% expect the overall prospects for their respective sectors to remain stable or to enhance in 2017 (again, a substantial improvement from 2016 when only 23% of correspondents reported such a positive outlook).

Figure 6: Evaluation of prospects in Azerbaijan, 2017 vs 2016



## Across sectors

As Figure 7 suggests, these views show variations when further differentiated by sectors. Despite the looming challenges in the sector, the majority of construction companies are optimistic about future prospects, which may be due to the government's signaling of forthcoming investments in social housing projects in 2018. The ICT sector is by far the most pessimistic: 7 out of 9 surveyed companies point to declining prospects in their sectors. It is also the only sector to curb prospects already for 2017. It is worth noting here that recent statistics, from January 2017, point to a 5% contraction in employment in the ICT industry compared with the same period last year.<sup>11</sup> Despite the rising cost of living, average monthly nominal wages and salaries in the ICT sector increased by merely 6% in 2016.<sup>12</sup>

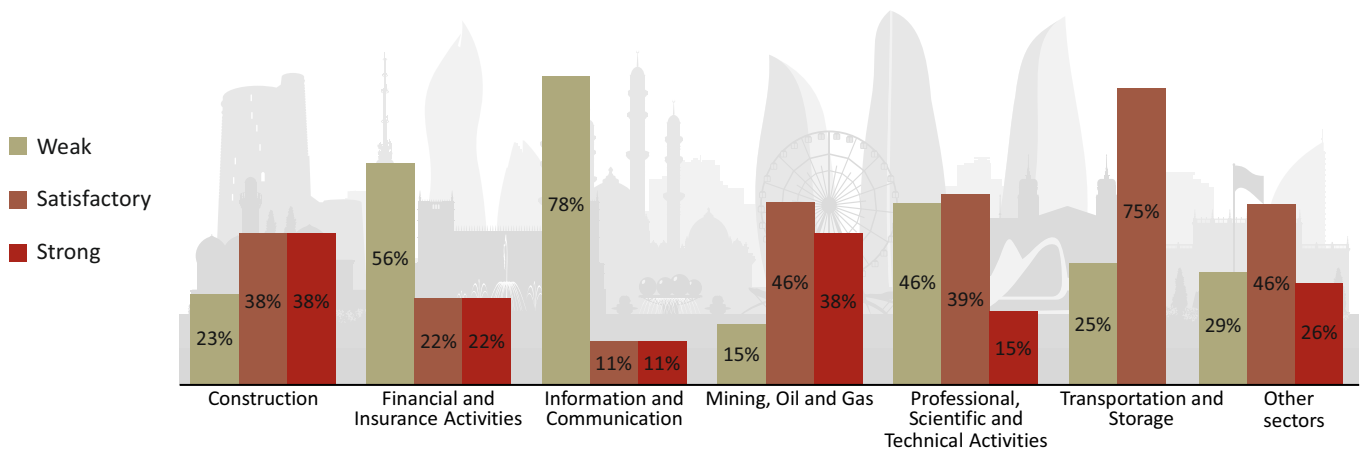


**CEO from the ICT sector**

*With relative salaries and wages down due to a significant depreciation of the local currency, highly-skilled and well-educated professionals in the ICT sector are leaving the country.*

The survey results also show a close correlation between the assessments of one's own business situation vis-à-vis the national economy. Among the companies that expect deterioration of the national economy in 2017, 45% also expect their own business situation to worsen. And vice versa: 84% of the businesses who believe that the situation for their companies is going to take a turn for the worse also believe that the overall economy is not promising.

Figure 7: Evaluation of prospects across sectors

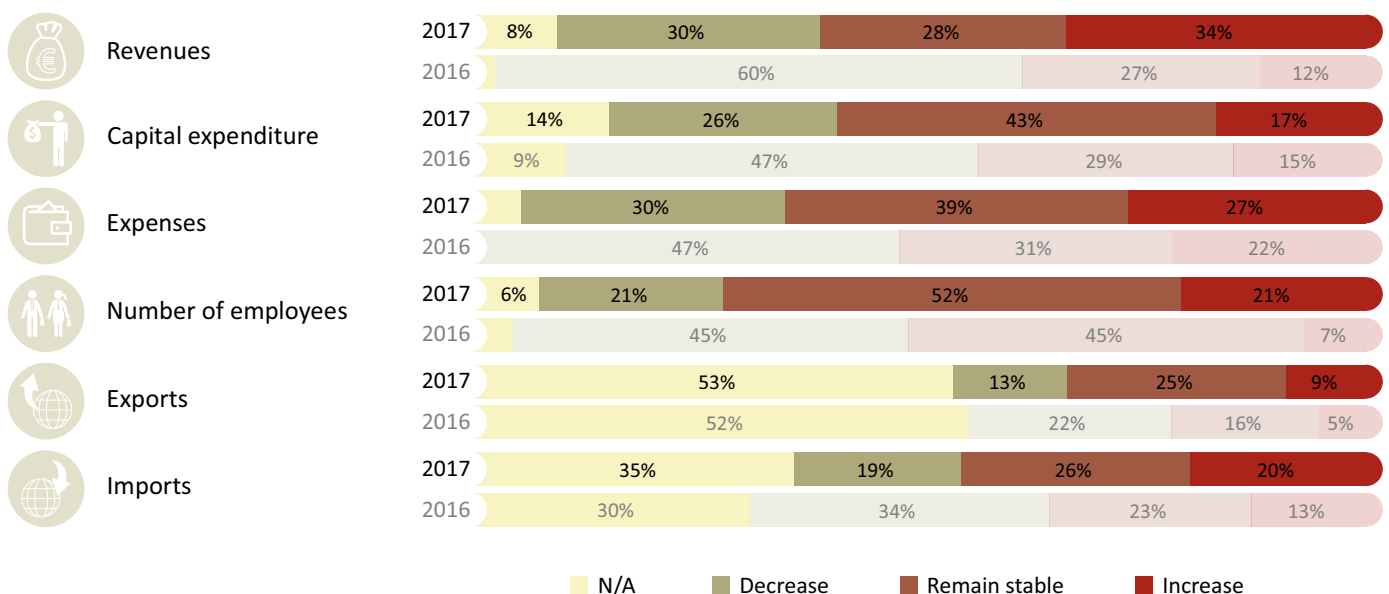


## Key performance indicators for 2017

EU companies clearly do not expect extensive revenue growth for 2017 and continue adapting to a second year in a low-growth/negative-growth economic environment. However, increased optimism observed in this year's survey reflects the (relatively) improved confidence of European businesses in medium-term growth perspectives. This year, 34% of respondents expect an increase in their revenues, up from a low of 12% in 2016.

In 2016, the survey findings showed that companies were not optimistic about the investment prospects on the ground, with 47% planning to reduce their capital expenditures. One year later, only 26% of respondents plan to cut back on their capital expenditures and many (43% versus 29% in 2016) expect it to remain stable. It is noteworthy that more than half of the EU companies are planning to keep their headcounts stable this year and only 21% consider a staff reduction (significantly down from a high of 45% in 2016).

Figure 8: Key performance indicators, 2017 vs 2016



Last year, many of the EU companies participating in the survey were not involved in international trade. Similarly, this year 53% of the respondents say that they are not engaged in exports and 35% do not import. However, EU companies involved in exports are clearly more optimistic about 2017 export prospects compared to 2016.\*

In this year's survey, we also introduced a new question to get a more detailed insight into the EU businesses' revenue expectations over the next five years.

Interestingly, they seem confident in their capacity to cope with uncertainties and to adapt to the changing configurations. 60% of the companies are upbeat about the longer-term outlook for revenue growth, almost matching the global average (51%) and clearly better than Central and Eastern Europe (44%) and Russia (41%).\*\*

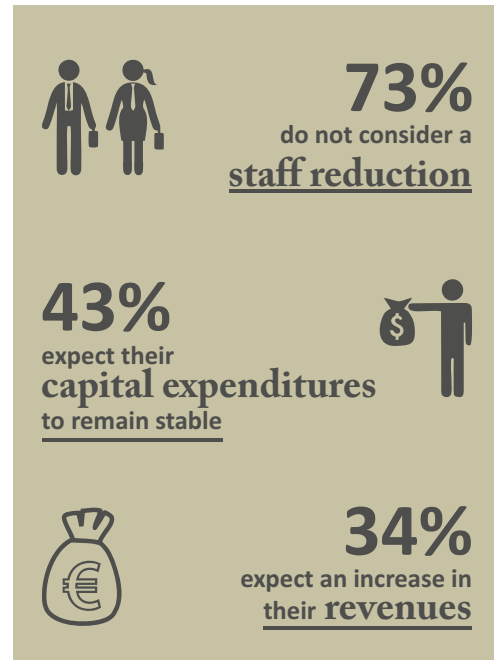
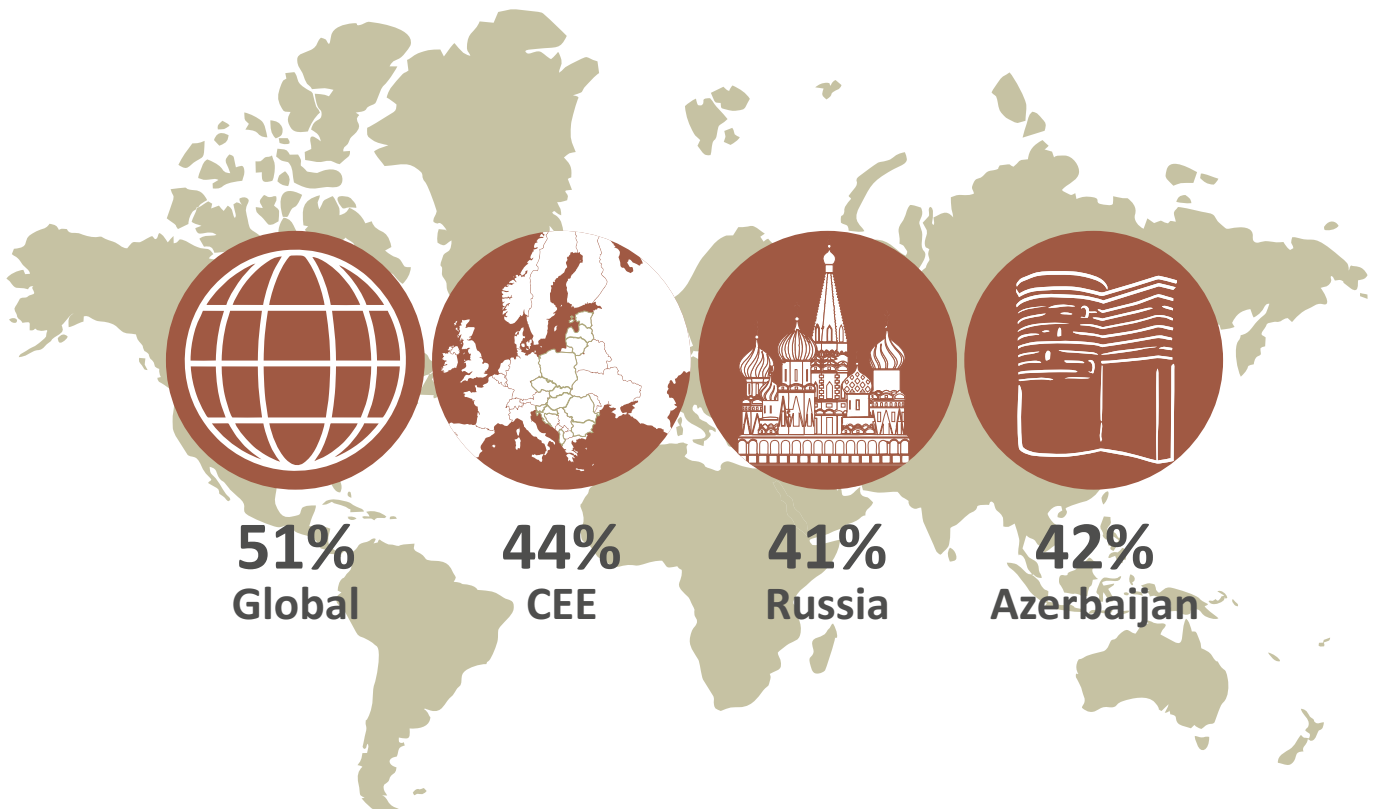


Figure 9: New insight - companies' revenue growth projection over next 5 years - Confidence level (%)

Source: 20 years inside the mind of the CEO in Central and Eastern Europe, PWC 2017

\*\*The CEE and Russia findings represent the confidence level for revenue growth over the next 3 years





# Chapter 3

## Key Local Business Climate Indicators: Performance, Challenges and Policy Responses

Given its strategically relevant geopolitical role in the region, Azerbaijan embodies huge growth potential when long-standing institutional bottlenecks undermining investment activities are effectively alleviated. The key challenge here remains to outperform peers, through provision of competitive investment incentives and surpassing long-term growth opportunities complemented with sustainable implementation of structural reforms.



