

EU BUSINESS CLIMATE REPORT AZERBAIJAN 2024

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INTRODUCTION

About the publication

The “**EU Business Climate Report Azerbaijan 2024**” is the seventh edition of a regular study conducted in Azerbaijan since 2016 as part of the “EU-Azerbaijan Business Forum,” funded by the European Union (EU). For the 2024-2026 period, the project is being implemented by VM EUROPE in partnership with Business Chambers and InvestBaku.

The report aims to reflect the latest trends in Azerbaijan's business climate from the perspective of European companies and European investors operating in the country. The 2024 edition focuses on key topics for the private sector, such as Azerbaijan's economic development, sector-specific business environment insights, investment climate, and emerging investment opportunities.

In light of Azerbaijan hosting the 29th meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP29) in Baku in November 2024, this publication places a particular emphasis on topics that contribute to sustainable socio-economic development and the achievement of the United Nations Sustainable Development Goals (SDGs). The report elaborates on the development of green business as an important pillar for climate resilience, the enhancement of the labour market, access to education, and economic opportunities for women — as crucial socio-economic dimensions for the country. Additionally, it explores the ongoing progress in digitalisation and local reforms aimed at driving sustainable economic and social growth.

Insights for this report are gathered from:

- European companies operating in Azerbaijan, including those from the EU, European Free Trade Association (EFTA), and the United Kingdom (UK),
- European companies interested in entering the Azerbaijani market,
- Local Azerbaijani companies primarily focused on EU cooperation.

The conclusions presented in this report are based on the results of **117 individual responses** from the EU Business Climate Survey 2024 and **27 face-to-face interviews** with company owners and top executives. The quantitative data for the report was collected through an anonymous online survey, which took place between May and August 2024. The 2024 questionnaire contained 25 questions based on the previous surveys and adjusted to reflect current local and global trends.

A total of **27 one-on-one interviews** were conducted with companies from various sectors, including construction and engineering, information and communication technology (ICT), retail, wholesale, fast-moving consumer goods (FMCG), machinery and equipment, mining, oil, and gas, renewables and energy efficiency, agriculture, transportation and logistics, business services and consulting. The study also included information gathered from bilateral chambers, the EU Delegation and the European Commission, EU initiatives and projects, European Development Bank, as well as international organisations.

More details on the methodology are available in the relevant chapters of this report.

The “EU-Azerbaijan Business Forum 2024-2026” project aims to promote economic cooperation between the EU and Azerbaijan by strengthening awareness of the business climate, highlighting investment opportunities, and enhancing public-private dialogue. This EU-funded project focuses on:

- Preparing annual business climate reports based on independent surveys of EU investors
- Organising high-level business forum events in Baku, bringing together the EU and Azerbaijani business communities to facilitate networking and foster new partnerships
- Conducting business missions in Azerbaijan to explore investment opportunities and establish new collaborations
- Managing a digital platform for business networking – www.euazbusinessforum.az – providing up-to-date information on business events and developments in Azerbaijan

Research team

This report was prepared by the “EU-Azerbaijan Business Forum” 2024-2026 team under the supervision of the Delegation of the European Union to the Republic of Azerbaijan. The publication is conducted by Dr. Bogdana A. Efe, Team Leader and Chief Research Editor; Marius Bordialba, International Expert in Qualitative Research; Aytan Akhundova, National Expert in Desk Research; Said Jafarli, National Expert, Consultation on trade and economic topics; Aydan Nabiyeva, National Expert in Quantitative Research; and Maryam Iskandarova, National Expert in Quantitative Research.

The project was managed by Alberto Martin-Ballester, Senior Project Manager at VM EUROPE. Quality control for the 2024-2026 assignment is overseen by Simon Davies, Senior Economist at VM EUROPE.

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The “EU-Azerbaijan Business Forum” 2024-2026 expresses gratitude for the effective coordination and support provided by the Delegation of the European Union to the Republic of Azerbaijan, the European Commission, EU Member States’ embassies in Azerbaijan, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the European Training Foundation (ETF), the EU Eastern Partnership (EaP) regional initiatives – EU4Climate, EU4Digital, EU4Environment, and EU4GenderEquality – as well as bilateral business associations.

COVERAGE

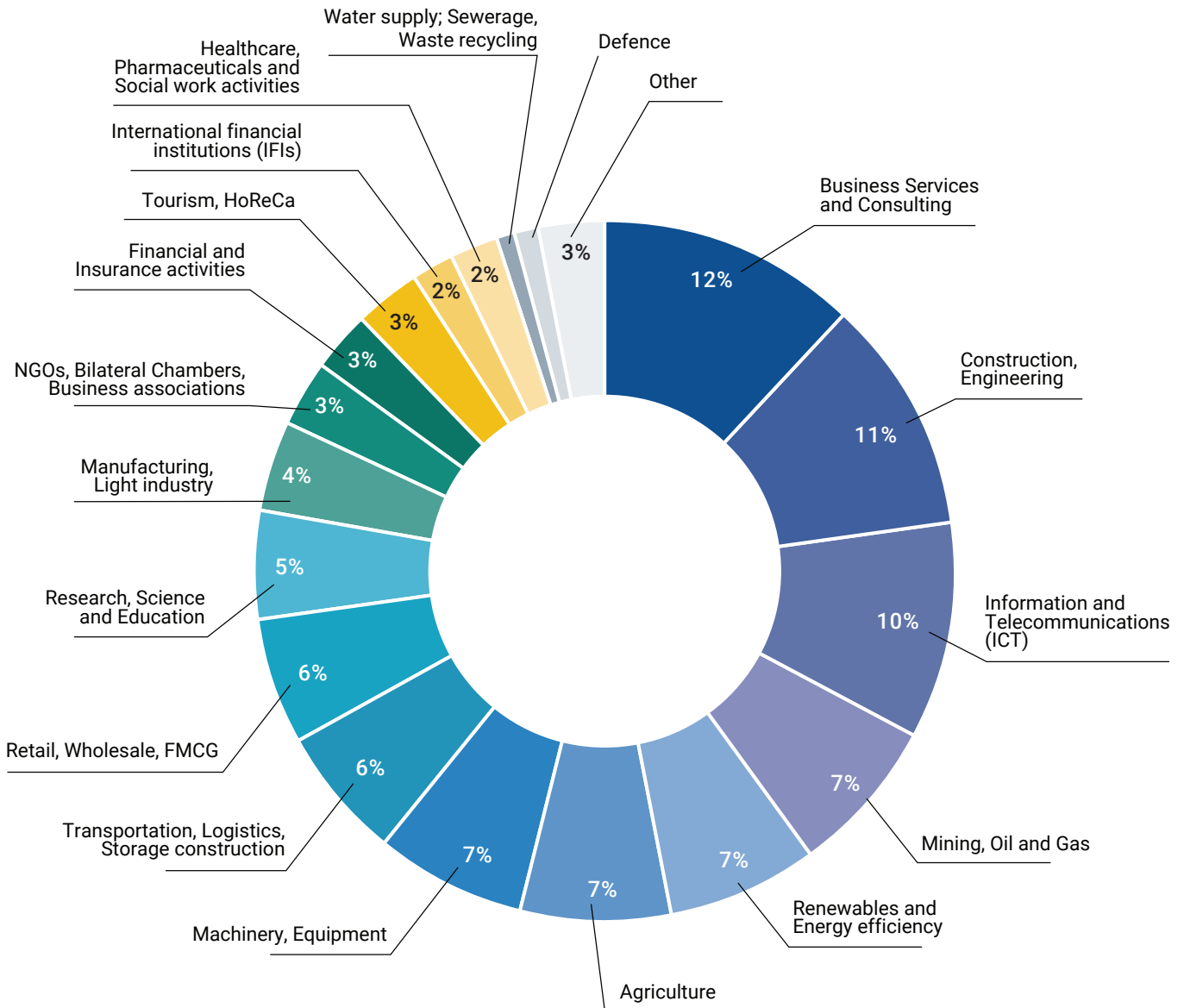
27 countries

The “EU Business Climate Report Azerbaijan 2024” represents the views of companies from 27 countries in total, including 21 EU member states, 2 EFTA countries, the UK, and Azerbaijan.



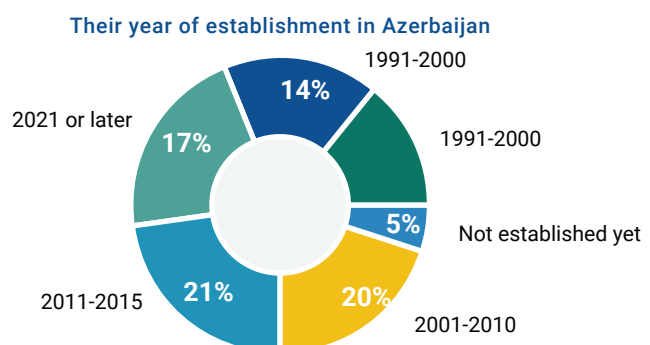
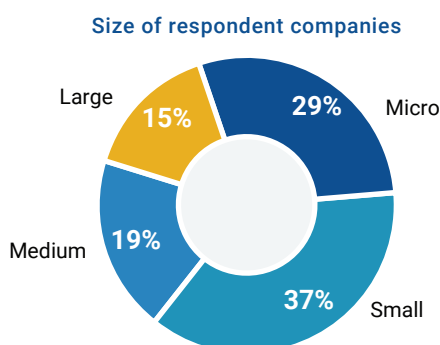
18 sectors

Respondents represented 18 sectors of economy. Most of the represented businesses operate in the following sectors: business services and consulting; construction and engineering; ICT; retail; wholesale; FMCG; machinery and equipment; mining, oil, and gas; renewables and energy efficiency; agriculture; transportation and logistics.



Participants of the 2024 survey

85% of the survey respondents represent micro, small and medium-sized enterprises (MSMEs). Most of the entities have been operating in Azerbaijan for over 10 years, and about one-third of the respondents have worked locally in the last decade. **5%** of companies are not yet established but are interested in entering the Azerbaijani market.



MAIN FINDINGS

BUSINESS CLIMATE 2024

71% of companies plan to expand in Azerbaijan in the next few years
 EU companies evaluate current economic situation as **"Satisfactory"**
 Overall perception of business climate is **"Neutral"**
 Attitude of local public authorities is considered as **"Neutral"**

BUSINESS CLIMATE INDICATORS

THE MOST POSITIVE DYNAMICS

Political and social stability
 Predictability of economic policies

OPTIMISTIC SHIFTS

Access to finance
 Rule of law

CHALLENGES TO ADDRESS

Transparency of public procurement
 Human capital/ qualifications of employees

TOP 3 FACTORS AFFECTING COMPANIES IN THE RECENT YEARS

War in Ukraine and other global conflicts
 Uncertain market development
 Lack of qualified labour force

SECTORIAL INSIGHTS

Construction, Engineering	Oil, Mining, Gas	Renewables, energy efficiency	ICT	Transportation, Logistics	Agriculture
Confirms the strongest economic situation in the sector	Evaluates the economic situation in the sector as satisfactory	Evaluates the economic situation in the sector as below satisfactory	Perceives the business climate quite favourably	Evaluates economic situation in the sector as somewhat below satisfactory	Evaluates the economic situation in the sector as worse than that of others
Perceives the business climate more favourably compared to others	Feels stronger support from public authorities compared to others	Feels more support from public authorities compared to others	Feels the least support from public authorities compared to others	Feels neutral attitude from public authorities	Perceives business climate as more challenging compared to others
84% of companies plan further expansion in Azerbaijan	77% of companies plan further expansion in Azerbaijan	87% of companies plan further expansion in Azerbaijan	72% of companies plan further expansion in Azerbaijan	67% of companies plan further expansion in Azerbaijan	60% of companies plan further expansion in Azerbaijan

BUSINESS CLIMATE 2024

92% of EU investors would choose Azerbaijan again

MAIN INDICATORS

Access to domestic market
 Strategic partnerships and alliances
 Access to regional markets and free trade agreements (FTAs)

3 UNTAPPED INVESTMENT DRIVERS:

Labour force
 Local suppliers
 Technologies and know-how

INVESTMENTS IN KARABAKH AND EAST ZANGEZUR ECONOMIC REGIONS

8% of EU companies have already invested **37%** ready to invest and wait for good opportunities

Top attractive sectors:

1. Alternative energy and green projects
2. Construction
3. Transport infrastructure
4. Agriculture
5. Manufacturing

Middle Corridor

17% of EU companies have already used the route
30% of companies plan to use the Corridor in the next few years
75% of companies call for further improvement of the route
40% of companies need more information

GREEN BUSINESS AND CLIMATE CHANGE

62% of companies consider climate change as a challenge for business operations

90% of EU companies apply sustainable practices

Main climate concerns:

- Water scarcity
- Climate change, extreme weather events
- Waste management
- Air pollution
- Oil and gas industry impact

The most frequent green practices:

- Training personnel on sustainable operations
- Energy efficient technologies
- Waste collection and recycling procedures

Top stimulus for business “greening”:



State financial support and incentives



Demand for green products on the market



Stricter environmental regulations

LABOUR MARKET AND ACCESS TO EDUCATION



98% of EU companies call for labour market improvement



Main area for further improvement

VET infrastructure
Financial stimulus for employees
Incentives for collaboration with higher education

ECONOMIC OPPORTUNITIES FOR WOMEN



44% of personnel in EU businesses are women



The most common positions held by women:

Administrative
Sales and marketing
Mid-level management

DIGITALISATION FOR SUSTAINABLE ECONOMIC GROWTH

EU companies evaluate IT infrastructure in Azerbaijan as “neutral” or “rather sufficient”



96% of companies call for further improvement of local IT infrastructure



Areas requiring the most attention:

Speed and quality of Internet
Conditions of Internet providers
Digital skills of employees

VIEWS OF EU COMPANIES ON PROGRESS IN LOCAL REFORMS

TOP 3 EFFECTIVE PUBLIC INSTITUTIONS

KOBIA
SMB Development Agency Innovation and Digital Development Agency Azerbaijan Renewable Energy Agency

TOP 3 EFFECTIVE E-SERVICES

E-VISA E-Banking Services E-Invoicing System

TOP 3 PUBLIC INSTITUTIONS

Transparency of public procurement Rule of Law Local support to green projects



EXECUTIVE SUMMARY

Azerbaijan's economy has been impacted by geopolitical tensions, which have had both negative and positive spillover effects on the country's economy. The 2024 Business Climate Survey, when assessing the current economic situation in Azerbaijan, reveals that the average rating of the national economy among European businesses increased from slightly below "satisfactory" (on a scale of "weak", "satisfactory" and "strong") in 2021 to slightly exceeding "satisfactory", reflecting a **generally positive economic sentiment among European businesses**. Overall, European investors in Azerbaijan are optimistic about future business opportunities, with over 70% planning expansion, up from 53% in 2021. 22% of the respondents plan to continue operating at the same capacity. The proportion of EU investors who would choose Azerbaijan again has increased to 92% from 80% in the previous survey. While the mining, oil, and gas sectors show the strongest commitment, the renewable energy, construction, and ICT sectors have higher expansion ambitions among the interviewed sectors.

Between 2021 and 2024, Azerbaijan's rising business outlook was shaped by a generally favourable macroeconomic situation in the country. **The strong external position and fiscal surplus defined the macroeconomic stability**. The hydrocarbon sector continues to drive much of Azerbaijan's economy, contributing significantly to exports and budget revenue; however, the country is actively pursuing efforts to diversify its economy. The government is focusing on non-oil sectors such as green energy, agriculture, tourism, and ICT for diversification. **The construction and engineering sector** grew rapidly in 2022 and 2023, though growth slowed in 2024. The sector saw significant improvement driven by the reconstruction of the Karabakh and East Zangezur regions, with substantial government funds allocated for these efforts. While private investments were also encouraged, competition from international players is making the market more challenging for businesses operating in Azerbaijan. **The mining, oil, and gas sectors** remained vital to the economy and continued to attract the largest portion of Foreign Direct Investments (FDIs). While the oil production showed decline, the gas production increased. The **ICT sector** continues to grow and embrace a broader range of customers. However, its growth rate has slowed, and the sector accounts for a small portion of Azerbaijan's economy. **The transportation/ logistics sector** in Azerbaijan has gained strategic importance, especially after the Russian invasion of Ukraine, which increased the need for alternative trade routes. Despite the potential and aspirations to establish the country as a transit hub, the transportation sector experienced a slight decline in its assessment by companies in 2024. **The renewable energy sector** shows significant growth potential, driven by government policies aimed at reducing carbon emissions and increasing the renewable energy share to 30% by 2030. The government also plans to export a substantial portion of its green energy to Europe, including through projects such as the Caspian-Black Sea-Europe Green Energy Corridor. **Agriculture**, while still underperforming in terms of overall economic growth, holds considerable untapped potential. The sector has grown modestly in recent years, with government support focused on developing sustainable and competitive agriculture.

The 2024 Business Climate Survey of European companies highlighted **overall improvements in key indicators**. Azerbaijan's strategic location and good regional relations, political and social stability and economic policy

predictability are seen as favourable for business. The top 3 attractive factors for businesses have been named as access to domestic market, strategic partnerships and alliances, as well as access to regional markets and FTAs. Cost-efficient production and investment incentives also attract European investors. The survey results showed a positive perception of e-services for businesses and the country's digital infrastructure. The Azerbaijani government has become more open to dialogue with businesses and responsive to sector-specific requests for change, but the overall perception of **support from public authorities** among EU companies has declined, shifting from "rather supportive" to "neutral" in the 2024 survey. **Challenges remain**, including transparency issues in public procurement, the quality of local suppliers, workforce qualifications, professional standards, environmental practices, customs procedures and access to finance. Technologies and know-how are seen as untapped investment drivers in the country.