### Business climate in three dimensions

It was the main objective of the EU Business Climate Survey to capture the views of EU businesses with regard to the state of the business and investment environment in Azerbaijan. The survey aimed to shed light on EU business views of three major dimensions of the business environment: i) conditions in the labour market, ii) operational business environment, and iii) economic policies and institutions.

#### Conditions in the labour market



- Qualification of employees
- Productivity of employees
- Labour costs
- Availability of skilled workers
- Labour law
- Flexibility of immigration policies
- Academic education
- Vocational training

#### Operational business environment



- Infrastructure
- Local suppliers
- Conditions for Research & Development
- Payment discipline
- Access to capital



#### Economic policies and institutions

- Political and social stability
- Public administration
- Customs regulations
- Customs tariffs
- Tax burden
- Legal certainty
- Measures to eliminate corruption
- Transparency of public procurement
- Economic policies
- Taxation policy
- Access to public funds

# Business climate indicators as perceived by EU companies

The survey findings suggest that several aspects, which have a strong effect on the business and investment decisions (customs regulations, flexibility of immigration policies, political and social stability, among others) have improved compared to 2016: however, they are still nowhere near satisfactory. And in some areas (productivity of employees, payment discipline, access to public funds, among others) EU companies do not report any positive improvement.

While the reforms have thus reaped some effects, it is too early to become complacent: the aggregate rating average of the business climate aspects are still below the average and carrying out the structural reforms agenda as set out in the economic reform roadmaps remains imminent.

Figure 10: Change in business climate indicators as perceived by EU businesses, 2016 - 2017



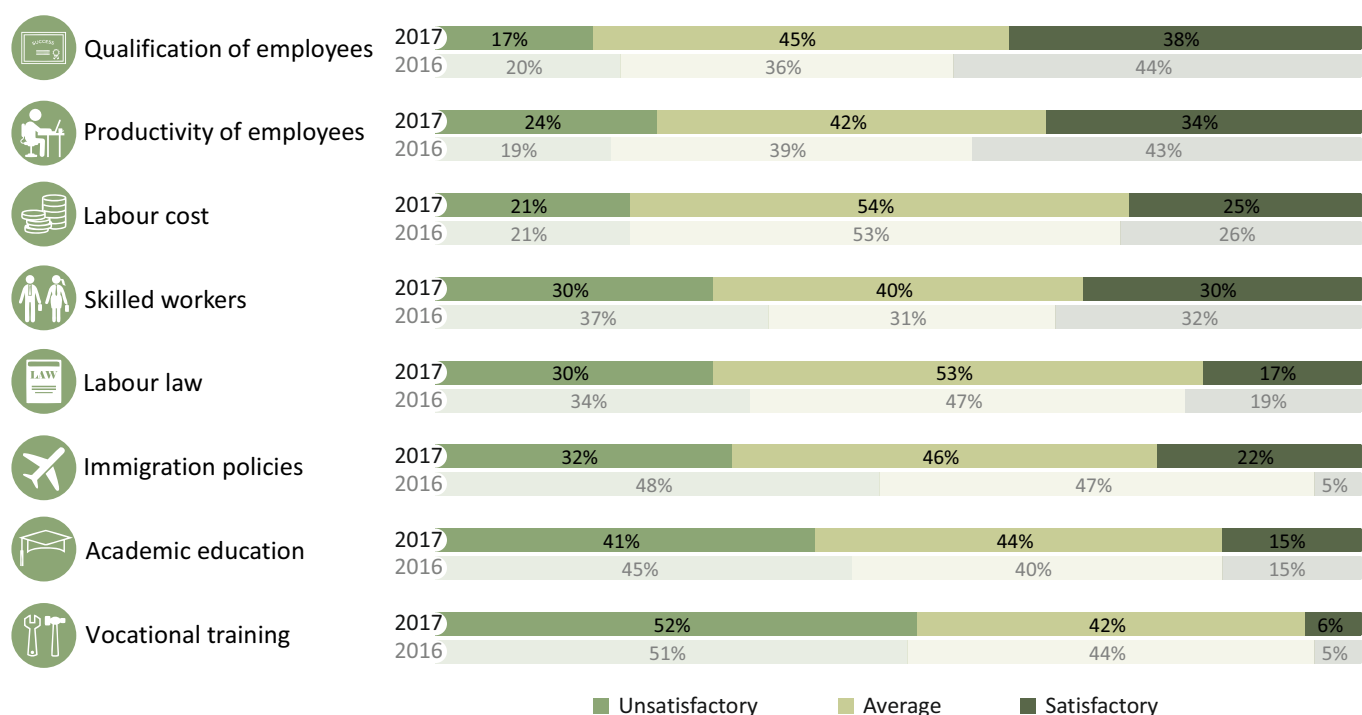
# Conditions in the labour market

The economic recession experienced last year hit hard the Azerbaijani labour market and resulted in a steep increase in unemployment as many public and private enterprises had to reduce their headcounts.

The rest of the determinants are below average with academic education and vocational training receiving the lowest rating from the European companies operating in Azerbaijan.

Of all labour market indicators, qualification and productivity of employees are rated slightly better than the average.

Figure 11: Rating of the labour market indicators, 2017 vs 2016



## Shortage of skilled labour remains a concern

The labour potential of a country is traditionally one of the key determinants for foreign investment; and the survey results show that it remains one of the main sources of concern for EU businesses.

Only 30% of respondents are satisfied with the availability of skilled workers in Azerbaijan; and respectively 38% and 34% are confident about the qualification and productivity of their employees. However, productivity of employees is the factor with the most salient negative shift since last year.

When further examined across sectors, the most remarkable trend is observed in the companies falling under the categories of “Financial and Insurance Activities” and “Professional, Scientific and Technical Activities”. 5 out of 9 of the former companies are satisfied with the availability of skilled employees, whereas 6 out of 13 of the latter mark it as unsatisfactory.

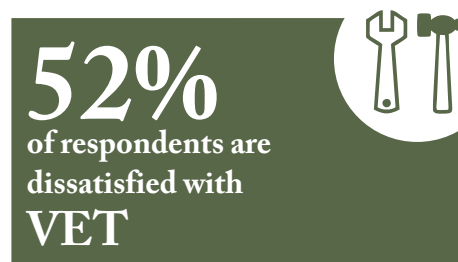
Interestingly, the respondents do not indicate any significant improvement in terms of labour costs, despite the steady devaluation of the Azerbaijani Manat against foreign currencies since 2015.

Of all economic sectors, construction is the most confident regarding labour costs, with 6 out of 13 marking it as good, despite increasing monthly average wages in the sector (by 20% in 2016).<sup>13</sup>

The State Agency on Vocational Education was established in April 2016, to address the gaps in vocational education and training (VET). The reforms introduced in academic education and in VET are, in the opinion of the European companies, pointing in the right direction but the tangible benefits for the businesses have not yet been observed. 41% and 52% of respondents respectively are dissatisfied with academic education and VET in Azerbaijan.

Although new projects in many sectors, including the Oil and Gas sector, envisage creating new jobs by 2020, the skills mismatch is one of the key issues that needs to be addressed in the quest to foster productivity and innovation in the labor market.

While this is being addressed by the Government of Azerbaijan with adoption of a roadmap for development of VET, these reforms need to be implemented before benefit can be yielded.



## Improvement in immigration policies is noticeable

In 2016, the survey results as well as the interview discussions marked the cumbersome visa and work permit procedures as one of the main challenges for EU businesses. This year, immigration policies, although still below the average, is the most notable area of improvement amid labour market indicators. The share of companies seeing immigration policies as a problem has notably declined from 48% in 2016 to 32% in 2017.

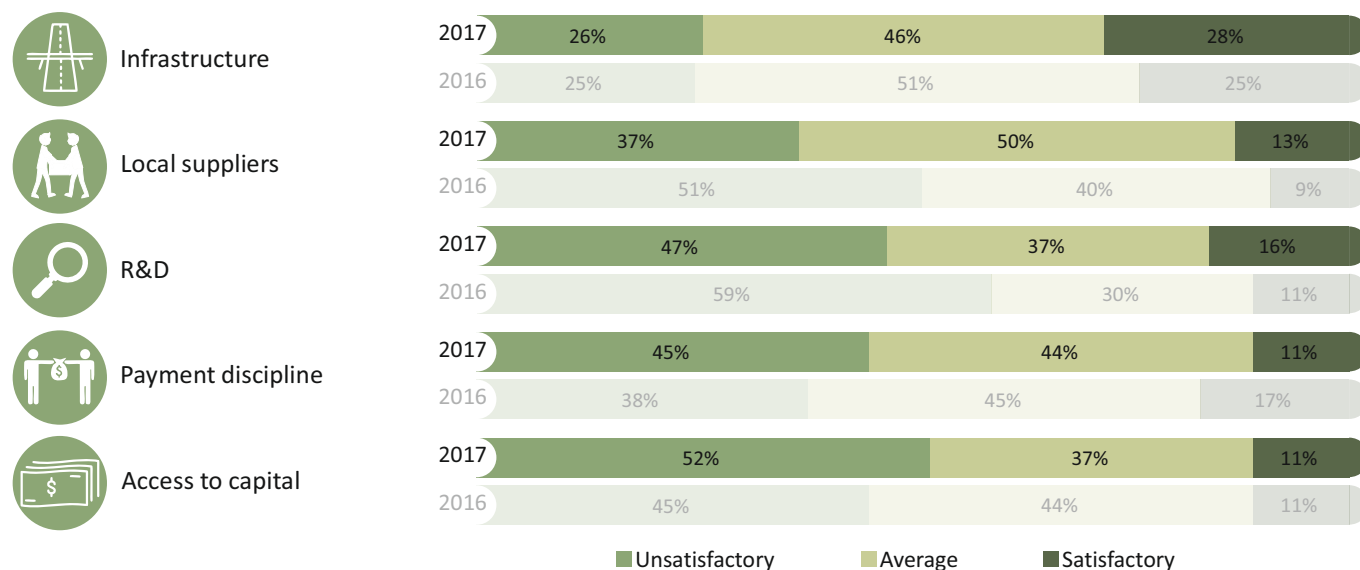
This contraction was mainly triggered by the recent launch of the ASAN e-visa portal (see the page 7). Despite this optimism, EU companies still report numerous administrative hurdles when hiring foreign citizens (e.g. quota for foreign employees). Therefore, last year's recommendations to simplify and harmonise migration procedures for foreign employees in general, and for highly skilled professional expatriates in particular, are still valid.

## Operational business environment

Infrastructure, the quality of local suppliers, access to capital and others are the main drivers of competitiveness and areas of particular importance for economic diversification. Yet, the European businesses mark all the operational environment proxies below average, revealing

that Azerbaijan still has a substantial gap to be closed in this area. The biggest relative weaknesses are believed to be the payment discipline and access to capital, whilst infrastructure receives the most positive rating. This outcome is relatively similar to the findings in 2016.

Figure 12: Rating of the operational business environment indicators, 2017 vs 2016



## Infrastructure remains the best rated operational business environment indicator

Despite recent challenges from the exchange rate volatility and macroeconomic environment, Azerbaijan plans to remain focused on improving its operational business environment particularly by upgrading its infrastructure. To improve the country's position as a regional logistics and transportation hub, the government plans to invest in several railway and seaport projects integrating various regions of Azerbaijan as well as expanding modern communication facilities to internationalise the business. Although European companies report only slight improvement in infrastructure compared to 2016, 46% rate it as average.

## The quality of local suppliers and conditions for R&D have improved

The availability of local suppliers has two vital implications for the national economy: on the one hand, by developing a supplier basis, the government can simultaneously stimulate the SME sector and its integration into the global supply chain. On the other hand, advanced local supply chains can increase the reliability and attract more foreign investments. This year, slightly more companies are satisfied with the quality and availability of local suppliers. However, 37% of European businesses still signal difficulties in finding a suitable local partner. In this context, one of the promising action items of the published SME roadmap is the designated centralised Agency for Small and Medium Enterprises to be established this year (the work already started in April, with the support of the EU).



CEO from the construction sector

*There is still huge potential to improve physical infrastructure in Azerbaijan, given its big ambitions to become a transit hub in the region.*



Vice president from the oil and gas sector

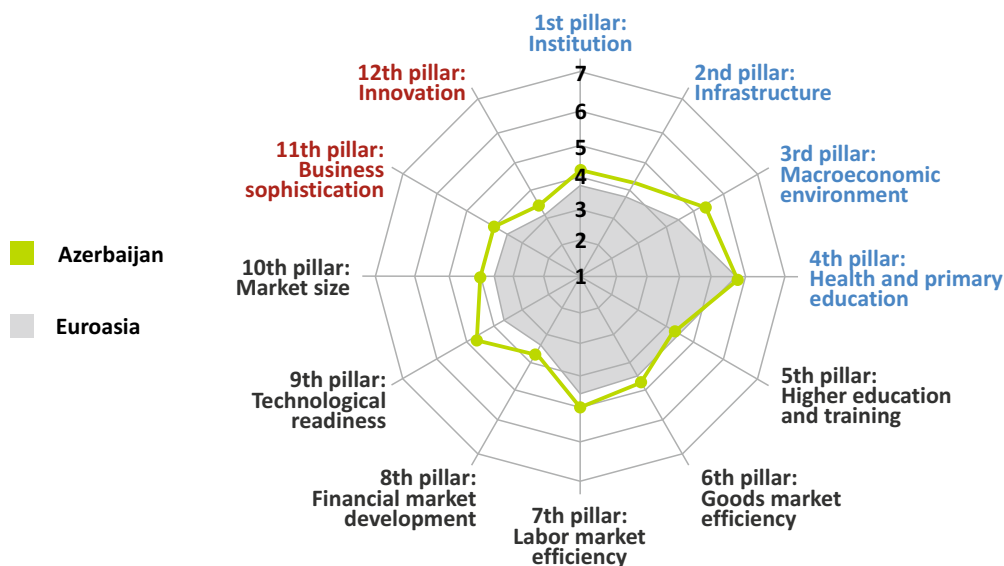
*The SME sector is currently underdeveloped in Azerbaijan. Hence, more practical support by the government is needed to stimulate entrepreneurship and to encourage the SMEs.*

According to the Global Competitiveness Report 2016-2017, company spending on R&D increased considerably from the 71<sup>st</sup> to the 38<sup>th</sup> place, yet the proportion of dissatisfied companies (47%) is still higher than the proportion of satisfied ones (16%). Although Azerbaijan

largely corresponds with the Eurasian economies in most of the pillars, it still needs to accelerate progress to close the gaps with the most advanced economies particularly in innovation capacity and technological readiness.<sup>14</sup>

Figure 13: Performance overview of Azerbaijan, 2016 - 2017

Source: The Global Competitiveness Report 2016 - 2017



## Inability to access capital may adversely affect payment discipline

45% of the survey respondents deem the payment discipline unsatisfactory (up from 38% in 2016) whereas 52% of businesses say that they still face barriers in accessing capital (versus 45% in 2016). In line with these findings, the Global Competitiveness Report 2016-2017 ranks Azerbaijan 101<sup>st</sup> (out of 138 countries) when it comes

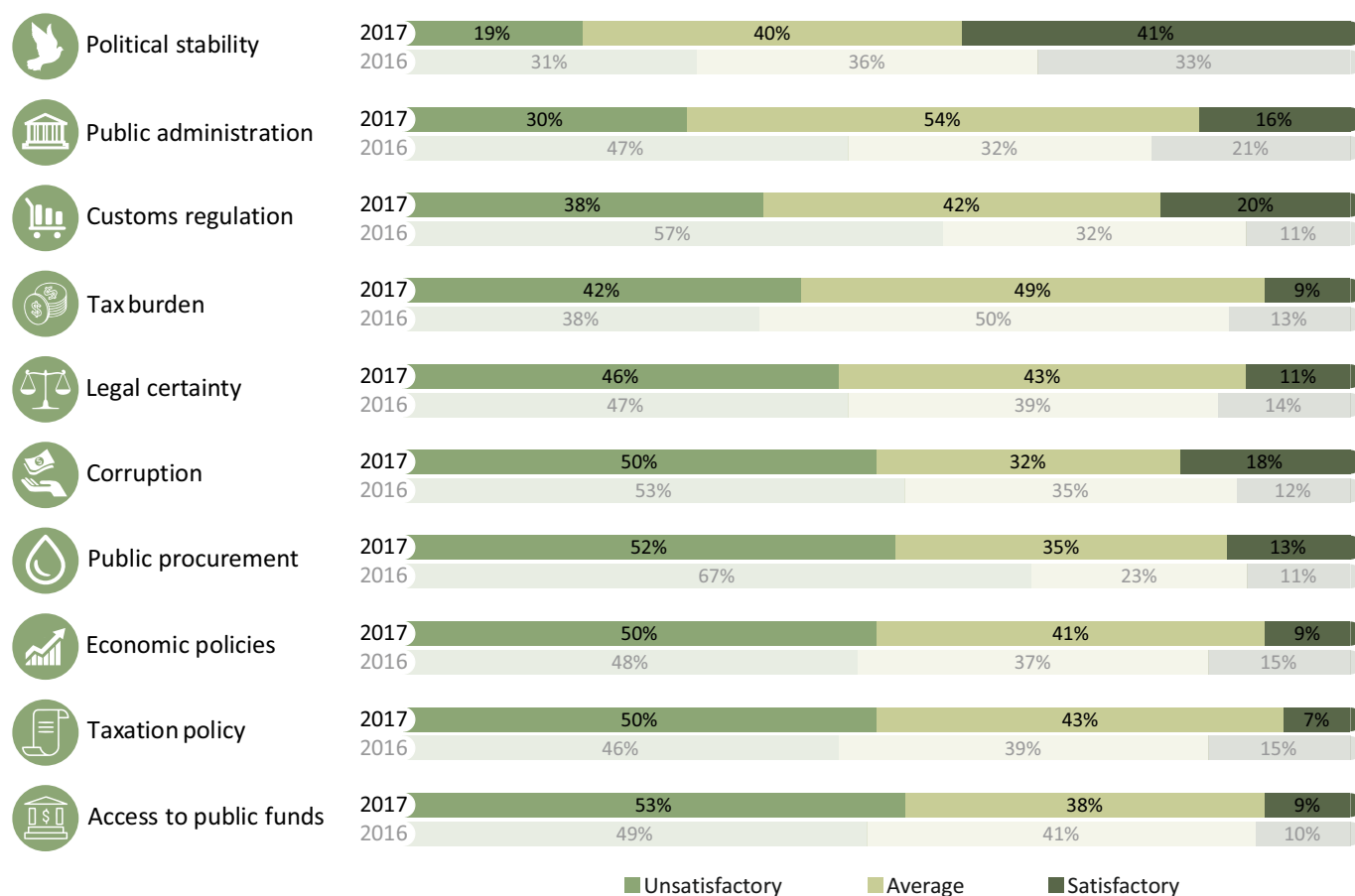
to accessing loans this year, downgrading it by 22 places within one year.<sup>15</sup> Overall, 64% of the companies that are not confident about access to capital are also not satisfied with the payment discipline: in other words, cumbersome access to capital might be one of the factors impairing the payment discipline of the companies.

## Economic policies and institutions

A solid economic framework and well-functioning institutions are certainly pivotal in creating an attractive business environment and enticing foreign investment. Tax policy, customs regulations and transparency of public procurement, among other things, are decisive realms of the economic policy shaping the future expectations of businesses and in turn affecting their investment decisions. This year's survey results report positive shifts in political

stability, customs regulations, transparency in public procurement, corruption and public administration. Conversely, increasing concerns can be observed over tax policy, tax burden and access to public funds.

Figure 14: Rating of the economic policies and institutions, 2017 vs 2016



## Political stability continues to be a credible anchor for businesses

In 2016, political stability was the third best rated of all business climate indicators following qualification of employees and infrastructure. One year later, the proportion of companies marking it as good has remarkably increased to 41% from 33% in 2016. Along similar lines, public administration has improved according

to the entrepreneurs' views: the level of dissatisfaction decreased from 47% to 30% since last year. It is worth noting that, according to the Executive Opinion Survey conducted by the World Economic Forum in 2016, political and government instability are the least problematic factors for doing business in Azerbaijan.<sup>16</sup>

## Legal certainty and public procurement call for a greater transparency

Legal certainty and transparency of public procurement are two indicators having stabilised or modestly improved compared to 2016. Nevertheless, the majority of respondents - namely 46% (legal certainty) and 52% (transparency of public procurement) remain dissatisfied with the current situation in these spheres. The feedback

from European companies suggests that most entrepreneurs still tend to avoid courts in the settlement of economic disputes due to perceived biased, non-transparent and lengthy procedures with even more troublesome enforcement processes.

Starting from 2007, up until the pre-crisis period, the Azerbaijani judicial system underwent significant legislative and structural improvement, as a result of which it was selected as a “top reformer” in Doing Business Report 2009 by the World Bank.<sup>17</sup> Notwithstanding, EU companies have hardly experienced any genuine changes in this area in the last two years, and some even report a regression in this domain since the on-set of the economic crisis.

An effective rule of law is one of the main vectors for enhanced investment attraction to the country. The findings suggest that the lack of transparency and concerns on legal certainty weigh on smaller firms to a greater degree than on medium-sized enterprises.

## Reform of the tax system needs an additional boost

Slightly more European businesses this year express their discontent about tax policies than in 2016. Every second company regards the tax system as problematic and 42% of respondents are dissatisfied with the overall tax burden (up from 38% in 2016). 53% of EU companies report inability to access public funds. The tax burden and the difficulties to access capital are clearly a greater problem for smaller businesses than for larger ones, whereas the tax system proves to be a common concern for all respondents.



### Managing partner from the professional activities sector

*Tax inspections and assessments are often made without a reasonable basis in the law, which demotivates the foreign investors and eventually makes them leave the country*

50% of surveyed businesses still say that the economic policies are unpredictable. This suggests that a sustainable adjustment based on a comprehensive set of policies and consistent messages from the policy makers is essential to address the concerns and restore public trust.



### Interviews and focus group discussions

*A competitive business environment is ensured only when there is an independent and transparent judiciary system in the country. Legal certainty remains one of the main concerns for foreign investors and requires immediate attention.*

Corruption continues to create additional costs for EU businesses as half of the companies believe that it is still one of the key problematic areas (although the indicator has moderately improved compared to 2016). According to the results, corruption is not limited to smaller companies and is hardly differentiated across sectors, with the exception of the Oil and Gas sector (only 4 companies out of 13 report corruption as a problem in this sector).