The government has implemented comprehensive measures for improving the investment climate in the country. Recent reforms, including the adoption of a new **Law on Investments**, aim to enhance the investment climate by offering tax concessions and incentives.¹ The **Competition Code** was approved in July 2024, introducing new regulatory norms to enhance competition law enforcement.²

Azerbaijan also supports investment through special industrial areas, such as the **Alat Free Economic Zone (AFEZ)**, which offers significant incentives, among which are tax exemptions and simplified administrative processes. Additionally, infrastructure projects such as the **Alat Port** and logistics centres are being developed to further enhance the investment environment.

Industrial zones like the **Aghdam Industrial Park and Araz Valley Economic Zone** have been established to encourage investments. Infrastructure improvements, including transportation and water systems, are underway, with completed projects such as highways and international airports. The government offers various incentives, such as tax exemptions, subsidies, and loan guarantees, to support businesses. The focus in these regions is on green technologies and sustainable projects, which have drawn strong interest from EU companies. Construction and transport infrastructure also attract significant interest of EU companies.

Azerbaijan's strategic location has further highlighted the importance of the **Middle Corridor**, a trade route connecting Europe and Asia. However, the corridor's infrastructure and operational efficiency need improvements, particularly in enhancing digitalisation and streamlining bureaucratic processes. These improvements could boost its attractiveness for EU businesses.

The development of green businesses and sustainable practices is a top priority for Azerbaijan, contributing to several UN SDGs. Azerbaijan's renewable energy sector offers significant business opportunities. The report emphasises the need for incentives, such as financial support, regulatory measures, and consumer demand, to foster a greener business landscape. Azerbaijan has seen notable successes in promoting sustainable development. Key projects include the **Green Cities program**, which began in Ganja, focusing on water and waste management and street lighting upgrades.³ In renewable energy, the **Garadagh solar power plant**, financed by the European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), and the Abu Dhabi Fund for Development (ADFD) and commissioned by the Abu Dhabi Future Energy Company PJSC (Masdar) became the largest in the region, generating 230 MW of electricity annually.⁴ Azerbaijan is also pursuing additional solar and wind projects, with financing secured for major plants scheduled for 2027. The Karabakh and East Zangezur regions offer vast solar and wind energy potential, and Azerbaijan has designated these regions as **Green Energy Zones**.⁵ On March 1, 2024, **WindEurope** — a trade association that represents the wind energy industry in Europe — and the Azerbaijan Renewable Energy Agency (AREA) signed a Memorandum of Understanding (MoU) to promote the development of onshore and offshore wind energy in Azerbaijan and the broader Caspian Sea region.⁶ The MoU also aims to simplify permitting processes for new wind farms, encourage the sourcing of wind energy components—particularly from local and European suppliers. It is planned to support the development of the Caspian-EU **Green Energy Corridor**, which will facilitate the green energy supply from Central Asia and Azerbaijan to Europe. The **"Green Port"** project is supporting the enhancement of operational capabilities and environmental practices of the Port of Baku. The EU also supports the sustainable energy transition in Azerbaijan through initiatives such as **EU4Climate** and **EU4Environment**.

Azerbaijan needs to address skills gaps and improve workforce readiness to boost economic growth and provide meaningful employment opportunities. Labour market policies, including the **Employment Strategy of the Republic of Azerbaijan for 2019-2030**, focus on economic development, enhancing workforce skills, and improving labour market efficiency.⁷ The **Azerbaijan Public Employment Agency (APEA)** is responsible for organising employment measures and providing career guidance. Government initiatives aim to improve Vocational Education and Training (VET) quality and responsiveness to labour market needs, with the **State Agency on Vocational Education (SAVE)** playing a key role.

Enhancing **women's economic participation** is crucial for Azerbaijan's sustainable development and the achievement of gender equality. While women make up 49.8% of the working-age population, gender segregation in the labour market persists. Azerbaijan has made progress in advancing gender equality, such as lifting job restrictions on women in certain sectors in 2022. While women's participation in technical roles and top management positions has increased since 2021, more efforts are needed to achieve gender parity in decision-making roles. The government has partnered with the World Bank and the EU to address barriers to women's employment. Azerbaijan is advancing **digitalisation** through **enhancing its ICT infrastructure**, promoting innovation, and fostering a digital economy. In 2023, Azerbaijan approved the **"Strategy of the Republic of Azerbaijan on Information Security and Cybersecurity for 2023-2027"**⁸ to improve cybersecurity standards and safeguard ICT use. **Azerbaijan Cybersecurity Centre** has been established to enhance the country's cybersecurity capabilities. The 2024 Business Climate Survey shows gradual improvements in Azerbaijan's digital infrastructure. However, there is still room for improvement, particularly in the speed and quality of the internet, internet provider services, and the digital skills of employees. Online payment systems were noted as needing improvement, particularly to meet the needs of micro, small, and medium-sized enterprises (MSMEs).

Azerbaijan has made significant strides in implementing local reforms that strengthen institutional frameworks, enhance transparency, and improve regulatory efficiency. Key institutions such as the **SME Development Agency (KOBIA)** have gained recognition for their effectiveness in supporting SMEs. KOBIA provides its services via a chain of **Small and Medium Business (SMB) Houses** and **"SMB-Friends"**. Around 50 state and private institutions provide government-to-business (G2B) and business-to-business (B2B) services in SME houses in Baku, Khachmaz, and Yevlakh, with plans for further expansion to other cities. Service windows and SMB-Friend offices are also present in the Karabakh and East Zangezur economic regions. The **"SMB Customs Warehouse"** has been created as a joint initiative of the State Customs Committee of the Republic of Azerbaijan and KOBIA to facilitate the efficient customs clearance of SMB goods. Since 2024, SME houses in Baku also provide a certificate confirming the country of origin of goods. KOBIA has also created an **investment portal** to expand investment opportunities for SMEs in Azerbaijan. The **Innovation and Digital Development Agency (IRIA)** and the **Azerbaijan Renewable Energy Agency (AREA)** have contributed to digital transformation and renewable energy development. IRIA launched the **"Relocation Program"** in 2022⁹, offering advantages for foreign companies. The residents of the **technoparks** operating under the IRIA were given additional privileges.¹⁰ In addition, IRIA helped establish **Caucasus Ventures**, Azerbaijan's first venture capital fund, in February 2023. **AREA**, established under the Ministry of Energy in September 2020, oversees state policy on renewable energy and promotes private sector involvement. The Agency has initiated projects for wind, solar, and hydro-power plants, including the country's first renewable

energy auction, which was concluded during COP29. **The Mortgage and Credit Guarantee Fund** has introduced new tools since August 2022 to improve access to finance for MSMEs.

Over the past decade, Azerbaijan has significantly improved its e-services to enhance efficiency and reduce costs for businesses. Azerbaijan's multi-channel e-government services, available through the e-gov.az portal, provide access to a wide range of public services, including those related to customs, migration, and business registration. State e-services have expanded with systems such as the **Digital Document Circulation**. Azerbaijan aims to reach 80% digitalisation of public services by 2026. Additionally, plans to incorporate AI into the **myGOV** portal by the end of 2024 are underway.

AI-based Automated Risk Analysis System has been implemented by the State Customs Committee from January 2024, enabling faster border crossings of cargo and vehicles and more flexible customs clearance. The **"Electronic Construction Portal"** has also been established for issuing permits for construction and operation through a "one-window" system. The EU Business Climate Survey highlights significant improvements in areas such

as the **Electronic Visa Application System, Electronic Banking, and Electronic Invoicing**. These services have helped to streamline financial transactions, reduce corruption and improve efficiency. **E-government services provided** by the **Innovation and Digital Development Agency** and the **Online Business Registration System** also increase the reliability in supporting business operations. Despite progress, services such as **E-taxation, E-customs, and Export Diversification** have seen slower improvements. Azerbaijan's electronic banking system benefits from a robust infrastructure, including a competitive processing network and the **Instant Payment System** for low-cost, 24/7 transactions. Efforts to enhance digital services and integrate fintech innovations continue, supported by new regulations.

The EU Business Climate Report highlights areas such as corruption, judicial transparency, and bureaucratic hurdles that hinder private sector growth. The top five emerging priorities for reform are: transparency in public procurement, the rule of law for investors, support for green projects, customs transparency and operations, as well as strengthening the financial sector and access to finance.



1 BUSINESS CLIMATE AND INVESTMENT OPPORTUNITIES

1.1 MACROECONOMIC OUTLOOK

Global context

Since 2022, the world economy has been in a post-pandemic period, with recovering consumption and investment. However, the initial recovery has been hindered by turbulent geopolitical tensions, particularly since Russia's full-scale invasion of Ukraine in February 2022. As a result, geopolitical relations as well as trade routes were disrupted, raising concerns about food and energy security, rising hydrocarbon prices, etc. The extensive loss of life, destruction of infrastructure and mass displacement of people led to a severe humanitarian crisis. In response, many countries have increased military expenditures and provided financial aid to Ukraine. This, in turn, affected the fiscal balances of many countries in the region and the European Union.

Global gross domestic product (GDP) growth, which was 6.5% in 2021, dropped to 3.5% in 2022 and 3.3% in 2023.¹¹ According to the International Monetary Fund (IMF), GDP growth is estimated to remain at a steady level of 3.2% in 2024 and forecasted to be 3.3% in 2025.¹² It is important to highlight that growth is expected at a lower level for the Euro Area, with an estimated rate of 0.8% in 2024 and a projected rate of 1.3% in 2025.¹³ Easing global supply disruption and demand pressures, coupled with monetary policy tightening lead to disinflation. Global inflation, which reached 8.7% in 2022, dropped to 6.7% in 2023 and is estimated to decrease further to 5.7% in 2024, and 4.2% in 2025 according to the IMF. [12]

Azerbaijan

Azerbaijan is located in the South Caucasus region and has a territory of 86,6 thousand km². The country shares borders with Russia, Georgia, Armenia, Turkey and Iran. To the east, it has a coastline along the Caspian Sea. The geographical position of Azerbaijan, the complexity of the relief and the abundance of solar radiation throughout the year determine the diversity of climate here. The capital and largest city is Baku. The population of Azerbaijan is 10.2 million as of 2024, 54% of which live in urban areas and the remaining 46% in rural areas.¹⁴

Azerbaijan is an upper-middle income country, with a large share of its economy reliant on the oil and gas sector. The leading economic sectors in Azerbaijan are mining, trade, transport, construction, processing and agriculture. The government intends to diversify its economy and reduce the share of the oil and gas sector in GDP to 22.3% by 2028.¹⁵ The country is taking large-scale and innovative steps toward the implementation of climate-friendly projects.

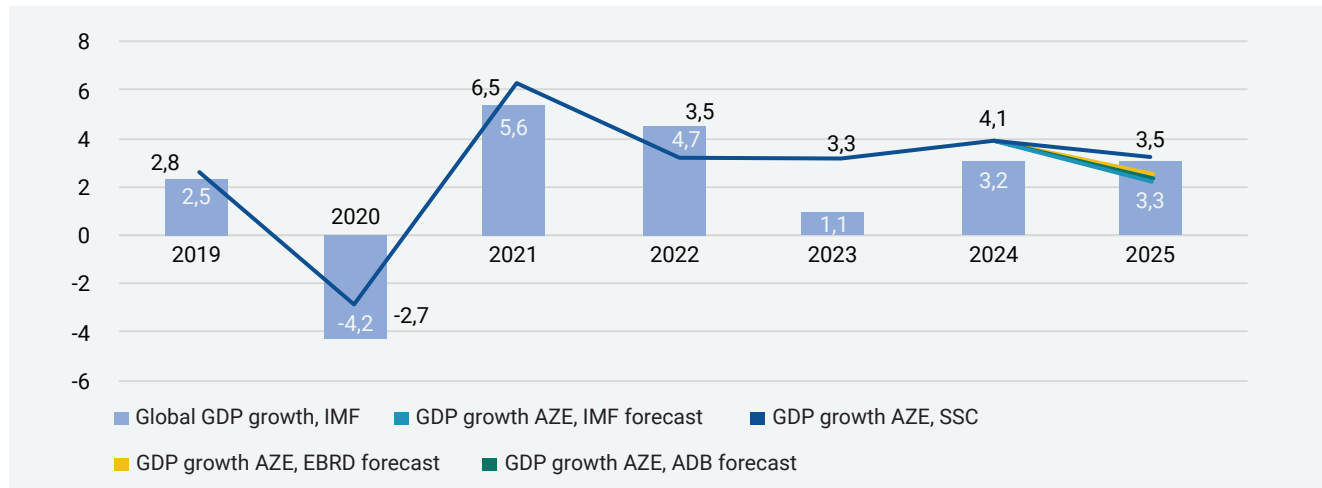
Azerbaijan hosted the 29th annual meeting of the UN Framework Convention on Climate Change (COP29) in November 2024. The country initiated 5 partnerships, 9 declarations and pledges, as well as 8 regional initiatives during COP29.¹⁶ As a result of the COP29 negotiations, USD 300 bn annually was pledged to the global fight against climate change.

Given Azerbaijan's vast reserves of oil and gas resources, the hydrocarbon sector continues to play a pivotal role in driving the country's economy. In 2024, the sector accounted for 87.1% of exports¹⁷ and 48.4% of budget revenues,¹⁸ underscoring its importance to the country's economic structure. As a member of OPEC plus group, the country tries to adhere to its current crude oil production quota of 551 thousand barrels per day.¹⁹ However, in recent years, the country has experienced a decline in oil production mostly due to increasing operating expenses at the Azeri-Chirag-Gunashli (ACG) oil field, which pressured production there to be reduced.

Due to geographical proximity and long history of economic relations, Russia remains Azerbaijan's main non-oil trade partner and hosts the largest number of Azerbaijani migrants. The war in Ukraine and sanctions imposed on Russia had a substantial effect on Azerbaijan, as they did on other countries in the region. The non-oil trade turnover of Azerbaijan was affected, as Russia is both the main importer of agricultural products from Azerbaijan and the main exporter of food products to Azerbaijan. However, Azerbaijan also experienced significant positive spillover effects, such as the gains from rising oil prices and an increasing role of the country for transit and gas exports. Remittances and investments to the country from Russia dramatically increased indicating the capital escape from Russia after the start of the war but started to decline in 2023.

GDP growth slowed from 5.6% in 2021 to 4.7% in 2022 and 1.1% in 2023. [17] The GDP per capita for Azerbaijan stood at USD 7,641 in 2024.²⁰ GDP growth rebounded to 4.1% in 2024, mostly on account of the construction, transport and tourism sectors. According to the IMF, GDP growth will reach 2.5% in 2025.²¹ The ADB forecasts the GDP growth of 2.6% in 2025,²² while the EBRD projects a 2.7% growth for the same year.²³

FIGURE 1.1 Global vs local annual GDP growth, %



SOURCE: The State Statistical Committee of the Republic of Azerbaijan (SSC), The Ministry of Economy of the Republic of Azerbaijan, IMF, ADB, EBRD

In order to ensure stronger sustainability, the Azerbaijani government continues to implement policies for economic diversification, primarily targeting non-oil sectors such as green energy, agriculture, tourism, ICT, and transportation. In this regard, in July 2022, "Azerbaijan 2030: National Priorities for Socio-Economic Development" was endorsed by the President, elaborating the country's main strategic priorities.²⁴ Based on these priorities the Social-Economic Development Strategy of Azerbaijan for 2022-2026 was adopted.²⁵

Labour market

In recent years, the population of Azerbaijan has been growing at an average rate of 0.5% and exceeded 10 million people in 2021. As of January 1, 2025, the official unemployment rate stood at 5.3%, down from a peak of 7.2% during the COVID-19 period in 2020, with an average monthly nominal salary of AZN 996.8 (≈ EUR 578.7). [17]

It is important to note that there are significant disproportions between employment density and contribution to GDP across various sectors of the country. For instance, the agricultural sector absorbs 36% of the national workforce yet contributes only around 5.5% to GDP (2023). In contrast, the capital-intensive mining industry, despite contributing about 30% to GDP, employs only 0.8% of the workforce. [17]

Another challenge for employment in Azerbaijan lies in the mismatch between the skills of local employees and labour market needs. The growing attention and focus of the current employment policy are on the necessity for further improvements in the local Vocational Education and Training (VET) system, as well as on training people and providing them with long-lasting employment opportunities in Karabakh and the East Zangezur economic regions.²⁶ This will become more critical once the ongoing infrastructure and reconstruction efforts are completed.