## Credibility of customs regulation increases significantly despite rising tariffs

While outlining further gaps to be bridged, the surveyed companies acknowledge the government's success in carrying out some reforms. Last year, the level of satisfaction on customs regulations was somewhat worse than that for taxes. This year, however, the most remarkable positive shift is reported in customs regulations (although 44% of companies are not happy with the rising customs tariffs). This feedback from European businesses is also supported by the Global Competitiveness Report 2016-2017, where in terms of customs procedures Azerbaijan moved up 37 places, from 122<sup>nd</sup> in 2016 to 85<sup>th</sup> in 2017.<sup>18</sup>



**44%**

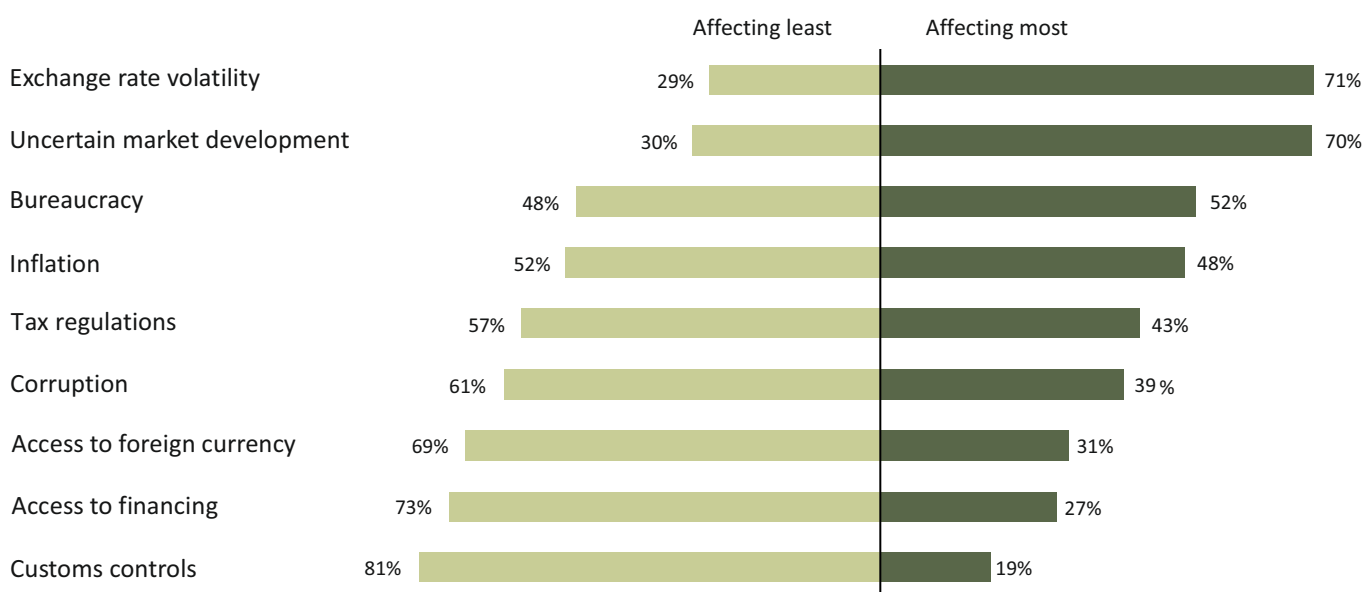
of EU companies are not happy with current **customs tariffs**



The surveyed EU businesses were also invited to rank unfavorable economic conditions that their businesses experienced this year. Noteworthy is that only 19% of respondents say that customs controls affect them, which is significantly less than in 2016 (52%). The exchange rate volatility, uncertain market development and bureaucracy remain the top three cited factors having the greatest adverse effect on the companies.

As expected, the negative impact of inflation seems to have been more severe this year than in 2016, whilst corruption is reported to have less impact on the businesses in 2017. Interestingly, inflation is ranked as the second most cited problem for doing business in the Executive Opinion Survey 2016, up from the 11<sup>th</sup> place a year before.<sup>19</sup>

Figure 15: Ranking of the economic conditions affecting EU companies, 2017

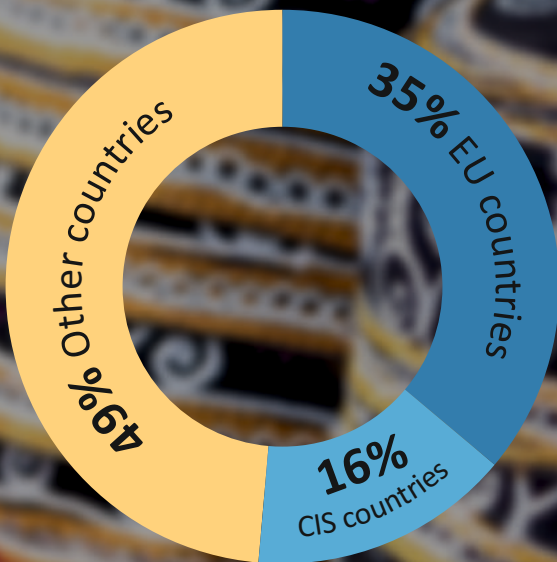


# Chapter 4

## Azerbaijan as an Investment Destination\*

The recently adopted Strategic Roadmaps suggest that in order to successfully implement envisioned response measures and thereby attain stated priorities by 2020, 27 billion AZN of investment is required. As the reform agenda communicates, to this end, the government envisages to mobilise local means coupled with the foreign private sector resources.

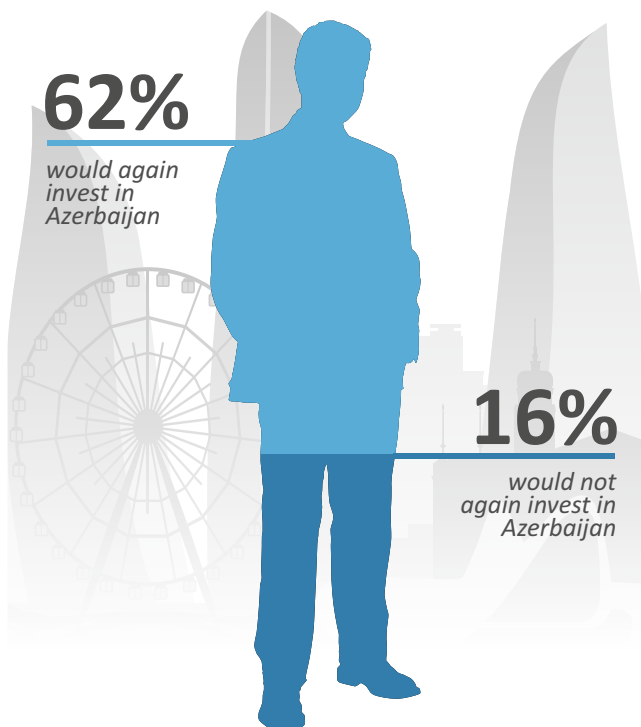
Figure 16: The structure of external trade turnover in 2016  
Source: The State Statistical Committee of the Republic of Azerbaijan, 2017



In 2016, 14.329,5 million USD of total investment were directed to the Azerbaijani economy, 71% of which came from the foreign sources. European companies constitute the main source of foreign investment in Azerbaijan with 20 billion USD invested in the Azerbaijani economy in ten years, which accounts for 45% of all foreign direct investment (FDI) in Azerbaijan over this period. Moreover, with 35% of non-oil FDI, the EU also represents the largest source of non-oil-related foreign investment.<sup>20</sup>

# Would you again invest in Azerbaijan?

When asked if they would again invest in Azerbaijan, 62% of EU businesses participating in the survey this year said “Yes”, whereas 22% remained undecided. A sign of the increased optimism between the 2016 and 2017 survey is that the share of those who would again invest in Azerbaijan has risen by 22% in one year. As was the case last year, the oil companies are less likely to reconsider their investments compared to other sectors.



**CEO from the transport sector**

*We are positive in the long term. Considering the current priority projects in Azerbaijan, we expect our activities to augment.*

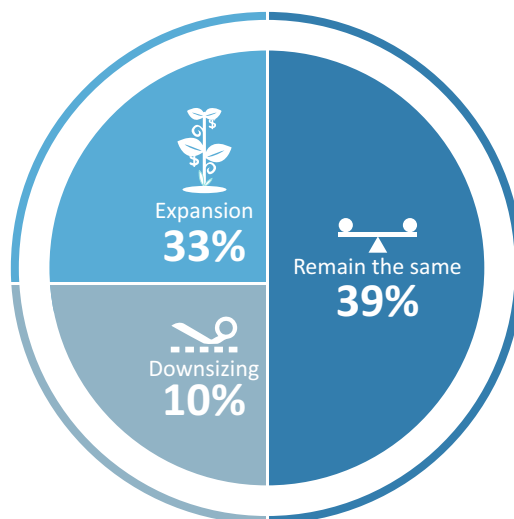
It is important to note that from “No” it cannot be concluded that the investor is planning to leave the country but only that he would prefer another country as an investment destination under current circumstances. Belarus, Kazakhstan, Georgia, Turkey and Germany are the cited alternatives by the 5 companies who say they are planning to move to a third country over the next one to two years.



**CEO from the construction sector**

*Currently, our company is mainly active in the construction sector. We are now planning to expand into the new segments of the economy in Azerbaijan.*

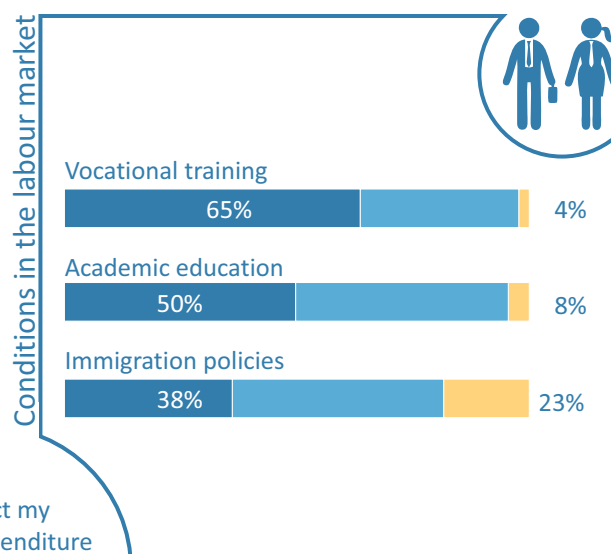
Hence, in line with the companies' commitment to Azerbaijan, optimism of EU businesses about the investment opportunities in a longer timespan becomes clear in the survey this year. While in 2016, 27% of the European companies were considering downsizing and 8% closing down their businesses, this year 39% choose to remain the same and 33% say they plan to expand in Azerbaijan over the next one to two years.



# Improved business conditions are a prerequisite for further foreign investments

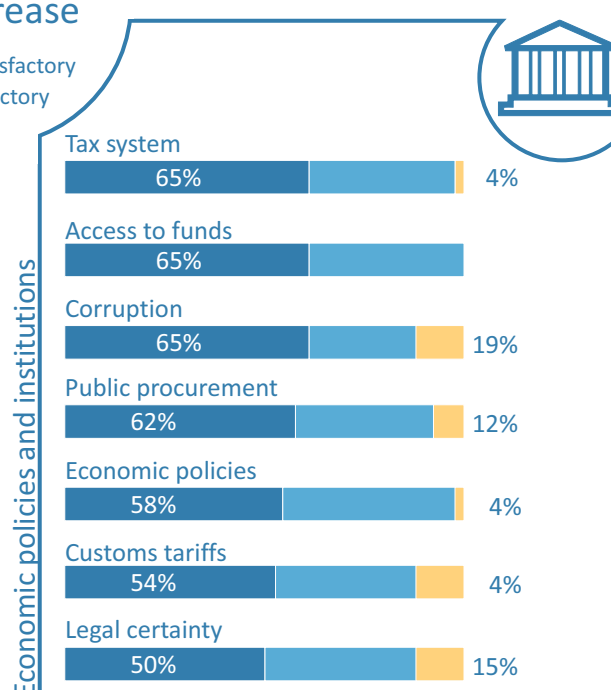
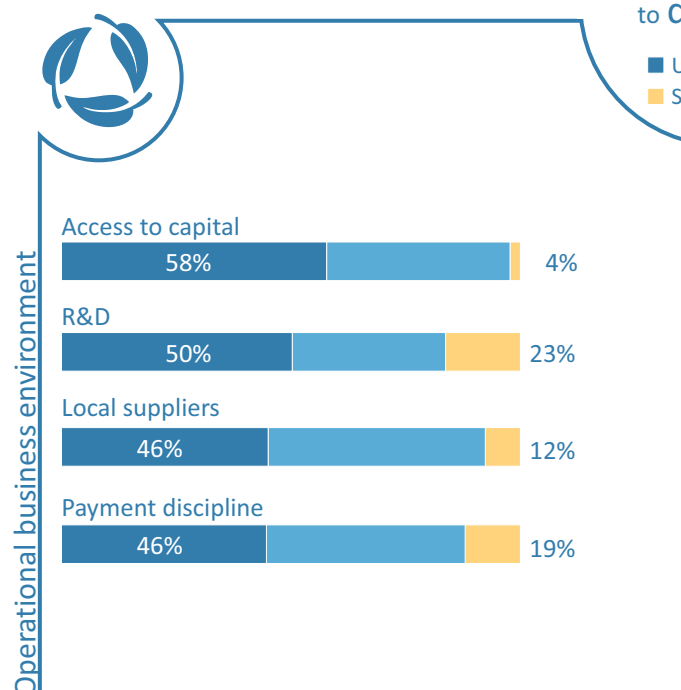
The survey results also prove that business conditions have a direct and strong impact on investment plans of EU entrepreneurs: the lower the level of confidence about the business indicators, the smaller is the willingness to invest (capital expenditure). The cross-tabulation analysis suggests that decisions on capital expenditure are particularly based on the economic policy considerations in Azerbaijan.

Interestingly, these results are further supported by the perception of European businesses with regard to most important reforms to further enhance the investment climate in Azerbaijan.



I expect my capital expenditure to **decrease**

■ Unsatisfactory  
■ Satisfactory



31% believe that the next steps by the government should be the provision of more transparency in the tax and customs systems; and 26% think that the implementation of e-governance is the best measure in fighting petty corruption and reducing bureaucracy. 17% of respondents state that ensuring that the academic education and VET system in the country match companies' needs is one of the priority areas to be addressed by the government.

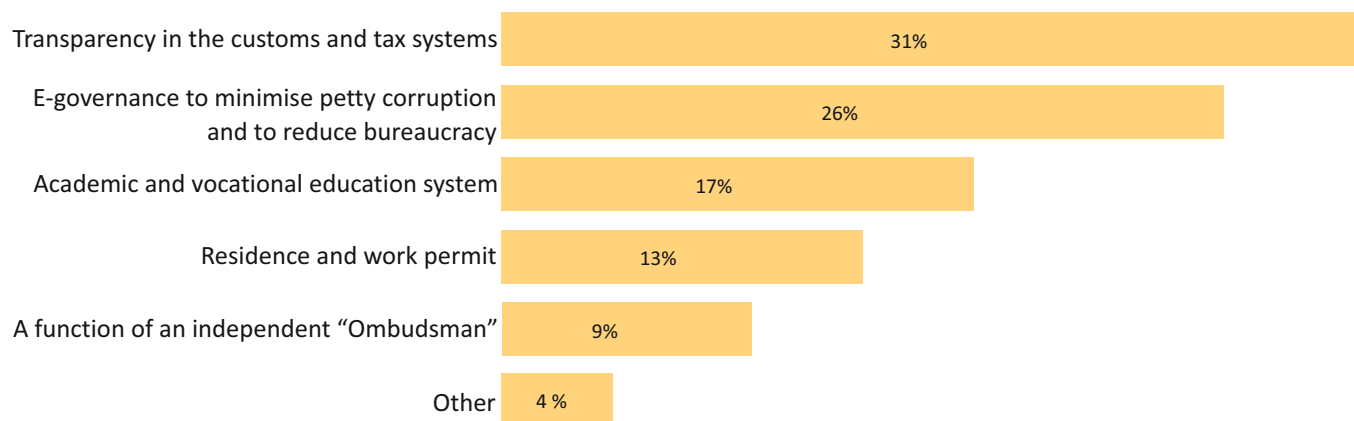
In addition to these, the focus group discussions held this year suggest that immediate policy measures are required to address adversities in the judiciary system and to enhance the financial sector stability.



**CEO from the financial sector**

*Azerbaijan is going through a remarkable transition currently; however, I believe that financial and economic difficulties will be overcome soon if declared structural reforms are duly executed.*

Figure 18: Suggested reforms for improving the business climate in Azerbaijan



# Conclusion

Despite notable improvements in the EU businesses' perception of the economic situation over the past one year, the majority still consider the national economy as weak. The findings of the survey suggest that concerns about the fragile economy and a low level of government investments continue weighing on many EU companies operating in Azerbaijan this year. The sluggish economic outlook emphasises the need for more comprehensive economic policies and their implementation to support the diversification of the economy.

This year, improvement in the customs system and immigration policies (referring to the e-visa in particular) was positively assessed. Since many EU businesses express a lack of confidence in the local judicial system and report the tax system as the main point of concern for their business operations, structural reforms in these areas remain a priority. Moreover, discussions suggest that additional measures to enhance the human resource base through improved academic education and vocational training would promote opportunities for the private sector in general and small and medium-sized companies in particular.

Consistent with the projected moderate recovery of the Azerbaijani economy in 2018, the European companies' longer-term outlook for revenue growth is positive. Thus, if genuinely implemented, the government's Strategic Roadmaps are expected to alleviate the economic uncertainty and important downside effects of the financial sector, and hereby stimulate the business environment in Azerbaijan.

It is important to note that the EU Business Climate Survey Azerbaijan 2017 was conducted soon after the launch of the Strategic Roadmaps and therefore, the real outcome of this long-term government agenda can be gauged with the implementation of annual assessments of the business and investment climate in Azerbaijan.



## Annex A: Methodology

In early 2017, the German-Azerbaijani Chamber of Commerce (AHK Azerbaijan) with the support of the EU Delegation to Azerbaijan and Eurochambres, conducted the EU Business Climate Survey 2017 Azerbaijan among EU companies operating in Azerbaijan. Based on the findings of the survey, the report was constituted in order to shed light on the general economic condition and business climate in Azerbaijan, reflected from the viewpoint of EU businesses.

The questionnaire incorporated 20 questions pertaining to 3 sections:

- Economic situation in Azerbaijan
- Impact of Azerbaijan's economic situation and business environment on the company
- Company demographics

Following the same format of the 1<sup>st</sup> Business Climate Survey Azerbaijan, this year two new questions were introduced for assessing the effectiveness of government reforms in improving business climate in Azerbaijan and for revealing companies' revenue growth expectations. The respective findings were analysed in the light of the recently implemented reforms in the country and supported with the statistics of international financial institutions like the World Bank and Asian Development Bank as well as the State Statistical Committee of the Republic of Azerbaijan. Moreover; in order to have a clear overview of YoY change in some indicators, the results of the current year's (2017) survey were compared to the one conducted in the previous year (2016).

The survey was distributed online through QuestionPro survey platform to more than 300 EU companies representing 23 EU countries. Within the period from 6 February till 17 March, the total number of complete submissions was 106, corresponding to a response rate of 35%. Additionally, 27 responses were partially filled in which therefore could not be considered in the report. After data quality control, 100 valid and complete responses were collected to have a representative and statistically significant sample for the analysis of the business sentiment of EU companies operating in Azerbaijan. The aggregated responses were treated in strict confidentiality and processed anonymously.

Furthermore, face-to-face in-depth interviews were conducted with 14 EU companies representing diverse sectors and playing a major role in the economy of Azerbaijan. Their remarks and inferences on the relevant issues are anonymously quoted throughout the report. In addition, the survey discussions held in the focused group meeting with the participation of the selected EU companies contributed to the interpretation of the acquired data in this study.

The overall mean values or average rates were calculated by using the arithmetic mean. To investigate the possible correlation between the data, cross-tabulation analysis were conducted where required.

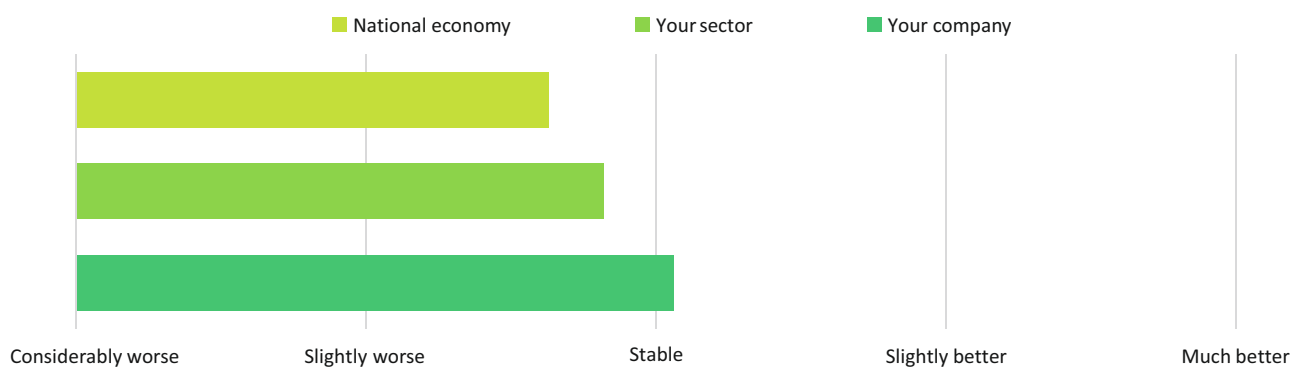
# Annex B: Detailed Survey Findings

## Q1. How do you rate the current situation in Azerbaijan?



Answer options	Very weak	Weak	Satisfactory	Strong	Very strong	Rating average	Response count
National economy	7	60	28	3	2	2.33	100
Your sector	8	41	42	8	1	2.53	100
Your company	1	23	53	21	2	3.00	100
<b>Total</b>							<b>100</b>

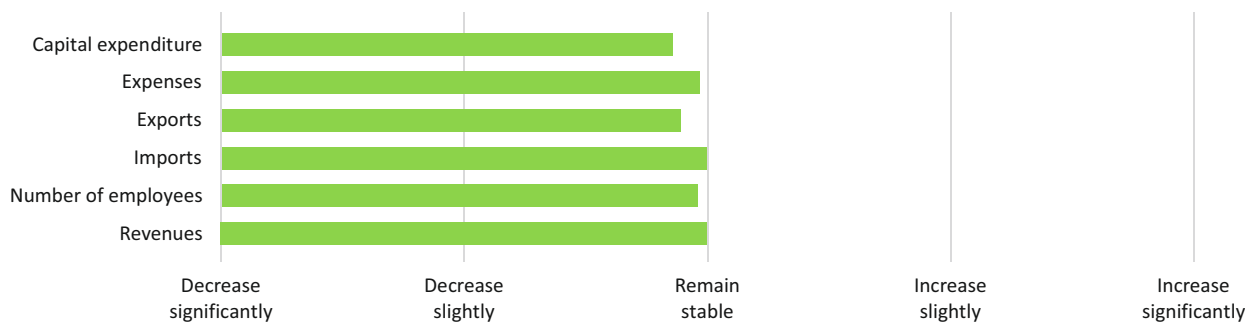
## Q2. How do you assess the prospects in Azerbaijan for 2017 compared to the previous year?