Micro, Small and Medium-sized Enterprises

The development of micro, small, and medium-sized enterprises (MSMEs) remains among the main priorities of the "Azerbaijan 2030: National Priorities for Socio-Economic Development", within the National Priority of "Sustainable growing, competitive economy" [24], and in recent years, it has shown positive dynamics. According to the latest statistics, 99% of business entities in Azerbaijan are classified as MSMEs, with the vast majority (97%) being micro-enterprises.²⁷ The value added by MSMEs stands at 18% of the total national value added, or 27.2% in the non-oil and gas sectors.²⁸

The Law on the Development of Micro, Small, and Medium Enterprises was adopted on December 2, 2022, which defines the forms and methods of state support for MSME development and the state control over MSME subjects.²⁹ The Law also envisages the creation of a unified electronic information register for MSMEs and introduces new terms such as "business incubator" for start-ups. On January 2021, Startup Determination Criteria was approved by the government. The local entities can receive "startup certificates", which exempt their holders, who are taxpayers in Azerbaijan, from profit and income tax on income from innovation activities for a period of 3 years. Such certificates have been obtained, for example, by startups that developed biodegradable additives for agriculture, created a platform to reduce food waste, introduced a new product for cyber awareness and more.³⁰ In February 2024, the government announced the priority areas of the economy where additional support for MSMEs is planned. These include industry, agriculture, information and communication technology, tourism, construction, transportation, and trade.³¹

The Small and Medium Business Development Agency of the Republic of Azerbaijan (KOBIA) provides comprehensive support to MSMEs via its infrastructure in Baku and other regions and regularly shares information on new projects through its investment portal, updating businesses on current opportunities. Special support is provided by KOBIA to enhance entrepreneurship and attract investors to the Karabakh and East Zangezur economic regions. The agency provides information on the economic and investment potential of these areas, offers professional consulting services, facilitates coordination with relevant state institutions, and supports entrepreneurs in their search for local partners. KOBIA's infrastructure in these regions includes SME Friends' offices and the service window in the State Services Centre located in Agali village of the Zangilan district. [27]

Inflation and monetary policy

In 2021, the global mass COVID-19 vaccination campaign, the gradual easing of lockdown measures, and large-scale economic stimulus programs triggered inflationary pressures in most countries, including Azerbaijan's main trade partners. Rising prices of imported food products had a significant impact on inflation, as food constitutes the biggest part of the consumer basket in the country. Besides, some of the regulated prices and tariffs, such as the prices of cold-water supply, natural gas supply, and power supply were increased in Azerbaijan over the year, raising producer prices and services costs. As a result, consumer price inflation in Azerbaijan was 6.7% in 2021. In 2022, driven by supply shocks triggered by Russia's invasion of Ukraine, the inflation rate reached 13.9%, becoming the highest since 2008 (when it peaked at 20.8%). [17] The main factors contributing to inflationary pressure in 2022 have been the rising prices of imported goods, particularly the food prices and the government's decision to raise petroleum product prices. To alleviate the social effects of inflation, the government raised the minimum monthly wage by 15% and pensions by 16.6% starting from January 1, 2023.³² In 2022 and 2023, the monetary policy of Azerbaijan focused on easing inflationary pressures. The refinancing rate was gradually increased by the Central Bank of the Republic of Azerbaijan (CBAR) to 9% in May 2023. The government also implemented anti-inflationary measures to support the local food producers. The measures taken by the government, along with fading base effects, as well as the slowdown of inflation imported from trade partners, brought inflation down to 8.8% in 2023. [17]

In 2024, inflation was volatile but dropped to 2.2% by the end of the year, remaining inside the target band set by the CBAR. While high inflation levels in countries of some of Azerbaijan's trade partners pressured consumer prices in the country to rise, the exchange rate stability helped to partly offset those effects and to bring down the inflation. On the other hand, the retail price of gasoline increased by 10%, and the price of diesel by 25% in the country, starting from June 29, 2024 and put upward pressure on consumer price inflation.³³ The price index for telephone communication services and passenger transportation by road also demonstrated a 27.5% and 16% year-over-year growth by September 2024.³⁴ IMF forecasts inflation in Azerbaijan to be 4.8% in 2025.³⁵

Fiscal policy

Azerbaijan sustained substantial fiscal surplus during the reporting period. It increased to 7.9% of GDP in 2023 but is estimated to decline to 1% of GDP in 2024 and forecasted to be 0.7% of GDP in 2025. [12] State budget revenues increased by 5.5% in 2024, with non-oil revenues accounting for 51.6% of those amounts.

The transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) forms 34.4% of the state budget revenues. The oil revenues being higher than their forecasted levels allowed the government to revise its expenditures upwards during the budget years in order to meet the high demand for capital expenditures. Capital expenditures made up 38.8% of the budget expenditures in 2024. Reconstruction and recovery of the Karabakh and East Zangezur regions have been one of the strategic priorities of the government. About 1/3 of the capital expenditures were allocated for this purpose in 2023. [15]

In Azerbaijan, subsidies comprise a significant part of the budget expenditures. The IMF reports a high level of government energy subsidies in Azerbaijan.³⁶ The production of the main agricultural products in the consumer basket is also subsidised by the government.

The public debt of the country made 21.7% of GDP by the end of 2024, the external public debt making 31.8% of this amount.³⁷ The government pursued a policy of reducing the share of the external debt in overall public debt in order to increase the resilience of the external sector and develop the domestic securities market.³⁸ In 2024, Fitch upgraded Azerbaijan's Issuer Default Rating (IDR) to 'BBB-' from 'BB+' indicating good credit quality. The outlook was marked as stable.³⁹

External sector

Despite the declining level of oil export, Azerbaijan has mostly maintained a strong external position. The high surpluses of current account considering the oil and gas exports helped to compensate for the large deficit in the capital and financial account of the country due to the FDIs to the oil sector. The export revenues were exceptionally high in 2022, when the annual average price of the crude oil was USD 104/barrel. In 2023, the current account surplus amounted to USD 8.3 bn, covering the USD 4.3 bn deficit in the capital and financial account. In view of the average crude oil price being USD 84/barrel, the balance of payments was negative in 2024. The surplus of the current account was USD 4.7 bn., and the capital and financial account had a USD 5 bn deficit.⁴⁰ CBAR explains it with the implementation of strategically important projects and events, as well as the payment of large financial obligations.

Meanwhile, the strategic foreign exchange reserves of the country increased by 3.7% by the end of 2024, which is sufficient to cover for 33 months' worth of imports of goods and services. More than 80% of those were the reserves of the SOFAZ. [34] The external position helped to maintain the manat exchange rate at a fixed level of 1.7 USD/AZN.

1.2 ECONOMIC RELATIONS AND COOPERATION WITH THE EU

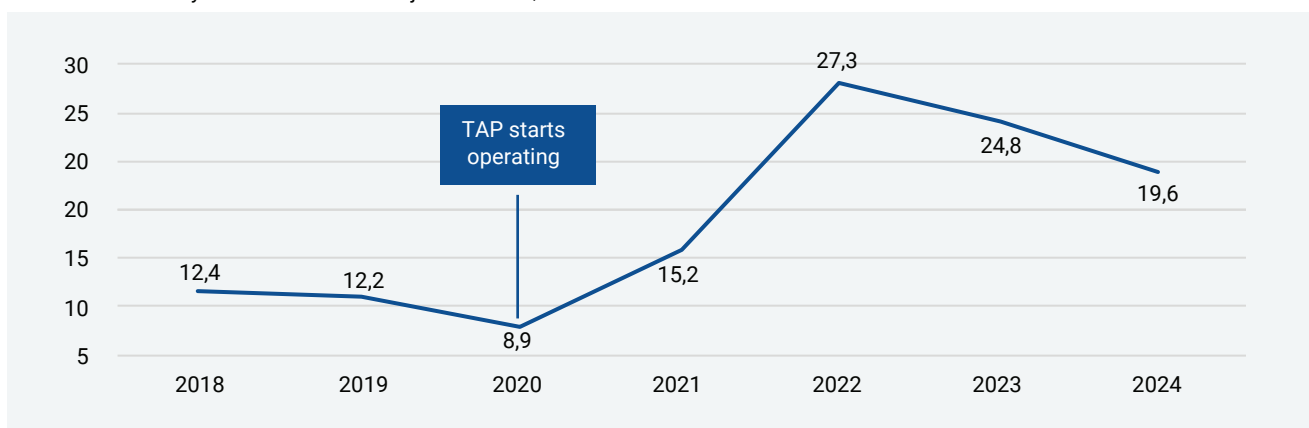
Trade and investments

Azerbaijan is an important partner for the EU and one of the attractive markets for European investors. The EU remains Azerbaijan's main trading partner, accounting for 63.3% of the country's exports and 13.2% of its imports in 2024.⁴¹

Azerbaijan continues to be a strategic partner for the EU, especially in the energy sector, supplying around 4.3% of the EU's oil imports.⁴² The Southern Gas Corridor (SGC) is a strategic initiative to bring gas from the Caspian Sea to the European markets and is a key tool for enhancing the security of energy supplies in Europe. Following the commencement of operations of part of the SGC-Trans Adriatic Pipeline (TAP) in 2020, EU trade turnover with Azerbaijan increased substantially, growing threefold by 2022. In June 2022, Azerbaijan and the European Commission signed a Memorandum of Understanding to increase Azerbaijan's gas exports to Europe to 20 bcm by 2027.⁴³

The pledge is yet to be fulfilled as the trade turnover of EU with Azerbaijan has been declining since 2022. According to the 2024 statistics, the exports to the EU decreased by 32.7%, while imports from the EU increased by 21% compared to 2022.⁴⁴

FIGURE 1.2 Trade dynamics between Azerbaijan and the EU, bn. USD



SOURCE: Azerbaijan Republic State Customs Committee

According to the State Statistical Committee, the main non-hydrocarbon exports from Azerbaijan to the EU countries in 2023 consisted of fruits (Germany and Italy), vegetable oil (Spain), juice (Germany, Finland), tobacco (Bulgaria, Greece, Italy), as well as acyclic alcohols and their derivatives (Romania, Italy, the Netherlands, Latvia). Azerbaijan continues to take measures to boost its exports to the EU, one of the key steps being the implementation of the selected EU Product Safety and Metrology Directives and Regulations, in line with the EU Acquis. This measure would also support Azerbaijan's WTO accession. The national Law on Food Safety was adopted on May 5, 2022.⁴⁵ The main import products from the EU countries to Azerbaijan include food and agriculture, chemical and pharmaceutical products, electrical devices and machinery, as well as vehicles and furniture.⁴⁶

The EU is also one of the largest investors in Azerbaijan. In 2024, FDI from Hungary, Cyprus, Norway and France accounted for 14.5%, 10.6%, 1.9% and 1.7% of the overall FDI to the country, respectively. [40] Azerbaijan is a member of the EU's Eastern Partnership (EaP). The long-term objectives of the EaP are accompanied by an ambitious EUR 2.3 bn regional economic investment plan to support post-COVID-19 socio-economic recovery and to accelerate the green and digital transformations.⁴⁷

EU-Azerbaijan cooperation

The EU-Azerbaijan bilateral relations are based on the Partnership and Cooperation Agreement (PCA) adopted in 1999, which covers a wide range of topics aimed at enhancing political, economic and cultural ties. In 2021, the European Commission began implementing the new financial tool for supporting international development, cooperation, and foreign policy activities - Neighbourhood, Development and International Cooperation Instrument (NDICI). Assistance to Azerbaijan under the NDICI framework will focus on the priority areas outlined in the EU Multi-annual Indicative Program for Azerbaijan for 2021-2027,⁴⁸ which include:

- resilient, sustainable and integrated economies,
- accountable institutions, the rule of law and security,
- environmental and climate resilience,
- resilient digital transformation,
- resilient, gender-equal, fair and inclusive societies.

The EU supports reforms in Azerbaijan that aim at the diversification and modernisation of the economy, and social development. The two sides collaborate on a wide range of initiatives focused on driving sustainable economic growth, enhancing connectivity, advancing green technologies, fostering digital transformation, improving education, and strengthening governance and the business environment. In addition to bilateral programmes contributing to the cooperation on the various priorities outlined above, the EU continues to support Azerbaijan via regional programmes, such as EU4Gender, EU4Business, EU4Digital, EU4Environment, EU4Climate, and the Covenant of Mayors. EU4Business supports small and medium-sized enterprises (SMEs) by providing financial assistance, technical expertise, and capacity-building programs to enhance their competitiveness and contribute to economic growth. For instance, in 2022, the regional EU4Business Initiative implemented 38 projects in Azerbaijan to support MSMEs. EU4Digital supports the government and private sector in enhancing digitalisation and strengthens cooperation on digital aspects both between the EU's Eastern Partnership countries and with the EU.

Both the EU and Azerbaijan are stepping up their efforts on climate adaptation and mitigation as part of their shared commitment to addressing global environmental challenges. The EU has been actively supporting Azerbaijan's initiatives to reduce greenhouse gas emissions, enhance energy efficiency, and promote renewable

energy sources. The projects implemented within the regional EU4Climate, EU4Energy, and EU4Environment initiatives aim to support Azerbaijan in the development of favourable policy and business environment for a sustainable and green economy. The EU also contributes through other regional programmes, such as the Water Initiative, and Shared Environmental Information System II (SEIS II). These programmes, along with bilateral projects focused on air quality and industrial emissions, contribute to Azerbaijan's efforts to meet its nationally determined contributions under the Paris Agreement and achieve the Sustainable Development Goals (SDGs).

Azerbaijan also participates in the Covenant of Mayors for Climate and Energy, an initiative that encourages local governments to take voluntary actions in reducing greenhouse gas emissions, increasing energy efficiency, and promoting renewable energy sources to mitigate climate change and enhance sustainability at the regional and municipal levels. Through this commitment, Azerbaijani cities bring themselves closer to EU climate and energy policies, and contribute to the global effort to combat climate change.

Several twinning projects bringing public sector expertise from EU Member States have also been implemented in Azerbaijan with the EU support, such as the Project on the Adaptation of the National Standardization System to international requirements⁴⁹, and Support to Reforms in the Property Recovery and Management System in Azerbaijan.⁵⁰



1.3 BUSINESS CLIMATE: INSIGHTS FROM KEY SECTORS

Business Climate Indicators

Between 2022 and 2024, Azerbaijan's business climate demonstrated both progress and persistent challenges. From an international perspective, Azerbaijan maintains a balanced approach in foreign policy, aiming to foster good relations with both regional and global powers that resulted in increased trade with China, especially in non-oil sectors, and deeper engagement with countries like Turkey, Georgia and Kazakhstan, including in the development of trade corridors linking Asia and Europe. In the international area, the government continues to streamline processes, reduce bureaucracy, and foster public-private dialogue in areas such as digitalisation, structural reforms and more.

A significant milestone for further improvement of the business climate became the approval of the Competition Code in July 2024 [2]. The Code introduces new regulatory norms, including a broader scope of horizontal agreements limiting competition, clearer definitions of vertical agreements, a more detailed regulations on dominant position and market power, an expanded list of unfair competition cases, procedural aspects for investigating violations of competition law, and more.⁵¹

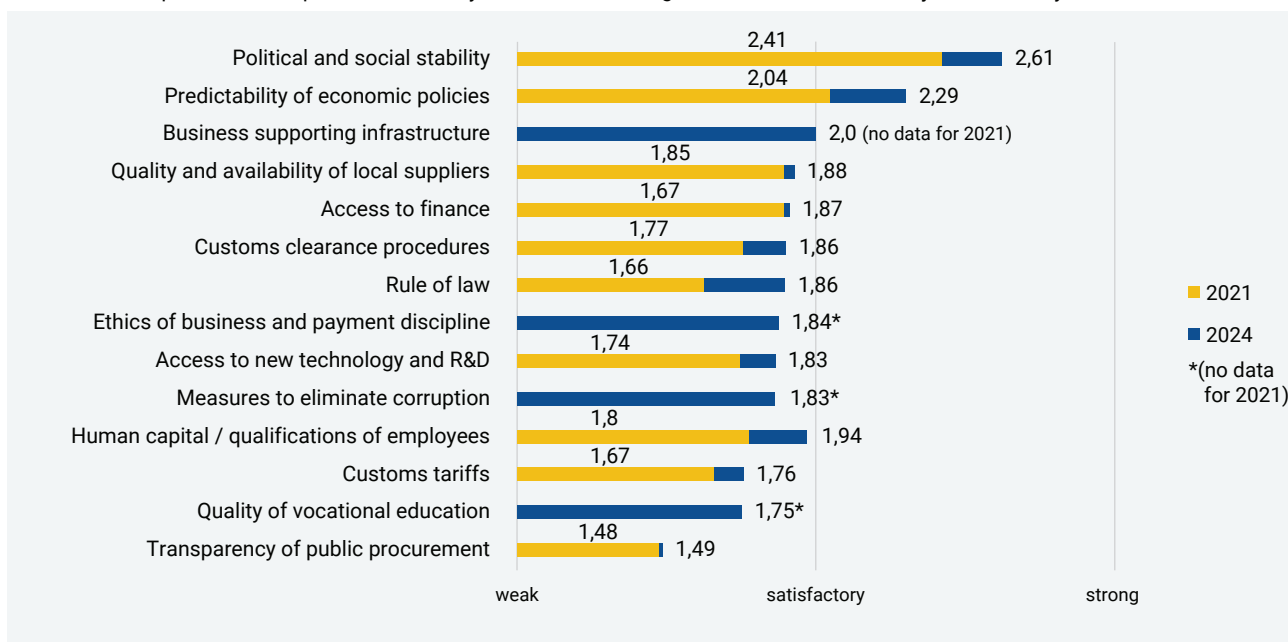
In the Business Climate Survey 2024, European companies confirm positive trends in the business environment via improvement of the vast majority of the indicators. During one-to-one interviews, EU companies describe Azerbaijan's

economy as stable, noting controlled inflation, a strong national currency (manat), and a positive trade balance. However, some challenges remain overlooked, and sectors most affected continue to highlight these issues. To ensure a comprehensive picture, the views of six strategic sectors on the local business climate are presented in this study.

The survey results illustrate a general improvement in the ratings of various local indicators influencing the business climate in Azerbaijan from 2021 to 2024, as perceived by European companies. Overall, the data reveal a cautiously optimistic outlook on the majority of local business indicators.

"Political and social stability" received the highest rating of 2.61 in 2024, up from 2.41 in 2021, bringing this indicator closer to a strong level and confirming increased confidence in the country's stability — an essential factor for fostering a favourable business environment. Similarly, the **"predictability of economic policies"** saw a noticeable improvement, rising from 2.04 to 2.29, reflecting growing trust in the government's economic direction. Another positive sign is the improvement in the **"rule of law"** indicator, which might be the first sign of results following continuous efforts to reform the judicial system and the legislation introduced in recent years.