Answer options	Considerably worse	Slightly worse	Stable	Slightly better	Much better	Rating average	Response count
National economy	7	40	38	13	2	2.63	100
Your sector	9	26	41	22	2	2.82	100
Your company	3	22	46	24	5	3.06	100
<b>Total</b>							<b>100</b>

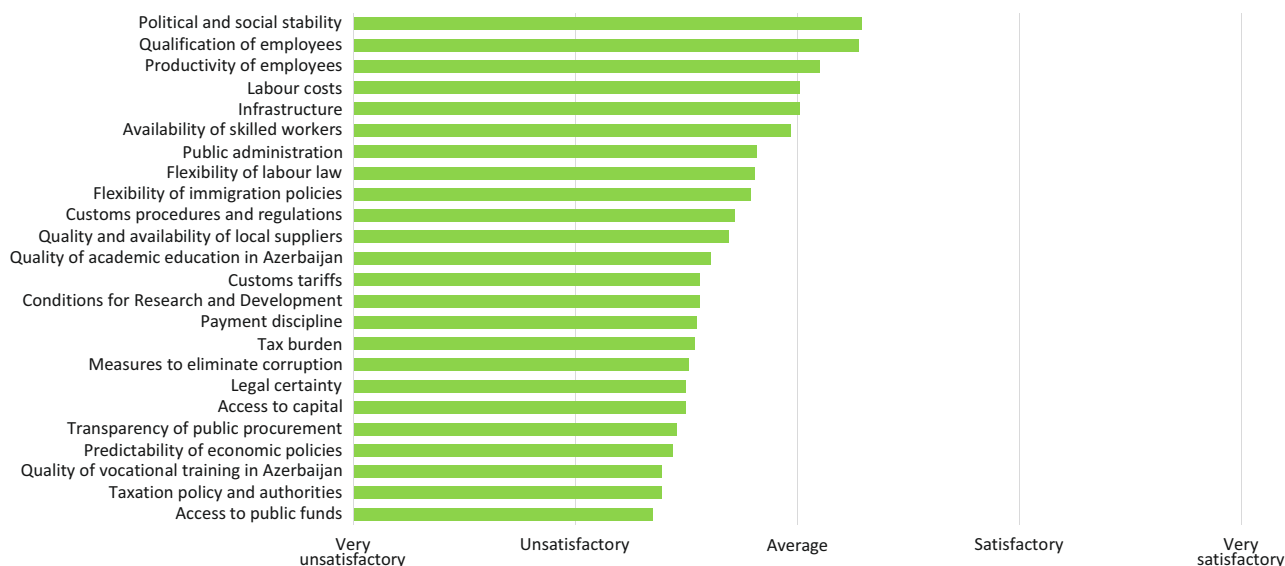


**Q3. How do you expect your company to perform in 2017 compared to the previous year?**



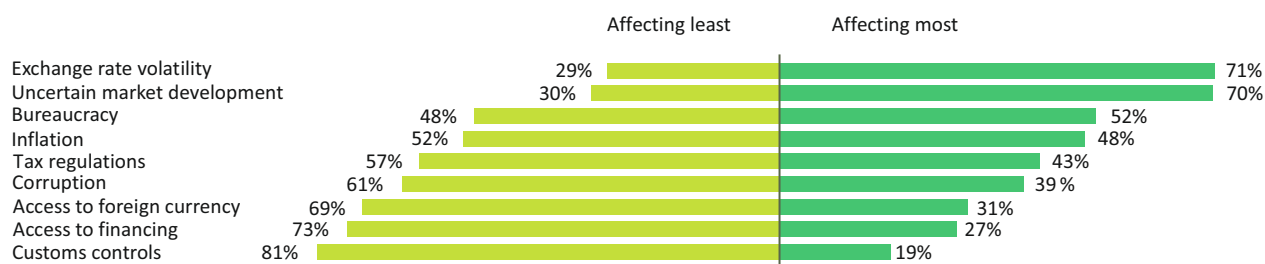
Answer options	Decrease significantly	Decrease slightly	Remain stable	Increase slightly	Increase significantly	Not applicable	Rating average	Response count
Capital expenditure	6	20	43	14	3	14	2.86	100
Expenses	8	22	39	19	8	4	2.97	100
Exports	3	10	25	7	2	53	2.89	100
Imports	4	15	26	17	3	35	3.00	100
Number of employees	5	16	52	20	1	6	2.96	100
Revenues	7	23	28	31	3	8	3.00	100
<b>Total</b>								<b>100</b>

**Q4. How do you rate the following local indicators of business environment for your company/sector?**



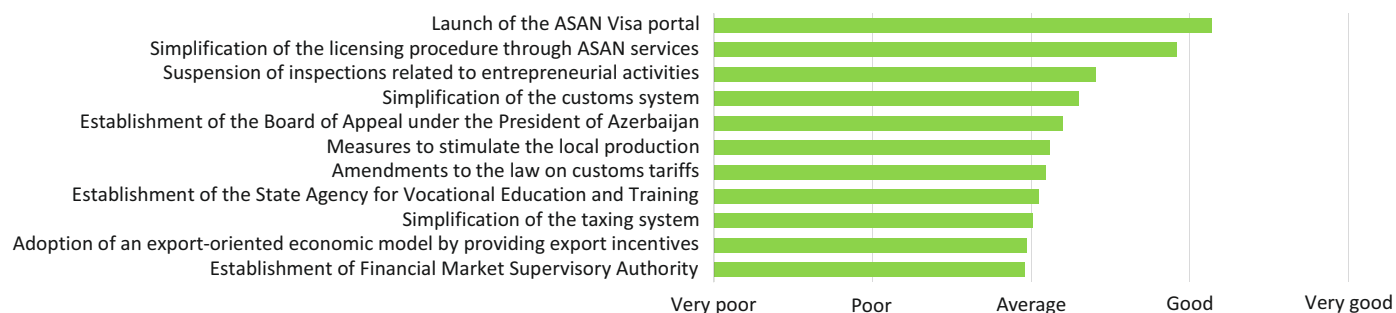
Answer options	Very unsatisfactory	Unsatisfactory	Average	Satisfactory	Very satisfactory	Rating average	Response count
Political and social stability	4	15	40	30	11	3.29	100
Qualification of employees	5	12	45	26	12	3.28	100
Productivity of employees	4	20	42	30	4	3.10	100
Labour costs	4	17	54	24	1	3.01	100
Infrastructure	3	23	46	26	2	3.01	100
Availability of skilled workers	8	22	40	25	5	2.97	100
Public administration	7	23	54	13	3	2.82	100
Flexibility of labour law	7	23	53	16	1	2.81	100
Flexibility of immigration policies	13	19	46	20	2	2.79	100
Customs procedures and regulations	11	27	42	19	1	2.72	100
Quality and availability of local suppliers	7	30	50	13	0	2.69	100
Quality of academic education in Azerbaijan	13	28	44	15	0	2.61	100
Customs tariffs	11	33	46	9	1	2.56	100
Conditions for Research and Development	14	33	37	15	1	2.56	100
Payment discipline	12	33	44	10	1	2.55	100
Tax burden	14	28	49	8	1	2.54	100
Measures to eliminate corruption	18	32	32	17	1	2.51	100
Legal certainty	16	30	43	10	1	2.5	100
Access to capital	12	40	37	8	3	2.5	100
Transparency of public procurement	16	36	35	12	1	2.46	100
Predictability of economic policies	17	33	41	7	2	2.44	100
Quality of vocational training in Azerbaijan	15	37	42	6	0	2.39	100
Taxation policy and authorities	19	31	43	6	1	2.39	100
Access to public funds	23	30	38	7	2	2.35	100
<b>Total</b>							<b>100</b>

**Q5. Which of the below mentioned current conditions are affecting your company/sector most?**



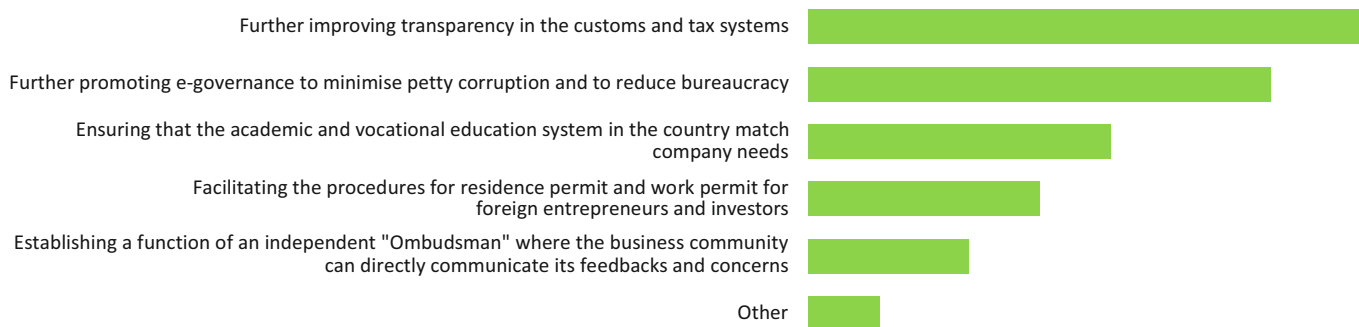
Answer options	9	8	7	6	5	4	3	2	1	Response rate	Response count
Exchange rate volatility	2	1	6	11	9	10	15	21	25	100%	100
			<b>29%</b>					<b>71%</b>			
Uncertain market development	2	6	9	3	10	12	18	12	28	100%	100
			<b>30%</b>					<b>70%</b>			
Bureaucracy	4	11	10	12	11	17	10	12	13	100%	100
			<b>48%</b>					<b>52%</b>			
Inflation	5	11	12	14	10	13	15	15	5	100%	100
			<b>52%</b>					<b>48%</b>			
Tax regulations	14	11	9	12	11	18	13	7	5	100%	100
			<b>57%</b>					<b>43%</b>			
Corruption	17	6	13	13	12	8	6	12	13	100%	100
			<b>61%</b>					<b>39%</b>			
Access to foreign currency	7	24	12	15	11	8	8	11	4	100%	100
			<b>69%</b>					<b>31%</b>			
Access to financing	25	15	15	11	7	10	6	4	7	100%	100
			<b>73%</b>					<b>27%</b>			
Customs controls	24	15	14	9	19	4	9	6	0	100%	100
			<b>81%</b>					<b>19%</b>			

**Q6. 2016 witnessed a number of structural reforms aiming to mitigate the effects of economic distress in the country. How effective do you think the following government reforms have been in improving the business climate in Azerbaijan?**



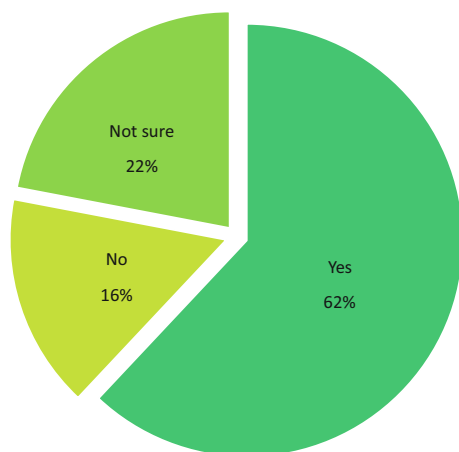
Answer options	Very poor	Poor	Average	Good	Very good	Rating average	Response count
Launch of the ASAN Visa portal	1	3	19	35	42	4.14	100
Simplification of the licensing procedure through ASAN services	2	5	26	33	34	3.92	100
Suspension of inspections related to entrepreneurial activities	7	9	35	34	15	3.41	100
Simplification of the customs system	6	16	32	34	12	3.30	100
Establishment of the Board of Appeal under the President of Azerbaijan	4	14	50	22	10	3.20	100
Measures to stimulate the local production	6	18	46	18	12	3.12	100
Amendments to the law on customs tariffs	7	19	38	30	6	3.09	100
Establishment of the State Agency for Vocational Education and Training	7	17	47	22	7	3.05	100
Simplification of the taxing system	6	22	43	23	6	3.01	100
Adoption of an export-oriented economic model by providing export incentives	7	26	38	21	8	2.97	100
Establishment of Financial Market Supervisory Authority	7	19	49	21	4	2.96	100
<b>Total</b>							<b>100</b>

**Q7. Which of the following reforms do you consider most important to further improve the business and investment climate in Azerbaijan? (Select max. 2 that apply)**



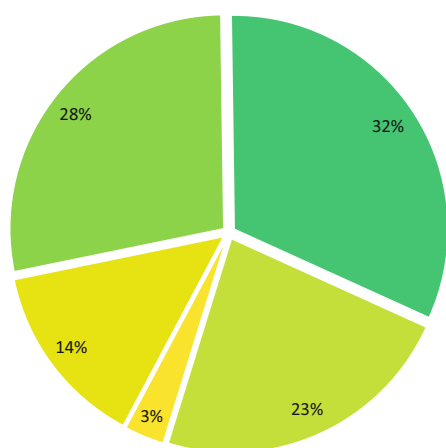
Answer options	Response rate	Response count
Further improving transparency in the customs and tax systems	31%	60
Further promoting e-governance to minimise petty corruption and to reduce bureaucracy	26%	50
Ensuring that the academic and vocational education system in the country match company needs	17%	33
Facilitating the procedures for residence permit and work permit for foreign entrepreneurs and investors	13%	25
Establishing a function of an independent "Ombudsman" where the business community can directly communicate its feedbacks and concerns	9%	17
Other	4%	8
<b>Total</b>	<b>100%</b>	<b>193</b>

**Q8. Would you again choose Azerbaijan as preferred location for your business?**



Answer options	Response rate	Response count
Yes	62%	62
No	16%	16
Not sure	22%	22
<b>Total</b>	<b>100%</b>	<b>100</b>

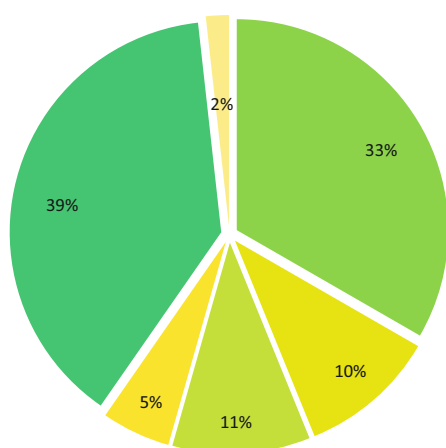
**Q9. How confident are you about your company's prospects for revenue growth in Azerbaijan over the next five years?**



- Very confident
- Confident
- Somewhat confident
- Not very confident
- Not confident at all

Answer options	Response rate	Response count
Very confident	14%	14
Confident	28%	28
Somewhat confident	32%	32
Not very confident	23%	23
Not confident at all	3%	3
<b>Total</b>	<b>100%</b>	<b>100</b>

**Q10. What is the most likely direction of your company's development over the next one to two years in Azerbaijan?**



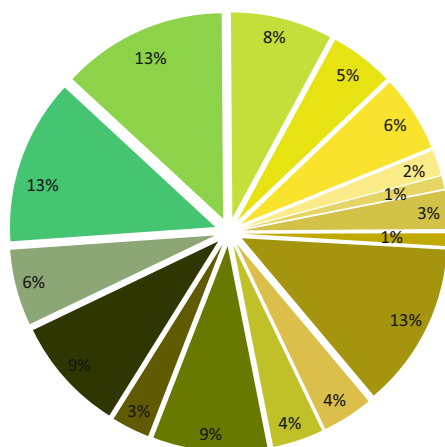
- Expansion
- Downsizing
- Localisation of production
- Move to a third country
- Remain the same
- Closure

Answer options	Response rate	Response count
Expansion	33%	38
Downsizing	10%	12
Localisation of production	11%	12
Move to a third country	5%	6
Remain the same	39%	44
Closure	2%	2
<b>Total</b>	<b>100%</b>	<b>114</b>

**Q11. If you are going to move to a third country, then which country will you choose?**

Answers	Response count
Belarus	1
Georgia	1
Germany	2
Kazakhstan	1
Turkey	1

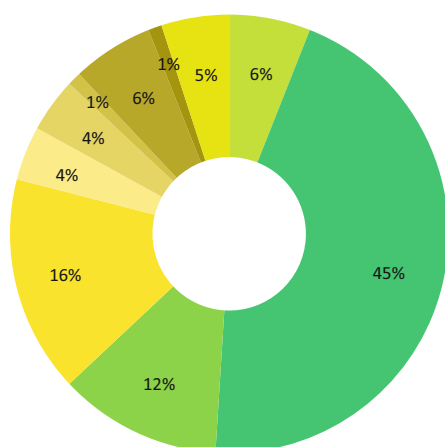
**Q12. What is the main area of your operations?**



- Accommodation and Food Service Activities
- Administrative and Support Service Activities
- Agriculture, Forestry and Fishing
- Arts, Entertainment and Recreation
- Construction
- Education
- Electricity, Gas, Steam and Air Conditioning Supply
- Financial and Insurance Activities
- Human Health and Social Work Activities
- Information and Communication
- Manufacturing
- Mining, Oil and Gas
- Professional, Scientific and Technical Activities
- Transportation and Storage
- Water supply; Sewerage, Waste Management and Remediation Activities
- Wholesale and Retail Trade

Answer options	Response rate	Response count
Accommodation and Food Service Activities	2%	2
Administrative and Support Service Activities	1%	1
Agriculture, Forestry and Fishing	3%	3
Arts, Entertainment and Recreation	1%	1
Construction	13%	13
Education	4%	4
Electricity, Gas, Steam and Air Conditioning Supply	4%	4
Financial and Insurance Activities	9%	9
Human Health and Social Work Activities	3%	3
Information and Communication	9%	9
Manufacturing	6%	6
Mining, Oil and Gas	13%	13
Professional, Scientific and Technical Activities	13%	13
Transportation and Storage	8%	8
Water supply; Sewerage, Waste Management and Remediation Activities	5%	5
Wholesale and Retail Trade	6%	6
<b>Total</b>	<b>100%</b>	<b>100</b>

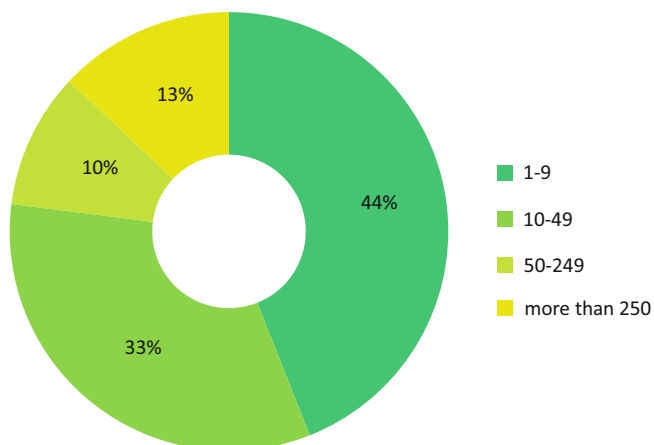
**Q13. Please specify your current position within the company.**



- Deputy Manager
- Director/CEO
- Employee
- General Manager
- Head of department
- Owner
- President
- Senior Manager
- Vice President
- Other

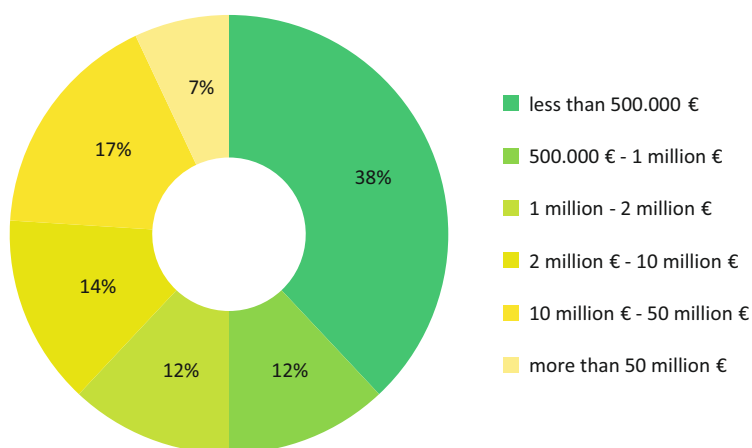
Answer options	Response rate	Response count
Deputy Manager	6%	6
Director/CEO	45%	45
Employee	12%	12
General Manager	16%	16
Head of department	4%	4
Owner	4%	4
President	1%	1
Senior Manager	6%	6
Vice President	1%	1
Other	5%	5
<b>Total</b>	<b>100%</b>	<b>100</b>

**Q14. Please specify the number of employees in your company.**



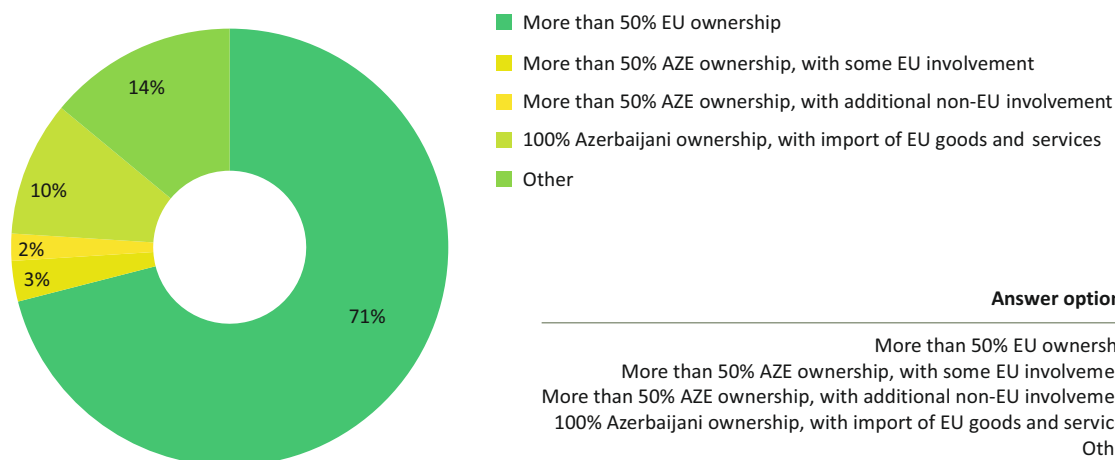
Answer options	Response rate	Response count
1-9	44%	44
10-49	33%	33
50-249	10%	10
more than 250	13%	13
<b>Total</b>	<b>100%</b>	<b>100</b>

**Q15. What is the total revenue of your company in Azerbaijan?**



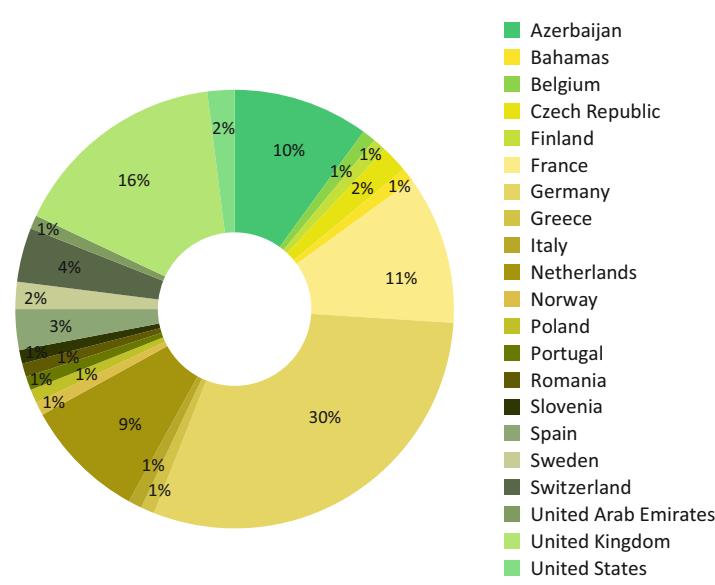
Answer options	Response rate	Response count
less than 500,000 €	38%	38
500,000 € - 1 million €	12%	12
1 million - 2 million €	12%	12
2 million € - 10 million €	14%	14
10 million € - 50 million €	17%	17
more than 50 million €	7%	7
<b>Total</b>	<b>100%</b>	<b>100</b>

**Q16. From the following options, select one which best describes the structure of your company.**



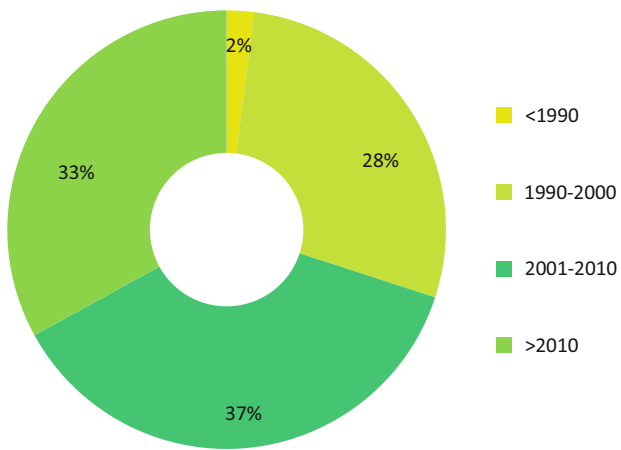
Answer options	Response rate	Response count
More than 50% EU ownership	71%	71
More than 50% AZE ownership, with some EU involvement	3%	3
More than 50% AZE ownership, with additional non-EU involvement	2%	2
100% Azerbaijani ownership, with import of EU goods and services	10%	10
Other	14%	14
<b>Total</b>	<b>100%</b>	<b>100</b>