FIGURE 1.3 Responses to the question "How do you rate the following local indicators in Azerbaijan in the last years? "



SOURCE: EU Business Climate Survey 2024

"Human capital/qualifications of employees" was the only indicator in 2024 that declined, with a drop from 1.94 in 2021 to 1.8 in 2024. This decrease may suggest challenges in workforce skill development and alignment with business needs, underscoring an area where further investment is necessary.

"Transparency in public procurement" remains one of the lowest-rated areas, with no change compared to previous survey years, suggesting ongoing challenges in government contracting procedures. Another indicator that did not demonstrate growth is **"quality and availability of local suppliers"**, which has traditionally been considered by EU businesses as a challenging aspect in the local business environment. While there has been a slight improvement in **"customs tariffs"** and **"customs clearance procedures"**, these remain key areas that require further attention to meet the expectations of international businesses.



"During the last years we observe evident trend that Azerbaijani government is becoming more open to dialogue with business and responsive to requests for changes made by the private sector. For example, we succeed to advocate a few fundamental changes for our sector."

Chair of the Board, Business association

The survey results highlight key challenges faced by European companies in Azerbaijan, reflecting both external and internal obstacles. The most significant factor in recent years has been the **"War in Ukraine and other global conflicts"**, affecting 45% of respondents, underscoring the impact of geopolitical instability. **"Uncertain market development"** follows closely, affecting 44% of companies and highlighting the unpredictability of the market. Additionally, both the **"Lack of qualified labour force"** and the **"Closure of borders due to COVID-19 restrictions"** affected 38% of respondents, pointing to pandemic-related disruptions and a skills gap affecting operations.

FIGURE 1.4 Responses to the question "Select factors that affected your company the most in the recent years."



SOURCE: EU Business Climate Survey 2024

In this regard, bureaucratic hurdles are also prominent, with 36% of respondent companies identifying **"Bureaucracy"** as a major issue. Economic pressures like **"Inflation"** (31%) and **"Tax regulations"** (26%) indicate concerns over rising costs and regulatory complexities. Corruption remains a concern for 24% of respondents, emphasising the need for greater transparency. Further challenges include access to finance, customs controls, and insufficient infrastructure, which affect 18-19% of companies.

Sectorial Insights

When addressing the current economic situation in Azerbaijan, the average rating of the national economy increased from slightly below the satisfactory (1.95) in 2021 to slightly exceeding satisfactory (2.05) in 2024, reflecting a generally positive economic sentiment among European businesses.

On the sectoral level, the **construction and engineering** experienced a significant improvement, with its rating of the economic situation in the industry rising from below satisfactory (1.86) in 2021 to strong (2.4) in 2024. This shift reflects growing optimism among construction and engineering companies, likely driven by favourable market conditions and continued investments in the industry.

The **construction sector** saw fast growth with a rate of 13.4% in 2022 and 13.3% in 2023. In 2024, the sector’s growth slowed down to 9.6%, with 89% of construction works performed by non-state construction enterprises and 28.6% by enterprises with foreign investment. [17] The main driver of this growth has been the reconstruction of the Karabakh and East Zangezur economic regions. AZN 14.6 bn (≈ EUR 8.2 bn) is planned to be

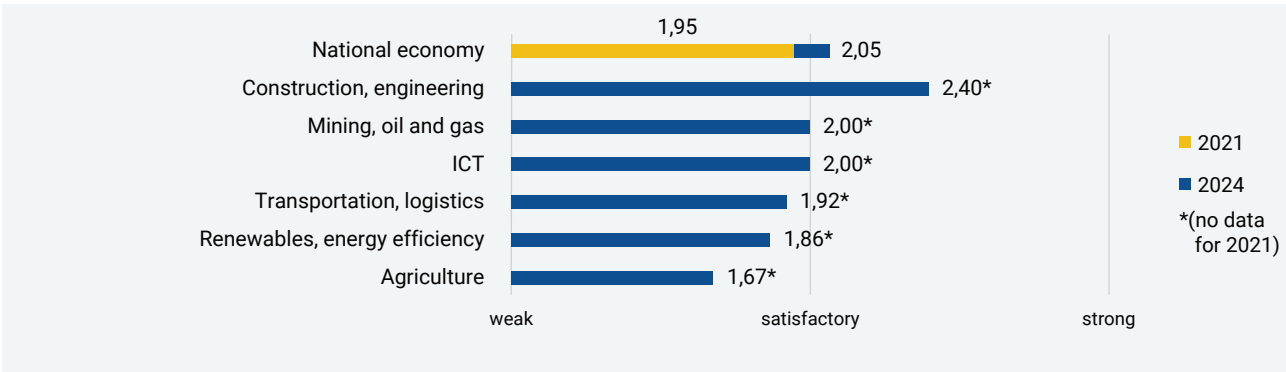
allocated from the state budget for these regions during 2025-2028, making 29% of the overall investment expenditures from the state budget. [15] Private investments in construction projects in these regions have also been encouraged. The construction of the third airport, Lachin Airport, is ongoing.



“No doubt, this is a momentum of great opportunities for the construction sector in Azerbaijan but since the large-scale projects bring to the market new companies, we observe strong expansion of Turkish, Chinese and Middle East players, which of course make the market more challenging and competitive.”

CEO, Construction and Engineering company

FIGURE 1.5 Responses to the question “How do you evaluate the current economic situation?”



SOURCE: EU Business Climate Survey 2024

The mining, oil, and gas sector also assessed local economic conditions as better than last year, with a rise from 1.71 to 2.0. In contrast, the ICT sector lowered its assessment to 2.0, down from 2.15 in 2021, following the pandemic peak. Despite the growing importance of Azerbaijan in international logistics, the transportation sector indicated a slight decline in its assessment of the economic situation, with a rating of 1.92 this year, compared to 2.03 in 2023. European companies working in the agriculture and renewables sectors rated the economic situation at a similar level, slightly below satisfactory. The renewables and agriculture sectors evaluated the economic situation at 1.86 and 1.67, respectively.

Similarly to 2021 results, the current survey illustrates a generally neutral-to-favourable assessment of Azerbaijan’s business climate by European companies, with an average rating across all sectors. This suggests a moderate perception of the business environment – neither marked by significant challenges nor notable

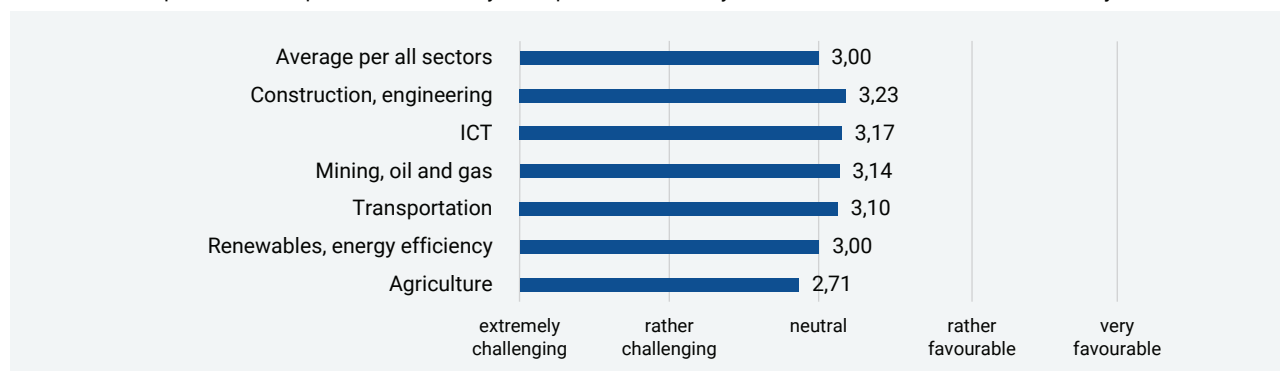
advantages. Notably, however, the construction and engineering sector assessed the business climate significantly more positively than in 2021. The **ICT sector** follows closely with a rating of 3.17 (up from 3.0 in 2021), reflecting a stable and promising environment for technological and digital advancements, aligned with global trends.

The development of the **ICT sector** remains among the priorities of the government according to the “Social-Economic Development Strategy of Azerbaijan” for 2022-2026. The sector has continued to demonstrate growth following the surge recorded during the COVID-19 period. It grew by 14.8% in 2022, 16.3% in 2023, and 11.4% in 2024, to which the non-government sector contributed by 84.3%. The ICT sector is yet accounting for only 1.9% of the overall output of the economy and 2.9% of the investments as of 2024. 34.3% of the sectoral output comes from mobile communication services, and the general population consumes 71.3% of the services in the ICT sector.⁵²

“The market for ICT keeps growing in Azerbaijan. Just a few years ago, our clients were only large companies mostly in the banking, finance, oil and gas sectors. But nowadays we start receiving requests for services even from small and micro entities. Among the latest examples is an application for services from a family business working in farming and craft.”

– Executive director, ICT company

FIGURE 1.6 Responses to the question “Based on your experience, how do you evaluate business climate in Azerbaijan?”



SOURCE: EU Business Climate Survey 2024

Increasing optimism is also notable among EU **mining, oil and gas** companies operating in Azerbaijan. The sector continues to be the backbone of the economy, accounting for one-third of the country's GDP. Oil has a larger share than gas in the mining sector, thus having a bigger impact on the sectoral growth rates. Oil extraction has been in decline in recent years, and the increase in gas extraction could not offset this drop. In 2023, the mining sector shrank by 2.8%, with oil extraction decreasing by 7.6% and gas extraction increasing by 4.2%. In 2024, the mining sector grew by 0.8%, driven by a 6.2% increase in gas extraction, despite a 3.6% decrease in oil extraction. [17]

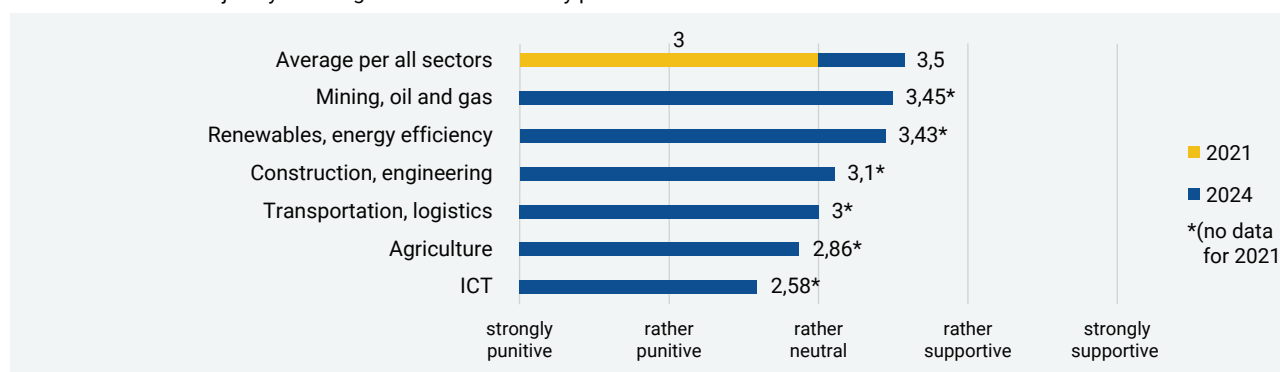
Despite the declining production, the sector attracted 22.4% of the overall investments and 79.3% of the FDI in 2024. It also contributed 48.3% of fiscal receipts and 87.4% of exports. [17] The average price of “Azeri Light” crude oil was USD 84 per barrel in 2024 [40] and remained favourable for supporting export and budget revenues in the country.

“Despite the decline of oil production, the environment remains secure for companies in the oil and gas sector operating under production-sharing agreements. While for other sectors the situation in the market might be very different.”

CEO, Consulting company

While the Business Climate Survey 2024 signals an overall decline in the level of support from public authorities, European companies working in the hydrocarbons sector confirm receiving stronger support from the local authorities than those working in other sectors. It is worth mentioning the overall decline in appreciation among EU businesses regarding support from public authorities compared to the 2021 survey. A few years ago, about half of EU businesses considered the attitude of state bodies towards them to be “rather supportive”. This year, the perception has shifted to “neutral”.

FIGURE 1.7 Responses to the question “Please, choose the statement that better describes your experience with public authorities in Azerbaijan by finishing the sentence “Usually public authorities are...”



SOURCE: EU Business Climate Survey 2024

Many companies in the **renewables and energy efficiency sector** report similar positive experiences with the state authorities. The renewables sector is also of strategic importance to Azerbaijan. Although it has not yet generated strong economic results, it indicates strong growth potential, with over 87% of companies planning to expand in the next few years. As a result, this sector is more optimistic about local business opportunities than other sectors included in this study.



“There is an evident policy trend towards support to the green transition in the country. And while the government’s efforts in the renewable energy sector are evident, other sectors, such as agriculture, manufacturing, finance and insurance, also need attention and expect new support measures.”

Executive Director,
European business association

Azerbaijan has commitment to reduce carbon emissions by 40% by 2050 and as a measure for meeting it, the country has set a target to increase the share of renewable energy in the country’s total energy balance to 30% by 2030⁵³. The “Social-Economic Development Strategy of Azerbaijan for 2022-2026” envisions increasing the share of renewable energy in the overall energy production in Azerbaijan from 17.3% in 2021 to 24% in 2026. [25]. Over the next 6 years, at least 70% of 7 GW of green energy capacity produced in the country will be directed to export.⁵⁴

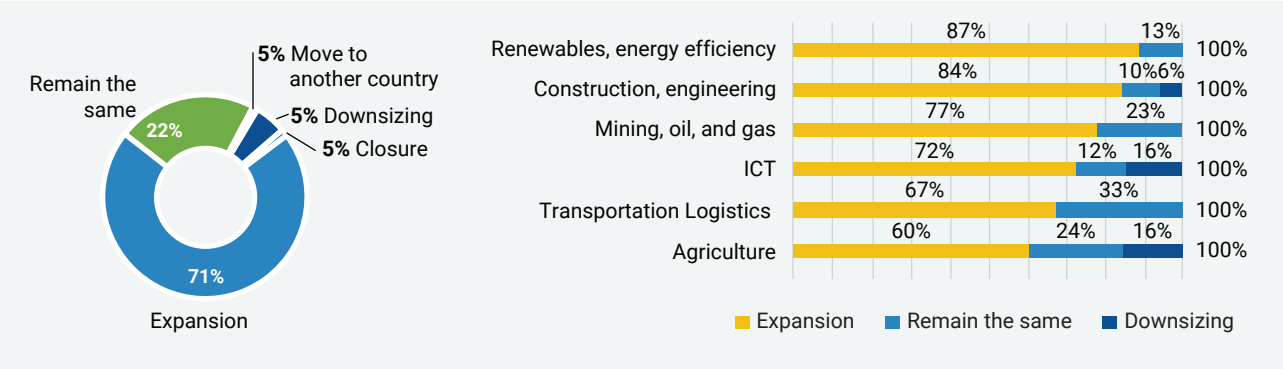
Various routes have been drawn up in order to supply green energy to Europe. The Caspian-Black Sea-Europe Green Energy Corridor project, which will connect Azerbaijan, Georgia, Romania and Hungary is expected to supply 4 GW of green energy to Europe in its initial stages.⁵⁵ Additionally, 1 GW of renewable energy is planned to be exported through the Azerbaijan-Turkey-Europe Corridor from Nakhchivan. [54] Alternative energy is one of the priorities in the “Araz Valley Economic Zone” Industrial Park which was established on October 4, 2021.⁵⁶

According to the 2024 survey, European companies overall have greater ambitions for business development in Azerbaijan compared to 2021. Over 70% of respondents reported plans to expand their business, up from 53% back in 2021. At the same time, the share of entities that plan to maintain the same size decreased from 37% to 22%. Other segments showed no significant change.

European investors in **agriculture** confirm the untapped potential of this sector. Similar to companies in renewable energy, agribusiness has not yet seen significant economic growth, though companies express aspirations for growth in the near future.

In 2022, the **agriculture sector** grew by 3.4%, with a further 3% growth in 2023. The growth rate was only 1.5% in 2024, with crop farming increasing by 1.1%, and animal husbandry by 1.7%. The sector accounts for 5.7% of the country’s overall output and plays an important role in employment, providing jobs for over 35% of the country’s workforce. [17] Agrarian production is currently subsidised by the government, and the “Social-Economic Development Strategy of Azerbaijan for 2022-2026” prioritises support for the sector via the development of sustainable and competitive agriculture and agribusiness. Economic incentives are offered to support the development of agricultural enterprises at the regional level, including in the Karabakh and East Zangezur economic regions.

FIGURE 1.8 Responses to the question
“What is the most likely development of your company in Azerbaijan in the next few years?”



SOURCE: EU Business Climate Survey 2024

The **transportation/logistics sector** has increasingly high strategic importance for Azerbaijan as the Russian invasion of Ukraine caused the need for alternative international trade routes. Azerbaijan aims to establish itself as a transit hub, supported by infrastructure projects like the Trans-Caspian International Transport Route (or the "Middle Corridor") and the Zangezur Corridor, although the success of these projects depends on maintaining stable regional relations. The Middle Corridor, designed to facilitate the transportation of goods and commodities from Central Asia to Europe via the Caucasus, is expected to create significant economic opportunities.



The green transition has been a major sectoral ambition and policy direction for the transportation sector in Azerbaijan during the last years. As part of the European chain, we implement many sustainability projects and bring good practices to the country."