**Q17. In which country are your company's headquarters registered?**



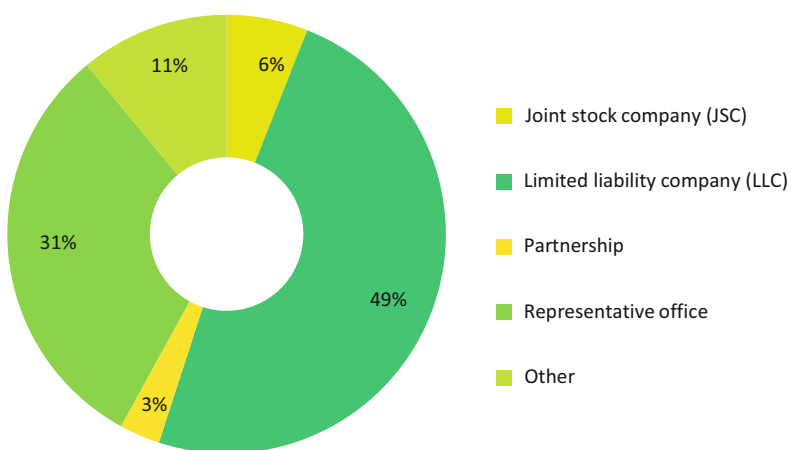
Answer options	Response rate	Response count
Azerbaijan	10%	10
Bahamas	1%	1
Belgium	1%	1
Czech Republic	2%	2
Finland	1%	1
France	11%	11
Germany	30%	30
Greece	1%	1
Italy	1%	1
Netherlands	9%	9
Norway	1%	1
Poland	1%	1
Portugal	1%	1
Romania	1%	1
Slovenia	1%	1
Spain	3%	3
Sweden	2%	2
Switzerland	4%	4
United Arab Emirates	1%	1
United Kingdom	16%	16
United States	2%	2
<b>Total</b>	<b>100%</b>	<b>100</b>

**Q18. When was your company established in Azerbaijan?**



Answer options	Response rate	Response count
<1990	2%	2
1990-2000	28%	28
2001-2010	37%	37
>2010	33%	33
<b>Total</b>	<b>100%</b>	<b>100</b>

**Q19. What is the legal set-up of your company in Azerbaijan?**



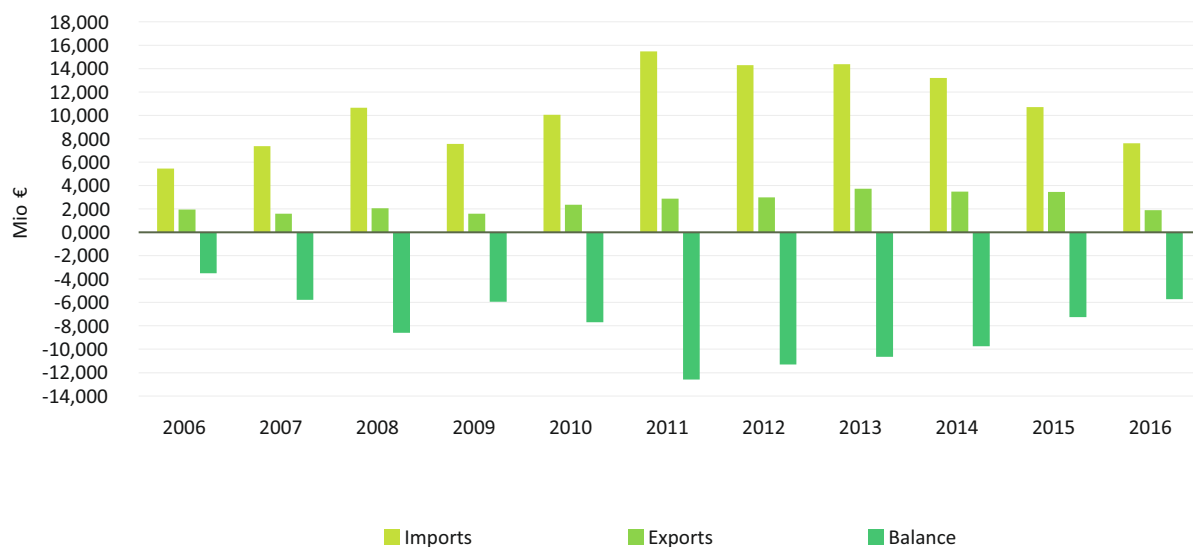
Answer options	Response rate	Response count
Joint stock company (JSC)	6%	6
Limited liability company (LLC)	49%	49
Partnership	3%	3
Representative office	31%	31
Other	11%	11
<b>Total</b>	<b>100%</b>	<b>100</b>

# Annex C: Statistical Information

## EU Trade with Azerbaijan

The statistics provided by the local State Customs Committee suggests that trade turnover of the country stagnated by 20% in 2016, reflecting dwindled exports and imports by respectively 28% and 7%. The EU countries, however, continue to be Azerbaijan's key trade partners and account for 43% of total exports and 26% of total imports of the country. The ADB forecasts exports to grow in next two years supported by gradually increasing oil prices and onset of the Shah Deniz gaz field. Imports, on the other hand, are projected to contract in 2017 due to further devaluation and a temporary ban on government imports, and then expand with the end of the ban in 2018.

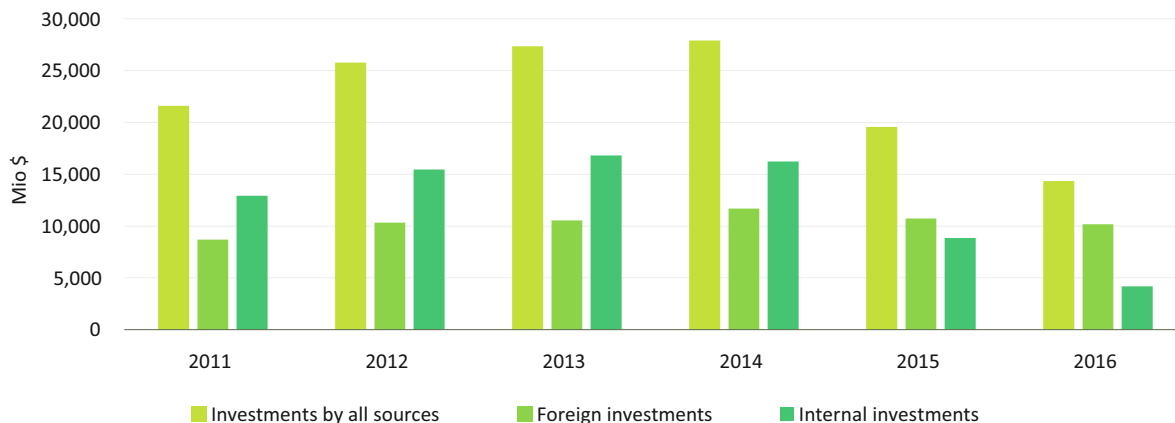
Total goods: EU trade flows and balance, annual data 2006-2016



Source: European Union, Trade with Azerbaijan - [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113347.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf)

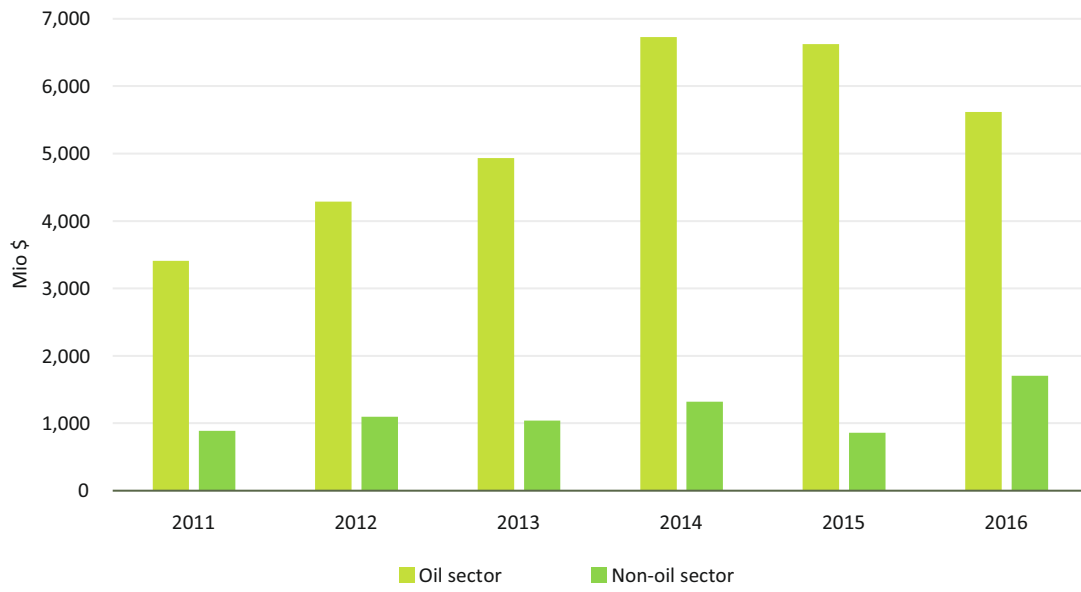
## Investment to the Azerbaijani economy from all financial sources

Investments directed to economy, 2011-2016



Source: The State Statistical Committee of the Republic of Azerbaijan, Azerbaijan in Figures 2017 - [http://www.stat.gov.az/menu/6/statistical\\_yearbooks/source/azfigures-az\\_2017.zip](http://www.stat.gov.az/menu/6/statistical_yearbooks/source/azfigures-az_2017.zip)





Source: The State Statistical Committee of the Republic of Azerbaijan, Azerbaijan in Figures 2017 - [http://www.stat.gov.az/menu/6/statistical\\_yearbooks/source/azfigures-az\\_2017.zip](http://www.stat.gov.az/menu/6/statistical_yearbooks/source/azfigures-az_2017.zip)

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## Publication

### **Nigar Bayramli**

Head of Market Analysis and PR Department, AHK Azerbaijan  
Phone: +994 12 497 63 06/07  
Email: [nigar.bayramli@ahk-baku.de](mailto:nigar.bayramli@ahk-baku.de)

### **Gunay Mirzayeva**

Market Analyst, AHK Azerbaijan  
Phone: +994 12 497 63 06/07  
Email: [gunay.mirzayeva@ahk-baku.de](mailto:gunay.mirzayeva@ahk-baku.de)

### **Orkhan Atakishiyev**

Designer, Archline LLC  
Phone: +994 50 210 06 78  
Email: [orxaan@gmail.com](mailto:orxaan@gmail.com)

### **Image source**

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## About us

The German-Azerbaijani Chamber of Commerce (AHK Azerbaijan) is the institution of German foreign trade promotion in Azerbaijan, which was officially founded in 2012 in Baku. With over 110 German and Azerbaijani member companies on board as of May 2017, AHK Azerbaijan is a part of the worldwide AHK network representing German business interests operating in Azerbaijan and offering its professional business services and experience to German and Azerbaijani companies.

### **German-Azerbaijani Chamber of Commerce (AHK Azerbaijan)**

Winter Park Plaza, 7<sup>th</sup> floor  
75 Rasul Rza Str.  
AZ 1014 Baku, Azerbaijan  
Phone: +994 12 497 63 06/07  
E-mail: [mail@ahk-baku.de](mailto:mail@ahk-baku.de)  
[www.ahk-baku.de](http://www.ahk-baku.de)

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