Country director,
Transportation and logistics company

Despite the great potential, the transportation/ logistics sector demonstrates a decline in business aspirations compared to other sectors considered in this study. According to the World Bank's Azerbaijan Monthly Economic Update from October 2023, the transport sector experienced a 22% year-over-year decline in July 2023, primarily due to a slump in air cargo following high levels in the previous year.⁵⁷ The decline can mostly be explained by the fading base effect after the pandemic and the land borders of the country remaining closed. In total, the sector made up 7% of the country's economic growth in 2024. Despite great potential for international transportation in recent years, cargo transportation increased insignificantly, by 5.3% in 2023 and 3.9% in 2024, reaching 238.8 million tons. Passenger transportation saw a somewhat stronger, 18.7% rise in 2023, declining to 8.5% in 2024, totalling 2,088 million passengers. [17]



1.4 INVESTMENT OPPORTUNITIES

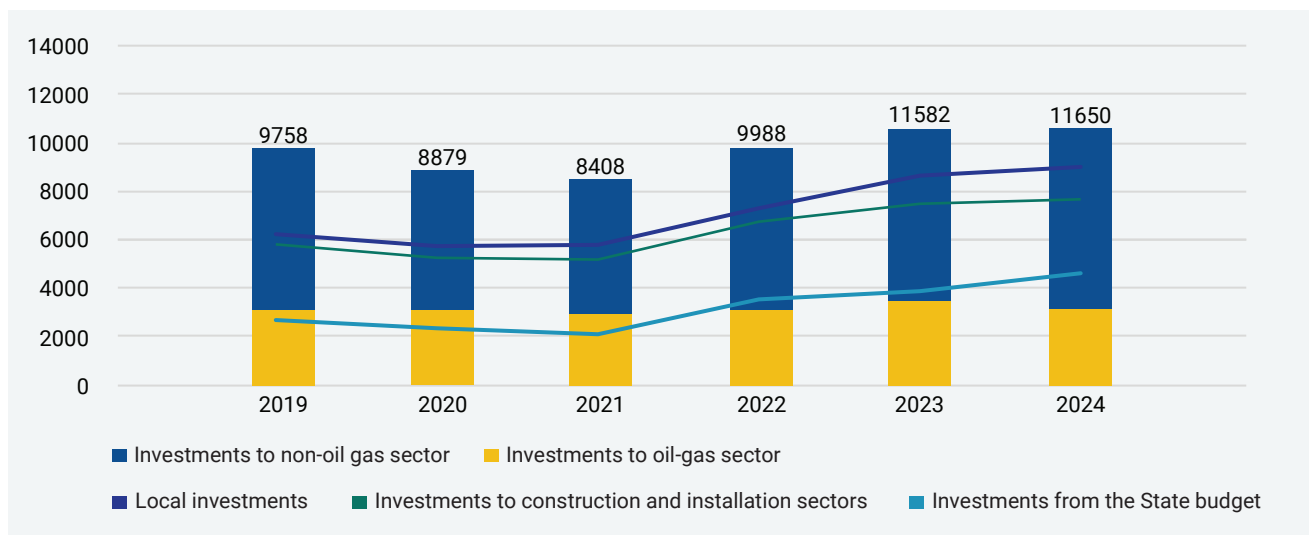
Main trends

Global foreign direct investments (FDI) declined in 2023 due to the economic and political turmoil caused by Russia's invasion of Ukraine and other geopolitical factors. UNCTAD reported that global FDI dropped by 12% in 2022 and by 2% in 2023.⁵⁸ According to the OECD, global FDI flows increased to USD 727 bn in the first half of 2023 but remained 30% below the level recorded in the first half of 2022.⁵⁹ Much of the rise took place in the first quarter of 2023, while global FDI flows dropped by 44% in Q2 2023, compared to the previous quarter.

In recent years, Azerbaijan's FDI landscape has shown resilience amid global economic challenges, driven primarily by its robust energy sector and efforts toward

economic diversification. After the pandemic, investments in Azerbaijan grew by 26.7% from 2021 to 2023. During this period, domestic investments demonstrated high growth (by 39%), stimulated by public investment in construction projects in Karabakh and East Zangezur, which made up around one-third of overall public investment. The growth rate of the overall investments was less prominent in 2024. One of the reasons is the reduction of the high growth levels of the domestic investments observed during the last years. Besides, according to CBAR, the net incurrence of the foreign investments into the country declined, too, as the repatriation of the capital in the oil and gas sector exceeded the investments to the sector and it could not be compensated with the FDIs to the non-oil-gas sector. [17]

FIGURE 1.9 Investment in Azerbaijan's economy, mln euro



SOURCE: The State Statistical Committee of the Republic of Azerbaijan (SSC)

According to the CBAR, FDI reached USD 6.3 bn in 2022 and USD 6.7 bn in 2023, with 70% of these investments absorbed by the oil and gas industry. [40] The investments in the non-oil-gas sectors were at USD 1.8 bn in 2022 and USD 2 bn in 2023. FDI to Azerbaijan increased by 5.8% compared to the previous year and totalled USD 7 bn in 2024. FDI in the non-oil-gas sectors declined by 32.1%, reaching USD 1.4 bn. FDI in the oil and gas sector increased by 22.2% and made 80.7% of the overall FDI to the country. Among the main countries investing in Azerbaijan in 2024 were the UK, Turkey, Hungary, Cyprus, UAE, Iran and Japan. The UK is the leading investor in the oil sector with almost 25% of the overall investments to the country's economy.

International investment agreements and treaties

Azerbaijan has a double taxation avoidance agreement with 57 countries and bilateral investment treaties with 52 countries, including the majority of the EU member states.⁶⁰ Azerbaijan has Free Trade Agreements (FTAs) with CIS countries.⁶¹ The country is in the process of acceding to the WTO, and although the accession is still pending, it is expected to further increase its attractiveness to European investors.

The Law on Investments was adopted on June 22, 2022.

[1] The provisions of the Law on Protection of Foreign Investment were incorporated into this new legislation, and the previous legislation was dismissed. The Azerbaijani government is seeking to attract foreign investment in the non-oil sectors, such as agriculture, logistics, renewable energy, information and communication technology, and tourism, in line with its strategy to diversify the economy, as outlined in the “Social-Economic Development Strategy of Azerbaijan for 2022-2026”.

The Government of Azerbaijan has taken measures to improve the investment environment in the country, including the introduction of effective mechanisms for promoting exports and investments, such as tax concessions. Numerous measures have been implemented, including providing subsidies aimed at supporting domestic production, digitalisation and simplification of public procurement procedures, the provision of soft credits, and simplification of the procedures related to the use of other financial support mechanisms. However, impediments to the investment climate in Azerbaijan continue to exist, such as insufficient transparency and efficiency in public procurement, and restrictions on tax concessions for microenterprises.

Support infrastructure

Several industrial areas are operating and continuing their development in the country, including five industrial parks, four industrial quarters, and two hi-tech parks. These areas offer investors lower rental rates, simplified administrative procedures, and exemption from property tax, land tax, and tax on income or profits for 10 years from the date of registration. They also provide exemption from VAT on the import of machinery, technological equipment, and machines imported for production purposes. There is also an exemption from the customs duties for seven years.

Alat Free Economic Zone (AFEZ), strategically positioned by the Caspian Sea port of Alat, aims to attract foreign investors and diversify Azerbaijan's economy. Launched in July 2021, AFEZ spans 850 hectares, providing an investor-centric, export-oriented environment.⁶² The zone offers a business-friendly legal framework, taking precedence over national laws to enhance the ease of doing business, supported by a one-stop-shop business centre and strategic transport access via Baku International Port, rail, highways, and planned air cargo facilities. Eligible businesses must export at least 75% of their production.

AFEZ provides several incentives: companies are exempt from VAT, corporate taxes, and customs duties, and employees enjoy income tax exemptions on salaries up to USD 4,700 monthly. Full foreign ownership is permitted, intellectual property rights are protected, and disputes are resolved by an independent regulatory body. While no local partner is required, AFEZ promotes links between foreign investors and local firms and offers industrial training facilities to boost employment. The AFEZ authority recently announced advanced office accommodations and industrial plots with ready-to-use infrastructure. Two logistics centres will support AFEZ: the AFEZ Logistics Centre for rail transport on 160,000 square meters and the Alat Bay Industrial Development for highway logistics, covering 50,000 square meters. [62]

Alat Port, located 70 km from Baku, is under phased construction on 400 hectares, with 120 hectares designated for a Free Trade Zone, expandable to 2,000 hectares. Positioned at the crossroads of the East-West and North-South corridors, the port's final stage aims for a cargo capacity of 25 million tons, with a future international cargo airport also planned. [62]

Views of European investors

In order to highlight the primary investment drivers for EU companies, it is important to note that, similar to previous years, **“access to the domestic market”** remains the leading factor, cited by 70% of respondents, indicating the significance of local market potential for business expansion. As a result of Azerbaijan's geographic location and trade agreements, **“strategic partnerships and alliances”**, as well as **“access to regional markets and Free Trade Agreements”** facilitating cross-border commerce, remain among the top factors, chosen by 55% and 32% of European investors in 2024, with comparable results in 2021.



“Azerbaijan’s strategic location and political stability, along with good relations with neighbours, position it as an appealing investment hub, especially for Central Asian and Turkish markets.”

Country director, Machinery and equipment

During the interviews, managers of European companies highlighted that stability in both economic and political realms, particularly since the end of the Karabakh conflict, is seen as a favourable factor for investors. The stability of the manat and government spending on development projects have also positively impacted the investment climate. At the same time, despite Azerbaijan's perceived neutrality in the political arena, Western investors increasingly observe Chinese, Turkish and Middle Eastern businesses replacing some European companies in the Azerbaijani market.

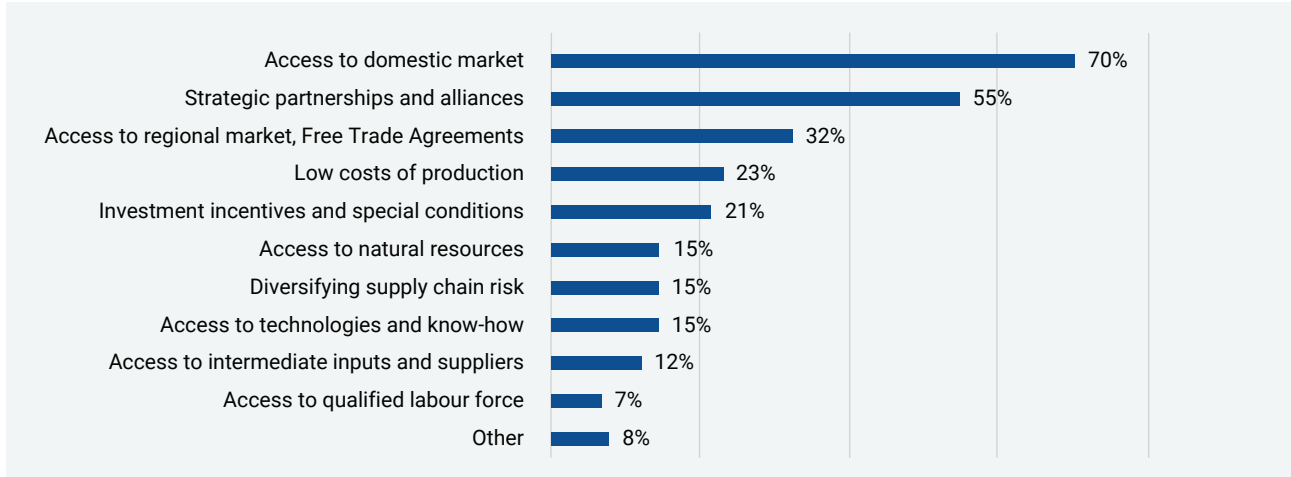


“During the last few years, more and more Chinese companies are replacing European investors in the Azerbaijani market, while Middle Eastern and Turkish businesses are also expanding their presence.”

Director, Consulting company

About 20-25% of European investors value “**low costs of production**” and “**investment incentives and special conditions**” provided by the country, which enhances Azerbaijan's appeal as a cost-efficient investment location with balanced economic conditions. It is important to note that other factors, such as “**access to natural resources**”, “**supply chain diversification**”, and “**access to technologies and know-how**”, each hold a 15% share, indicating targeted interest in these areas among certain segments of companies, though these factors are not positioned among the main attractions. “**Access to intermediary inputs, suppliers**” and “**access to qualified labour force**” usually attract investors, but these factors obtained a relatively low level of interest in the EU Business Climate Survey 2024 (12% and 7%, respectively). This might signal possible challenges in these areas, requiring their deeper analysis and prioritisation by the Azerbaijani government.

FIGURE 1.10 Responses to the question “Which factors attract your company to invest and/or do business in Azerbaijan?”



SOURCE: EU Business Climate Survey 2024

The EU Business Climate Survey offers European investors an opportunity to assess local suppliers. The 2024 results highlight a persistent and growing gap in critical areas such as quality, professionalism, ethics, and environmental standards, which are becoming increasingly important for European companies.

FIGURE 1.11 Responses to the question “Share your experience of working with local suppliers. Which professional aspects need to be further improved by the local suppliers, in your opinion?”



SOURCE: EU Business Climate Survey 2024

The 2024 survey shows that 81% of respondents expect future improvements in some respects regarding local suppliers. This represents an obvious increase from 67% in 2021, suggesting that optimism has increased in this aspect of business. However, gaps remain between local supplier capabilities and European business expectations. The proportion of companies satisfied with local suppliers has decreased from 21% in 2021 to 13% in 2024, confirming the growing concerns among European businesses operating in Azerbaijan.



“Unfortunately, suppliers remain a bottleneck for some local operations. It took a while for us to establish a reliable supply chain. Recently, we started to see new local companies led by young managers that provide services with higher professional standards. I hope this trend will sustain and contribute to a larger-scale positive shift.”

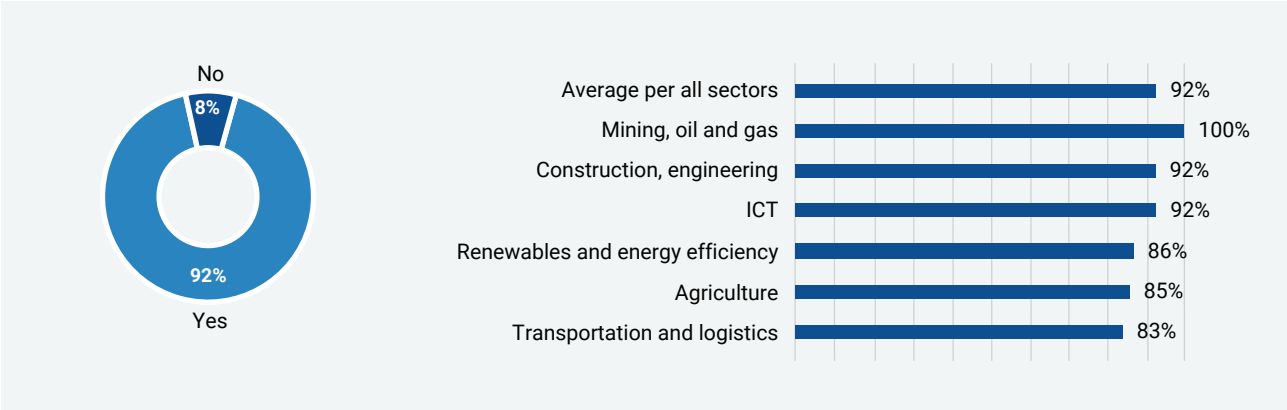
Country director, Machinery and equipment company

When comparing specific aspects of local supply challenges, the improvement of the quality standards and professional skills/qualifications remain top priorities in 2024, with 77% and 74% of companies, respectively, identifying them as critical. These figures also reflect an increase from 2021, indicating that, despite awareness of these issues, significant progress in addressing quality and skills gaps has not yet been achieved.

Other areas, such as ethical standards and environmental standards, also show an increase in concern. In 2024, 53% of companies noted that ethical standards required improvement (up from 30% in 2021), and 44% identified environmental standards as needing improvement, compared to 28% in 2021. This increase reflects a growing emphasis on corporate responsibility and alignment with international ethical and environmental norms among European companies.

One of the key indicators in the EU Business Climate Survey assesses the willingness of investors to choose Azerbaijan again as a location for their business. In previous editions, the share of companies confirming Azerbaijan as their preferred investment destination ranged from 70% to 80%. However, the 2024 survey shows the highest-ever result, with 92% of respondents reaffirming their choice of Azerbaijan as a favourable location for investments.

FIGURE 1.12 Responses to the question “Would you choose Azerbaijan again as a preferred location for your business?”



SOURCE: EU Business Climate Survey 2024



“Based on the current state-of-affairs and comparing to the situation in many other countries, Azerbaijan is nowadays one of the safest and most stable places for investors to conduct business in the region.”

Managing Director,
Engineering services company

Sectoral analysis reveals particularly strong commitment in specific industries. Considering the country’s established reputation and resources in hydrocarbon industries, 100% of respondents in the mining, oil, and gas sector indicated they would choose Azerbaijan again. Other sectors, including construction, engineering, and ICT, also show high satisfaction levels, with 92% of companies in these sectors reaffirming their preference. While the results for renewables and energy efficiency (86%), agriculture (85%) and transportation and logistics (83%) reflect robust confidence in these sectors, these indicators are moderately lower than the average. This suggests a need for additional support for sustainable initiatives, as well as a stronger focus from the government on the country’s potential as a regional hub and provider of agricultural resources.

Karabakh and East Zangezur economic regions

The government continued to promote investments in the Karabakh and East Zangezur economic regions. The “State Program on the Great Return to the Liberated Territories of the Republic of Azerbaijan”, adopted on November 16, 2022, by Presidential Decree, announced an action plan for the development of these regions for the period of 2022-2026. [26] It covers a wide range of directions, including infrastructure, construction, education, health-care, access to state services, integration of the relocated population, utilities, land management, green technologies, etc. The document envisages measures for attracting local and foreign investors and creating mechanisms for insuring investments.

The funding needs for the implementation of the Program were initially estimated at AZN 30.5 bn (≈ EUR 17 bn), accounting for about 27% of the state budget expenditures for 2022-2026. The government began allocating the funds in 2020, reaching about 40% of the budget by 2023. AZN 14.6 bn (≈ EUR 8.2 bn) is planned to be allocated from the state budget for these regions during 2025-2028, making 29% of the overall investment expenditures from the state budget.⁶³ To support investors in these economic regions, the “Aghdam Industrial Park” and “Araz Valley Economic Zone” were established in 2021.

The “**Aghdam Industrial Park**” was established with the purpose of revitalising the region, developing the industrial potential of Karabakh, supporting entrepreneurship and organising competitive industrial production based on state-of-the-art technologies. The investment volume of the park is USD 140.2 mln, with the potential to create 2,090 workplaces and covering an area of 190 hectares.⁶⁴

The “**Araz Valley Economic Zone**” aims to support entrepreneurship, organisation of competitive industrial production, and increasing employment of the population. Currently, the Economic Zone has an investment volume of USD 55.4 mln and covers an area of 200 hectares. This Zone is provided with electricity, but road, railway infrastructure and utility services are yet to be built.⁶⁵

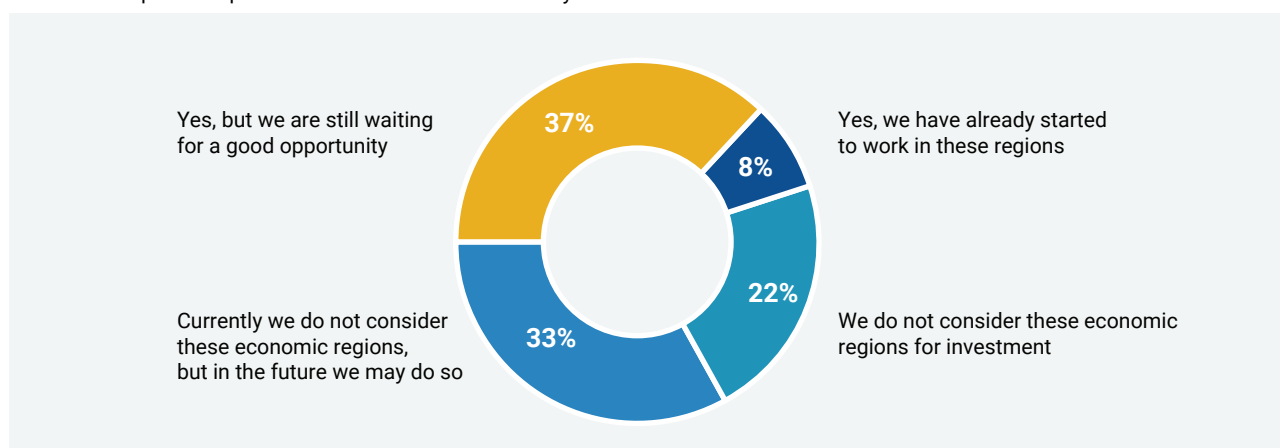
The priority areas for both industrial zones include food and agricultural products, fruit and vegetable processing, production of fodders and veterinary drugs, agro-chemistry, appliance manufacturing, agricultural machinery production, household chemicals, automobile and machine building industries, sorting and packing, as well as the production of light industry products. The “Aghdam Industrial Park” also targets electrical power products, equipment and tool-making areas, while the “Araz Valley Economic Zone” works with businesses operating in warehousing, cold storage and logistics services.

Foreign investors can also benefit from the incentives that the Azerbaijani government announced for companies operating in the regions. State support for loans for entrepreneurial activity in the Karabakh and East Zangezur regions has been determined in the form of state guarantees and subsidies (based on a decision dated January 9, 2023).⁶⁶ On December 26, 2023, the support mechanisms were announced, aiming at the restoration of some enterprises and facilities in trade, public catering, household services and other directions.⁶⁷ Some of the state support measures for entrepreneurs include:

- Exemption from profit, property, land taxes and simplified taxation for 10 years,
- Exemption from VAT for a period of 10 years for the import of machinery, technological equipment and facilities, raw and other materials,
- Tax exemptions for production, including processing and extraction activities,
- Tax exemption to entities providing goods (works, services) to the residents of the regions in the fields of wholesale trade, construction and services,
- Tax exemptions for tourism, retail trade, public catering and other public services, etc.,
- Financial assistance related to salary co-financing, social benefits, social insurance benefits and utility concessions.

KOBIA is currently accepting project proposals from local and foreign entrepreneurs who are interested in setting up businesses in these regions. As of October 2024, about 2,300 applications have been registered, with more than 500 from foreign investors.⁶⁸ Currently, the largest construction works in the Karabakh and East Zangezur economic regions are being carried out by Turkish investors, who are implementing about 50 projects with more than 20 companies.⁶⁹ The total cost of these restoration and construction works is USD 4 bn. European companies have not yet been very active in Karabakh and East Zangezur, despite some signalling their tentative interest in investments in these regions. According to the 2024 survey, only 8% of respondents have already begun working in these regions. A larger group, representing 37%, is open to investment but remains on standby, awaiting favourable conditions or further opportunities. This suggests that while there is interest, companies require more clarity or incentives to fully commit. Interestingly, 33% of respondents are not currently considering these regions for investment but may do so in the future, reflecting that actionable support and clear investment frameworks could be key in converting this interest into substantial economic activity.

FIGURE 1.13 Responses to the question “Does your company consider Karabakh and East Zangezur economic regions as potential place for investment in the nearest years?”



SOURCE: EU Business Climate Survey 2024

Conversely, 22% do not consider these regions suitable for investment in 2024, which is a higher percentage compared to 12% in 2021, indicating concerns or obstacles that deter engagement. During the interviews, the companies emphasised their concerns about the lack of specific focus on foreign investors for projects in these regions, as well as complex regulatory requirements, and insufficient transparency in government procurement processes.



“We hear a lot about investment opportunities in Karabakh and East Zangezur. There are also some success stories available. However, access to information about projects, as well as the procedures for awarding winners are not always clear. In the case of our company, we need more clarity for taking investment decisions, so for now we keep waiting for a good opportunity.”

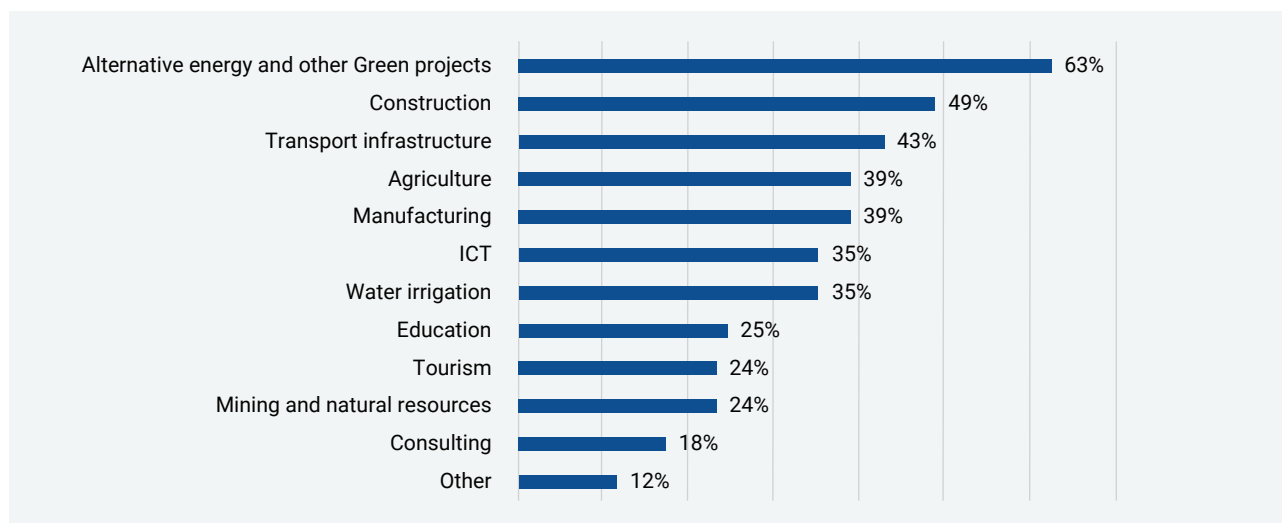
Country manager,
Renewable energy company

The economy of the territories had traditionally been focused on agriculture and mining, although tourism and transportation/ logistics were also prevalent. Nowadays, the government is also trying to develop innovative fields of the economy in the regions, dedicating a strong focus on green technologies and environmentally sustainable projects, such as the establishment of green energy zones, development of “green villages”, and restoration of hydroelectric power plants, etc. To provide water to the economic regions, the gradual restoration and construction of new water reservoirs, irrigation and distribution channels, pumping stations, sub artesian wells and other water facilities are planned to be completed by the end of 2026.

Currently, a big part of the physical infrastructure has already been built. The regions are fully supplied with electricity and connected to the unified energy network of the country. The transport infrastructure is being restored and is connected to the road infrastructure of other cities and regions of the country. The construction of the Tartar-Chayli-Suguvushan-Talysh and Ahmedbeyli-Fuzuli-Shusha highways has already been completed. The construction and rehabilitation of other highways are planned to be completed by the end of 2026. Two international airports are already operating in the post-conflict areas. The construction of the third airport - Lachin Airport is ongoing.



FIGURE 1.14 Responses to the question “Which profile of investment you consider for Karabakh and East Zangezur economic regions?”



SOURCE: EU Business Climate Survey 2024

The data obtained via the EU Business Climate Survey 2024 highlights the diverse investment interests in the Karabakh and East Zangezur regions among EU companies, with a strong inclination towards **alternative energy and other green projects**, indicated by a notable **63%** of respondents. This interest aligns with Azerbaijan’s commitment to developing green energy zones in these regions, reflecting a favourable environment for renewable energy initiatives. Construction (49%) and transport infrastructure (43%) also attract significant interest, most probably connected to ambitious projects expected in the regions within the State Program. **Agriculture** and **manufacturing** (both at 39%) also remain attractive for European investors, particularly in alignment with sustainable practices and smart agriculture initiatives. Investments in **ICT** and **water irrigation** (35% and 25%, respectively) further emphasise a focus on modernisation and environmental management, key for enhancing productivity and resilience in these areas.

Middle Corridor

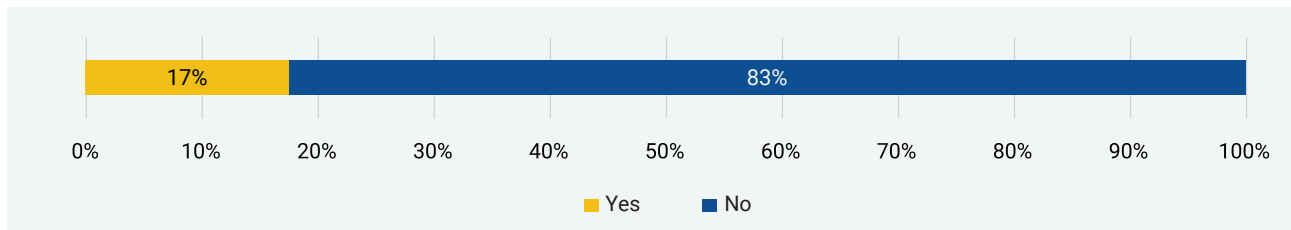
Sanctions imposed on Russia since 2022 renewed the importance of Azerbaijan’s strategic and available roads connecting Europe and Asia.⁷⁰ The Trans-Caspian International Transport Route, also known as the Middle Corridor, was established in 2013. It originated as a consortium of companies from Azerbaijan, Georgia, Kazakhstan and Turkey for transporting goods and commodities from Central Asia to Europe via the Caucasus. Compared to the Northern Corridor, the Middle Corridor, consisting of about 4,250 km of rail lines and about 500 km of seaway, provides a faster and a more cost-effective trade route, by cutting travel distance by 2,000 km. The strategic location of the Middle Corridor is expected to offer significant economic opportunities⁷¹.

Since the onset of Russia’s invasion of Ukraine, the volumes transported through the Middle Corridor have grown from 600,000 tons in 2021 to 2.7 million tons in 2023.⁷² This route has much more favourable transit time compared to the others: Middle Corridor – 12 days; Northern Corridor – 19 days; Southern Corridor – 22-37 days.⁷³ The transit routes are also not being used to their full potential. For example, the Maritime Route was used 66% below the expected value by December 2023.⁷⁴ The current annual capacity of the Middle Corridor stands at 5.8 mln tons only, but there is a room for expansion through measures such as advancements in digitalisation, railways, ports, and tariff policies. [71] The World Bank forecasts the Middle Corridor to increase the trade turnover between Azerbaijan, Georgia, Kazakhstan, and the EU by 28% by 2030. In its 2023 report, the World Bank indicated that the Middle Corridor saw a 33% increase in container traffic in 2022 alone, with the trade volumes surging in countries where the corridor transits.⁷⁵ However, further measures need to be taken to make this trade route faster and cheaper.

Considering the growing attention to this transportation opportunity in Azerbaijan, the EU Business Climate Survey 2024 accessed European investors’ familiarity with the Middle Corridor and collected feedback on their experiences using it. The results suggest that most businesses have not yet used the Middle Corridor, and improved information accessibility and addressing operational concerns could increase the adoption of the Corridor among EU companies in the future.

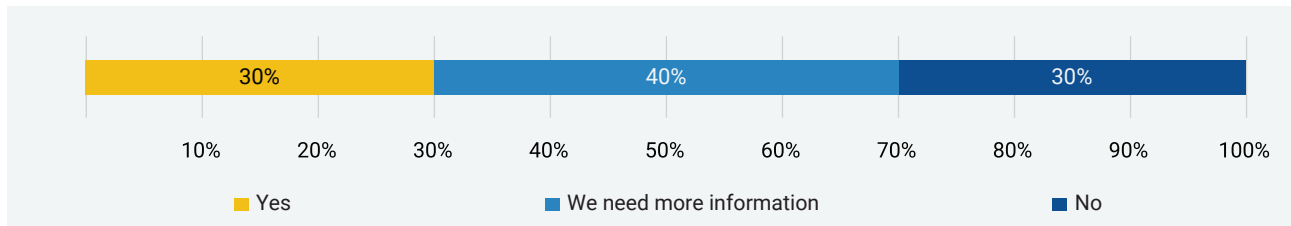
The survey indicates that only 17% of European companies have experience using the Middle Corridor as of today, though this figure may increase in the next two years. According to the results, about 30% of respondents confirmed their plans to use the route in the next few years and the same share responded negatively. A significant 40% of investors indicated a lack of information about this transportation route, which signals about need for better awareness-raising to be made.

FIGURE 1.15 Responses to the question “Do you have an experience of using Trans-Caspian Transport Corridor (Middle Corridor) through the territory of Azerbaijan for trade/ logistics purposes?”



SOURCE: EU Business Climate Survey 2024

FIGURE 1.16 Responses to the question “Do you plan to use the Middle Corridor in the next few years?”



SOURCE: EU Business Climate Survey 2024

To enhance the appeal and functionality of the Middle Corridor, significant improvements in infrastructure and operational efficiency are required. Currently, only 25% of users report that the corridor meets market needs, while a substantial 75% indicate a need for enhancement. The primary challenges faced by businesses include logistical issues related to transportation, shipping, and distribution operations, compounded by a high level of bureaucracy and an inadequate degree of digitalisation. Furthermore, limitations in land infrastructure capacity, unpredictable transportation costs, and duration, as well as insufficient capacity in Caspian and Black Sea shipments, contribute to delays and inefficiencies that undermine the corridor's competitiveness.

FIGURE 1.17 Responses to the question “To what extent the current capacity and operations quality of the Middle Corridor meet the needs of the market? What challenges you faced while using it?”



SOURCE: EU Business Climate Survey 2024



“In the transportation sector, you are as strong as your weakest link. We tried to use this route a couple of times but faced ineffective institutional arrangements and a lack of coordination. This results in unpredictable time and costs.”

CEO, Transportation and logistics company

It is important to note that these operational hurdles create barriers to the wider adoption of the Middle Corridor for trade and logistics purposes. The findings suggest that focused investments in physical infrastructure and the adoption of digital solutions to streamline administrative processes could address key bottlenecks. Such improvements would not only reduce unpredictability but also enhance the overall reliability of the corridor, aligning it more closely with the needs of the market. As a result, the corridor's potential as a strategic trade route could be significantly increased, encouraging greater engagement from EU businesses seeking efficient and reliable logistics solutions in the region.

2 SUSTAINABLE ECONOMIC DEVELOPMENT

2.1 GREEN BUSINESS FOR CLIMATE RESILIENCE



The development of green business and sustainable practices in Azerbaijan is one of the state's top priorities that strongly contributes to the implementation of several **UN Sustainable Development Goals**. The development of environmentally responsible business in the country supports **SDG 13: Climate Action by reducing greenhouse gas emissions, while advancing SDG 8: Decent Work and Economic Growth by generating jobs in green sectors**. By fostering sustainable infrastructure and innovation, green business aligns with **SDG 9: Industry, Innovation, and Infrastructure**. Increased adoption of clean energy also contributes to **SDG 7: Affordable and Clean Energy** and enhances **SDG 11: Sustainable Cities and Communities**.

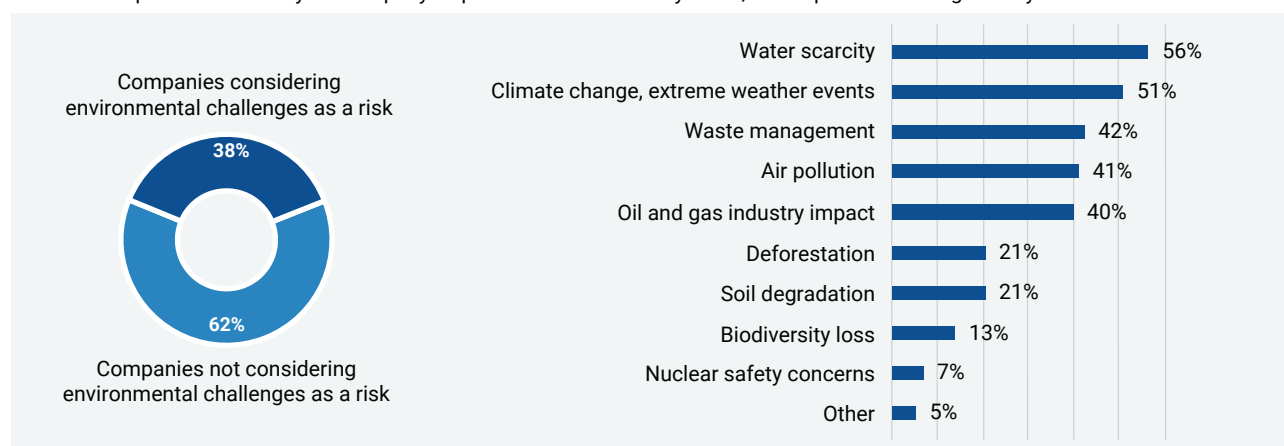
Climate and environmental challenges

Azerbaijan, like many other countries, faces significant climate and environmental challenges influenced by geographical and natural factors, as well as large-scale industrial activities such as oil production. The entire Southern Caucasus region is hit by climate change and rising temperatures faster and harder than the global average. The primary climate and environmental issues affecting the country include:

- **Water scarcity/ loss**, largely due to improper irrigation practices and fuelled by climate change, has drastically increased over the past 20 years, posing a risk to sustainable water resources.
- **Falling water levels and pollution of the Caspian Sea**. Projections indicate that by 2100, the water levels could decrease by 8 to 30 meters.⁷⁶ Pollution of the Caspian's water impacts marine life and water quality.
- **Pollution of transboundary rivers**. Approximately 70% of Azerbaijan's water runoff is concentrated in transboundary rivers,⁷⁷ which are particularly vulnerable to pollution from upstream sources, affecting water quality and availability.
- **Concentration of water infrastructure**. Nearly 75% of Azerbaijan's water infrastructure is centralised in the Mingachevir Reservoir, highlighting a dependency that increases vulnerability to any disruptions in this area.
- **Air pollution** from industrial plants and transport vehicles. Industrial emissions and vehicle traffic significantly impact air quality, with pollutants contributing to health and environmental concerns.
- **Soil degradation**, including erosion, desertification, and salinization, is prevalent, with approximately 30% of the Kur-Araz lowland affected by salinity,⁷⁸ thereby impacting agricultural productivity and land health.
- **Deforestation**. Despite ongoing afforestation efforts, deforestation continues due to arbitrary logging and wildfires, threatening biodiversity and carbon capture capacities.
- **Rising average temperatures**. Since 1991, average temperatures have risen by 0.4 degrees Celsius, with declining rainfall and an increase in extreme weather events such as floods, droughts, and heat waves, all of which exacerbate the existing environmental stressors.
- **Landmine contamination in the Karabakh and East Zangezur** regions is another prevailing environmental treat that needs large resources to be eliminated.

Respondents to the **EU Business Climate Survey 2024** working in the sectors directly connected or dependent on climate challenges (renewables, energy efficiency, agriculture, water supply, etc.) make up about 15% of the total participants. Meanwhile, a significantly broader share of European companies (62%) confirmed that they consider environmental challenges a significant concern or potential risk to their operations, which highlights the growing awareness of environmental impacts on business. Among the key issues, EU businesses mentioned water scarcity as the top concern, emphasised by 56% of respondents. Following this, climate change and extreme weather events worry 51% of companies, reflecting the growing need for resilience against unpredictable environmental shifts.

FIGURE 2.1 Responses to the question “Do you consider environmental challenges in Azerbaijan as a concern or potential risk for your company's operations in the country? If so, what specific challenges are your main concerns?”



SOURCE: EU Business Climate Survey 2024

Other notable concerns include waste management (42%) and air pollution (41%). This highlights the demand for better waste disposal systems and air quality regulations to maintain a healthy business environment. The companies are also aware of the ecological footprint associated with Azerbaijan's primary industry, oil and gas, which was mentioned in this regard by 40% of the companies. Additionally, deforestation, soil degradation, and biodiversity loss (21% and 14%, respectively) present further environmental risks that could impact long-term sustainability.

One-to-one interviews with European companies underlined the need to increase awareness and understanding of sustainability principles among business leaders and the public. Respondents suggest that the government and private sector could collaborate on educational campaigns and training programs.



"Education and awareness are the key. The government and private sector need to work together to inform businesses about the importance of climate change topics and benefits of ESG. In this regard, COP-29 is a great opportunity to build trends for "Green" in the country."

Executive Director,
Renewable energy company

Addressing these issues requires targeted actions and sustainable practices to safeguard natural resources and ensure environmental resilience for future generations. According to the World Bank, key challenges in implementing green practices in Azerbaijan include limited regulatory frameworks, insufficient upfront investment and lack of access to finance, the lack of R&D infrastructure, the need for capacity building and skills development, as well as integrating green technologies into existing infrastructure.⁷⁹

Economic potential of the sector

The climate and environmental challenges also present significant business opportunities, especially for the renewable energy sector. Currently, hydropower dominates the market, while wind and solar energy, though smaller segments, are expected to experience substantial growth in the near future. Additionally, the increase in agricultural production may drive a rise in biogas projects, further diversifying the country's renewable energy landscape.

According to the Azerbaijan Renewable Energy Agency under the Ministry of Energy of the Republic of Azerbaijan (AREA), the technical potential of the country's onshore renewable energy sources is 135 GW and offshore is 157 GW.⁸⁰ Estimates from the AREA suggest a high economically viable potential, with **27 GW** onshore. This includes **3,000 MW of wind energy, 23,000 MW of solar energy, 380 MW of bioenergy, and 520 MW from mountain rivers.**

Azerbaijan is focusing on harnessing the green energy potential in the Karabakh and East Zangezur economic regions. Preliminary analyses estimate over **7,200 MW** of solar potential in Gubadli, Zangilan, Jabrayil, and Fuzuli, along with **2,000 MW** of wind energy potential in Lachin and Kalbajar. [5] These regions hold around **25% of Azerbaijan's internal water resources** (2.56 bcm annually) and have significant hydropower and geothermal sources, enhancing their prospects for sustainable energy development.

A 2023 report on the low-carbon hydrogen economy, supported by the EBRD, concluded that green hydrogen production in Azerbaijan is economically viable, with potential for export to regional markets and domestic

applications.⁸¹ It also noted that while blue hydrogen could be less costly, establishing it in Azerbaijan may be challenging.

Meanwhile, the 2024 Business Climate Survey observes continuous growth in the awareness and implementation of responsible practices across all sectors of the economy. While in 2021, the implementation of sustainable practices was confirmed by 85% of respondents, in 2024, 90% of European businesses in Azerbaijan reported applying some environmental practices in their daily operations. The application of some green practices demonstrated even more notable growth.

FIGURE 2.2 Responses to the question “Does your company apply sustainable practices in its daily operations? If so, what specific practices do you apply?”



SOURCE: EU Business Climate Survey 2024

Training employees tops the list of sustainable practices. Chosen by 58%, it signals that building awareness and skills within the workforce is a priority for businesses nowadays. About 56% of companies are focusing on energy efficiency, integrating technologies that help reduce energy consumption. It is worth mentioning that, in 2021, 34% of businesses confirmed using energy efficiency technologies, indicating notable growth in this sustainable practice among European companies in Azerbaijan.

When it comes to waste management, 45% of companies have set up waste collection and recycling programs, while 41% use materials that are highly recyclable (compared to 32% in 2021), showing a shift toward reducing waste overall. A growing focus on resource conservation and pollution control, emphasised by water-saving practices, is adopted by 35% of companies, and 32% have invested in technologies specifically to reduce emissions.

Some companies are also taking a more strategic approach: 29% actively monitor their environmental impact, and 27% have established concrete goals for reducing emissions. However, only 15% report using

renewable energy, which is comparable with the results from 2021, highlighting areas with potential for further improvement.

During the interviews, EU businesses confirmed the strong orientation of the government towards sustainability and green development, as well as the growing awareness of the private sector about climate challenges and responsible business practices. At the same time, the level of environmental awareness varies across different sectors, as well as between local and international companies. While foreign-invested companies are more aligned with ESG principles due to requirements from their global parent companies, Azerbaijani-owned businesses are generally not yet prepared for full ESG integration. During the last few years, some local companies have started publishing sustainability reports, but these reports often lack substantive changes in business processes and are mostly used for marketing purposes. Other barriers for local companies to implementing environmental sustainability practices include associated costs and competitive pressures from foreign suppliers, especially from countries like China and Turkey.



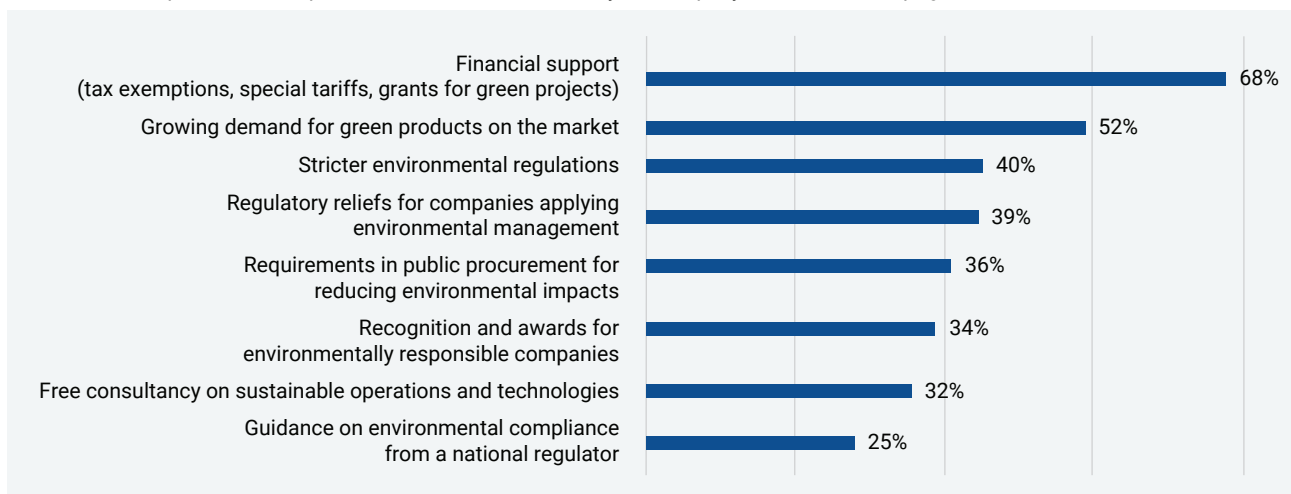
“Foreign-invested companies are often ahead in green practices because they are tied to global sustainability standards, but local companies do not see the same pressure or benefits. While some sectors, such as banking, transportation, telecom, and renewable energy, are gradually adopting ESG guidelines, full integration across industries remains a challenge.”

Executive Director, Consulting company

Advancing a greener business landscape

Selecting the right incentives and measures is crucial for motivating businesses to embrace green practices and drive sustainable development. A balanced approach that combines financial support, regulatory encouragement, market demand, and public recognition can create an environment where companies see clear benefits in adopting eco-friendly operations. By tailoring these stimuli to the needs of the business community, policymakers can effectively foster a greener economy, encouraging companies not only to reduce their environmental impact but also to contribute to the country’s sustainable future.

FIGURE 2.3 Responses to the question “What would stimulate your company to further develop “green”?”



SOURCE: EU Business Climate Survey 2024

Overall, the results of the EU Business Climate Survey 2024 reflect an environment where financial incentives and consumer demand are stronger drivers for green initiatives, alongside stricter regulatory measures.

The survey highlights evolving priorities and incentives that encourage companies in Azerbaijan to adopt or expand green practices. Businesses continue to see financial incentives like tax exemptions, special tariffs, and grants as crucial for offsetting the costs of green investments. According to the survey responses, financial support remains the leading motivator, with an even stronger emphasis in 2024 (68%) compared to 2021 (56%). The growing demand for green products moved up significantly as a motivator, rising to 52% in 2024 from 36% in 2021. This shift indicates a rising awareness and acceptance of green products in the market, suggesting that companies see consumer demand is becoming a powerful driver of sustainable practices.



“The private sector lacks incentives and support for green business. In my view, government subsidies and tax benefits for companies investing in renewable energy or green technologies would encourage the adoption of sustainable practices.”

Director, Industrial company

Stricter environmental regulations, for the second time, are chosen by 40% of respondents, confirming the expectations of European companies of future regulatory changes in Azerbaijan. During the interviews, it became obvious that government's role is seen by European companies as crucial in driving change, with suggestions that stronger, compulsory legislation on ESG practices and green business is necessary to push businesses towards sustainability. Calls were made for the government to offer more incentives, subsidies, and support mechanisms for businesses that adopt green practices, including renewable energy initiatives.



"More profound changes may occur only when the government of Azerbaijan adopts compulsory legislation on ESG. This will motivate companies to adopt strategies to adjust their corporate structure and operations to comply with those principles."

Managing partner, Consulting company

Other factors also show relative stability or minor changes. For instance, regulatory relief for companies with environmental management practices (39% in 2024, up from 27% in 2021) and requirements in public procurement (36% in 2024, compared to 26% in 2021) have gained more importance for businesses. Recognition and awards for environmentally responsible companies (34%) and free consultancy on sustainable operations (32%) remain valuable but secondary motivators, showing companies' appreciation for incentives that enhance public visibility and offer expertise

Success stories

Following Azerbaijan's accession to the multi-donor (including the EU) **Eastern Europe Energy Efficiency and Environment Partnership (E5P) framework**, the Green Cities program was launched in Ganja, with initial projects to upgrade the city's solid waste management systems and street lighting networks in 2020, setting the stage for the Ganja Green City Action Plan. The first E5P grant agreement in Azerbaijan for the Ganja Street Lighting was signed with EBRD in September 2022. [3] The project is expected to upgrade street lighting infrastructure in the city and create significant energy savings. The EBRD has agreed to allocate funding for the rehabilitation of the water and wastewater sector in Ganja under the Ganja Water and Wastewater program that was approved in November 2024.⁸² This project is the first phase of a larger Priority Investment Program, which aims to build uninterrupted water supply, wastewater collection and treatment, and storm water management infrastructure in Ganja city.

One of the largest projects in the sustainable energy sector in Azerbaijan is the commissioning of the **Garadagh solar power plant (SPP)** located near Alat. A financing package of USD 114.2 mln was approved for the project by the EBRD, ADB, Japan International Cooperation Agency (JICA), and the Abu Dhabi Fund for Development (ADFD). [4] The Abu Dhabi Future Energy Company PJSC (Masdar) completed the construction of this 230MW plant in February 2024. The project is officially aligned "with the EBRD's Green Economy Transition approach (GET). The Garadagh SPP has become the largest solar plant in the region, generating half a billion kilowatt-hours of electricity annually – enough to meet the needs of more than 110,000 homes – and will reduce emissions by 200,000 tons a year.

ADB, Asian Infrastructure Investment Bank (AIIB) and EBRD signed documents for the financing of two solar energy projects in Azerbaijan on November 16, 2024.⁸³ Projects will be jointly developed by Masdar and SOCAR Green. The total cost of the **Bilasuvur** (445 MW) and **Neftchala** (315 MW) solar energy projects, will amount to USD 670 million. The commissioning of the plants is expected in 2027.

The EU funded a "**Green Port**" project supporting the enhancement of operational capabilities and the implementation of the Green Port Concept of the Port of Baku in 2022-2024. The project has implemented a number of activities to support the development of modern infrastructure, obtaining "EcoPorts" environmental certificate, as well as to share best practices and strengthen the cooperation with EU Green Ports.⁸⁴

A project initiated in 2022 to improve soil, nutrient, and water management practices for cotton production has become a success story in the agriculture sector. The project was supported by the Food and Agriculture Organization of the UN (FAO) and the International Atomic Energy Agency (IAEA) to revitalise the local cotton industry by implementing climate-smart agriculture (CSA) practices. Combined with the use of an improved variety of cotton, the project has boosted yields from three tons per hectare to eight tons per hectare at the field level in three provinces.⁸⁵

Ongoing projects and business opportunities

In 2022, the United Nations Industrial Development Organization (UNIDO) launched the "**Greening the Industry**" campaign in selected manufacturing enterprises from EaP countries under the EU4Environment Action.⁸⁶ The campaign provided local manufacturers with Resource Efficient and Cleaner Production (RECP) assessments to identify efficiency gaps, explore resource efficiency measures, and develop RECP action plans. This methodology helps SMEs reduce production costs through eco-friendly practices. Ten manufacturing SMEs in Azerbaijan were selected as demonstration companies for RECP, receiving tailored assessments and action plans. Once the implementation results are documented, these companies will be promoted as RECP business cases. Azerbaijani cement, concrete, and pellet producers participated in the assessment.

As part of its commitment to net-zero emissions, Azerbaijan established a **Green Energy Zone** in the Karabakh and East Zangezur economic regions via a Presidential Decree on May 3, 2021, along with an Action Plan for 2022-2026.⁸⁷ Four hydroelectric plants in Lachin, Kalbajar, and Sugovushan are now operational, with two more underway on the Aras River in Jabrayil.^[5] Plans also include a **240MW Shafag solar plant** in Jabrayil to power the Sangachal terminal and a wind plant in Lachin/Kalbajar.⁸⁸ Additionally, Nakhchivan is part of the Green Energy Zone, with **1,000 MW** of wind and solar energy set for export to Turkey and Europe.⁸⁹

On March 1, 2024, **WindEurope** and **AREA** signed a **Memorandum of Understanding (MoU) to promote the development of onshore and offshore wind energy in Azerbaijan and the broader Caspian Sea region**.^[6] The MoU also aims to simplify permitting processes for new wind farms, encourage the sourcing of wind energy components—particularly from local and European suppliers—and support the development of the Caspian-EU Green Energy Corridor.

Azerbaijan is taking steps to enhance sustainable energy connectivity through the **Green Energy Corridor**, which will facilitate green energy supply from Central Asia to Europe. On September 3, 2024, Azerbaijan, Georgia, Romania, and Hungary signed a shareholder agreement in Bucharest to form a joint venture to export clean electricity to Europe via a 1,200-kilometer Black Sea submarine cable connecting the South Caucasus to South-Eastern Europe.^[6] In August 2024, Azerbaijan, Kazakhstan, and Uzbekistan also agreed to establish a joint venture, headquartered in Baku, to export green energy to Europe.⁹⁰ A strategic partnership agreement on the development and transmission of green energy between the Azerbaijani, Kazakh and Uzbek governments was signed on November 13, 2024, at the COP29 climate conference.⁹¹

Additionally, on September 29, 2024, Azerbaijan and Turkey signed a **MoU for cooperation on transmitting renewable energy** from Nakhchivan to Turkey, with a roadmap set for 2023-2025.⁹²

According to the "Low Carbon Hydrogen Economy Market Study" prepared with the support of the EBRD, existing natural gas infrastructure, such as the **Southern Gas Corridor (SGC)**, will potentially allow hydrogen blending into the gas network for export. However, it needs further technical feasibility studies.⁹³

The EBRD is financing the construction of a **240 MW wind power plant** in Azerbaijan, the first utility-scale wind power project in the country and the largest in the Caucasus region.⁹⁴ The Bank has arranged a syndicated loan to ACWA Power Azerbaijan Renewable Energy, the project company owned by ACWA Power. The project will be co-financed by the OPEC Fund for International Development.

The **Law on the Use of Renewable Energy Sources in Electricity Generation** in Azerbaijan outlines auctions and direct negotiations as methods for selecting investors for renewable energy projects.⁹⁵ The government has identified eight areas with renewable energy potential, with pilot projects underway in three of these locations. The **"Support to Renewable Energy Auctions in Azerbaijan"** project, in collaboration with the EBRD, is establishing auction rules, eligibility criteria, a power purchase agreement, and a request for proposals (RFP) to streamline the auction process. It is expected that the law will bring more transparency to local tendering procedures.⁹⁶

EU Support

The EU's commitment to supporting Azerbaijan in addressing environmental challenges and promoting sustainable development is implemented via two main regional programmes. The EU4Climate initiative, funded by the EU and implemented by the UNDP between 2019 and 2023, assisted Azerbaijan in mitigating and adapting to climate change. Key achievements include the development of the country's updated Nationally Determined Contributions (NDCs), which set a target to reduce greenhouse gas emissions by 40% by 2050 compared to 1990 levels.^[53] Additionally, EU4Climate has supported the integration of gender considerations into energy policies, promoting climate-friendly and gender-responsive approaches.⁹⁷

The EU4ClimateResilience project took over in 2024, focusing on alignment of policy frameworks on mitigation and adaptation, implementation of resilience measures on the ground and sustainable finance; it is implemented by GIZ and OECD, in partnership with the German government.

In parallel, the EU4Environment program focuses on preserving Azerbaijan's natural capital and promoting sustainable development. The program has advanced the establishment of the Emerald Network, a network of protected areas aimed at conserving biodiversity. It has also supported the development of management plans for selected Emerald sites and provided methodological guidelines for their preparation. Furthermore, EU4Environment has contributed to the development of Azerbaijan's "National Priorities for Socio-Economic Development: Azerbaijan – 2030," reflecting the country's commitment to green growth and environmental sustainability.

2.2 LABOUR MARKET AND ACCESS TO EDUCATION



A strong labour market and accessible education are critical for Azerbaijan's sustainable development. Addressing skill gaps and promoting workforce readiness directly supports economic growth, ensuring that individuals have access to meaningful employment opportunities. Equally, expanding access to quality education and vocational training equips the workforce with relevant skills, fostering an adaptable and competitive economy. Both areas contribute to the implementation of **SDG 8: Decent Work and Economic Growth** and **SDG 4: Quality Education in the country**.

Labour market trends

Azerbaijan has a relatively high economic activity rate compared to other countries in the region, a low unemployment rate, and a generally flexible labour market. The country has a young population, with the 15-24 age group comprising 13.7% of the population in 2023.⁹⁸ According to data from the State Statistical Committee of the Republic of Azerbaijan, the economically active population in 2024 was approximately 5.3 million, of which approximately 5 million were employed.⁹⁹ As a result of recent economic diversification and market-oriented reforms, the number of people employed in the private sector has increased.

As of end 2024, the unemployment rate in Azerbaijan was reported at 5.3%. This figure has remained steady in the previous years, with the highest level being 7.2% during the 2020 pandemic peak. [17] According to the Human Capital Review, Azerbaijan's Human Capital Index (HCI) increased from 0.50 in 2010 to 0.58 in 2020, reflecting improvements made in Azerbaijan's education. However, Azerbaijan still lags behind the average HCI in developing Europe and Central Asia countries, and 16 p.p. below the HCI levels registered in EU countries.¹⁰⁰

The legislation on the labour market includes the Law on Employment approved in June 2018, which regulates job-seeking procedures, job mediation, E-labour exchange, vacancy bank, career counselling/guidance services, employment incentives program, etc.¹⁰¹

In October 2018, the Azerbaijani government approved the Employment Strategy of the Republic of Azerbaijan for 2019–2030. [7] This strategy, aligned with the UN Global Initiative on Decent Jobs for Youth, is an important national policy, which aims to further improve the situation on the labour market. Despite significant efforts, the policies are still progressing toward their full potential. To address local access to qualified workers more effectively, further reforms are needed, particularly with a strong emphasis on education and skills opportunities for youth and adult. The Strategy includes the following objectives:

- pro-employment economic development and support of MSMEs,
- improving the legislative framework and institutional structure of the labour market,
- enhancing workforce skills and improving labour standards,
- increasing coverage and efficiency of active labour market programs,
- developing social dialogue and reducing non-formal labour relations,
- improving monitoring and forecasting systems for the labour market.

Decree No. 1077 of June 2020 states that the State Employment Agency (SEA) (renamed in 2022 to the Azerbaijan Public Employment Agency' (APEA) under the MLSP), is a public legal entity responsible for organising active employment measures, managing Unemployment Insurance Fund, implementing social protection measures for jobseekers and the unemployed, and overseeing compliance with the Law on Employment.¹⁰² Career guidance services are funded by the Unemployment Insurance Fund (UIF) budget. A review of the laws on the Unemployment Insurance Fund (2018, 2019 and 2020) shows that AZN 1.15 mln (≈ EUR 0.64 mln), AZN 1.3 mln (≈ EUR 0.73 mln) and AZN 2.0 mln (≈ EUR 1.2 mln) were allocated for career guidance services in 2018, 2019 and 2020, respectively.¹⁰³

Education

Azerbaijan's higher education institutions (HEIs) continue their work on aligning educational offerings with labour market demands, paying special attention to the gap between graduates' skills and employer needs, particularly in technical and digital fields. The limited collaboration between HEIs and the private sector hampers the preparation of the population to meet the needs of the market. A national qualifications framework, adopted in 2018, aims to address these gaps by aligning education standards with the European Qualifications Framework, but the results are yet to come. [103]

The net enrolment rate in secondary education (ISCED level 2-3) stood at 87.3% in 2021 (86.9% in 2020). In addition, the share of Vocational Education and Training (VET) students in upper secondary education (ISCED 3) in 2021 was 37.9%, down from 43.2% in 2020 and 47.2% in 2019. The total number of students in Azerbaijan has increased, reaching 2.1 million in the 2022/23 school year. Of this, most (1.61 mln) were enrolled in the general education system. At the beginning of 2023, 25,926 vocational education students were studying in 99 public vocational institutions, and 64,623 students in 59 specialized secondary education institutions. [103]

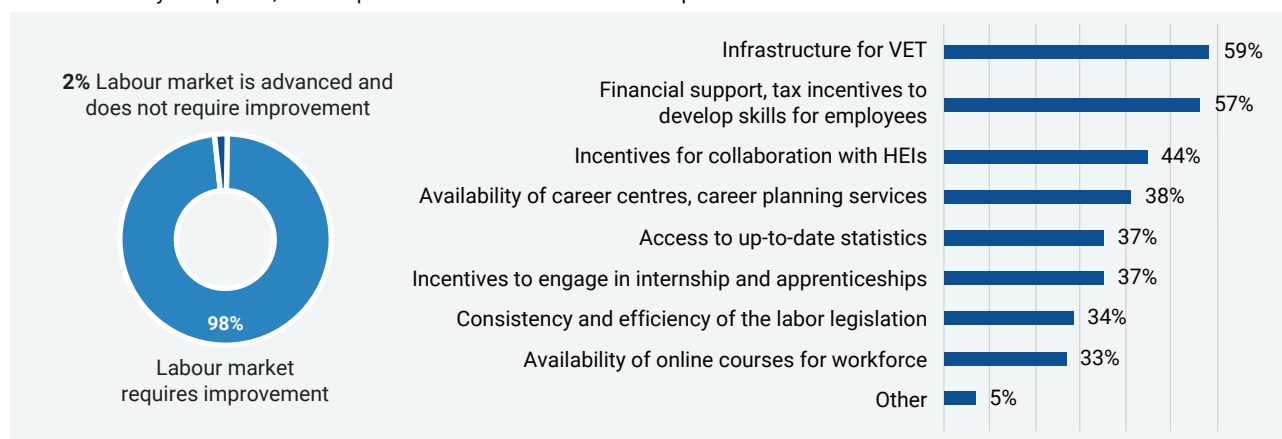
VET participation remains low, contributing to decreased labour productivity, as 66.3% of the workforce lacks formal vocational or higher education.¹⁰⁴ Government initiatives, such as the "Strategic Roadmap for Vocational

Education and Training"¹⁰⁵ and partnerships with private sector entities, aim to improve VET quality and responsiveness to labour market needs. Since April 2016, the State Agency on Vocational Education (SAVE) was established, and in a relatively short period of time, it has positioned itself as the leading institution in the field.¹⁰⁶ The Presidential Decrees issued in November 2021 "On changes to the Law on Education"¹⁰⁷ and "On changes to the Law on Vocational Education"¹⁰⁸ set the framework for implementing a credit transfer system in higher vocational education and recognising accumulated credit points in higher education.

Views of European companies

Despite the attempts of the government to improve the human capital dimension, the results of the EU Business Climate Survey 2024 highlight a critical perspective on the current state of the local labour market among EU companies, with an overwhelming majority of respondents (98%) expressing the need for improvements. In contrast, a minimal portion (2%) of respondents believe that the labour market is sufficiently advanced and does not require further development. Such findings suggest a strong consensus on the need for continued, targeted and intensified reforms to enhance labour market functionality, adaptability, and alignment with modern workforce requirements.

FIGURE 2.4 Responses to the question "Whether the local labour market has advanced enough or should it be improved, in your opinion, what aspects of labour market need to be prioritised for reforms?"



SOURCE: EU Business Climate Survey 2024



The survey results demonstrate strong expectations of the private sector for further government interventions due to the need for deep reforms in this area. The priorities identified by respondents reveal the importance of advancing infrastructure for vocational education and training (VET), which aligns with the increasing demand for skilled labour and was prioritised by 59% of the respondents. Another opportunity for improvement includes state financial support or tax incentives to aid skill development, which was recognised by 57% of the respondents. Additional focal points include collaboration with higher education institutions, the availability of career planning services, and access to up-to-date statistics, all of which are essential for a more dynamic and informed labour market.



“Progress in developing human capital has not kept pace with reforms in other areas. Educational institutions are struggling to keep up with the market's changing needs, and businesses lack incentives to participate in training efforts.

CEO, Machinery and equipment company

The one-to-one interviews reveal growing concerns among businesses about access to qualified workers. EU companies consistently agree that the education system is ineffective in aligning curricula with market needs. To bridge this skills gap, some companies are proactively investing in employee training as part of their corporate social responsibility, including sending staff abroad for higher education and collaborating with the government on training initiatives. However, there are limited financial incentives from the state to support these business-led

efforts. Additionally, restrictive migration quotas limit the flexibility to bring in foreign personnel, further complicating workforce development. Investors are also frustrated with migration quotas and local labour legislation, which are perceived as overly protective of employee interests, with insufficient consideration for the needs of the private sector.

The evolving need for reforms in the human capital dimension is also confirmed by other results of the Business Climate Survey 2024. For example, “Quality of VET” and “Human capital/qualifications of employees” were evaluated below satisfactory level with the latter indicator demonstrating an obvious negative trend compared to the 2021 results. (Figure 1.3.)

In addition, the “Lack of qualified labour force” became one of the strongest factors affecting business operations in Azerbaijan in recent years at a level comparable to the “Closure of borders due to COVID-19 restrictions: an overall “Bureaucracy”. The “Access to qualified labour force” was the least attractive factor while taking investment decisions. (Figures 1.4, 1.10)

One emerging state priority in recent years has been sustainable employment in the Karabakh and East Zangezur economic regions, which also requires increasing the number of qualified workers and their skills.¹⁰⁹ It is expected that the number of former IDPs resettled in these regions will reach 140,000 people by the end 2026.¹¹⁰ In this regard, the government has ongoing active cooperation with employers to provide relocated people with employment opportunities and access to VET infrastructure.¹¹¹ To create new workplaces, the government is initiating cooperation with existing local employers, creating enterprises, building economic zones and developing plans for creating clusters. [109]

Considering the overall need for a labour force, as well as the expected growing demand for qualified workers in Karabakh and East Zangezur, about a quarter of EU investors consider Education as a possible area for their investments in these economic regions, which might become another good opportunity for the future development of the EU-Azerbaijan socio-economic relations. (Figure 1.14)

Azerbaijan: Strategic Initiatives and New Governance Framework in Human Capital Development



Azerbaijan's 2022-2026 Socio-Economic Development Strategy sets ambitious priorities for transforming education. These include increasing access to quality preschool education, with the goal of enrolling 50% of children aged one to five and implementing a competency-based curriculum in general education to improve performance in assessments like PISA. Vocational education (VET) is also a core focus, with aims to enhance access, align training with labour market needs, and integrate employers directly into the VET system.

Aligned with the socio-economic strategy, five key priorities for VET development are set for 2022-2026: 1) expanding VET coverage, including higher technical VET; 2) establishing state-of-the-art VET centres; 3) aligning curricula with industry needs; 4) creating short-term upskilling programs; and 5) transitioning successful VET schools to per-capita funding. These priorities build on the 2016 Strategic Roadmap for VET Development, which aimed to increase VET participation by 50%—an ongoing challenge in the sector.

The 2019-2023 State Program to boost international competitiveness in higher education also supports advanced courses and dual diploma programs. Although it focuses on higher education, VET will benefit from a growing pool of highly skilled teachers and engineers trained through this initiative.

In December 2021, a Presidential Decree approved a new structure for the Ministry of Education, creating 12 regional departments. In July 2022, a further decree renamed it as the Ministry of Science and Education (MoSE), establishing the State Agency for Science and Higher Education and the State Agency for Preschool and General Education under its oversight. Throughout 2023, these agencies have been operationalised to support MoSE's mandate. The State Agency for Vocational Education (SAVE), established in 2016 under MoSE, continues to lead national VET commitments, aiming to streamline decision-making and fast-track sector-wide improvements through a decentralised governance model.

Since SAVE's establishment, the business sector has become a crucial partner in VET development. Strong collaboration with industry players at all levels ensures that training aligns with workforce demands, as social partners engage in consultations and decision-making. Locally, employers support work-based learning for students and teachers, participate in graduate assessments, and contribute by serving on VET boards.

In summary, Azerbaijan is driving a new era in human capital development through strategic reforms in education, underscored by a new governance structure and a commitment to align skills training with economic needs. The 2022-2026 Socio-Economic Development Strategy prioritises early education, competency-based learning, and vocational training that directly engages industry. By expanding access, modernising curricula, and fostering strong business partnerships, the aim is to equip its future workforce with essential skills for sustainable growth and global competitiveness.

Margareta Nikolovska, ETF Senior Human Capital Development Expert – Country Liaison Azerbaijan

2.3 EQUAL ECONOMIC OPPORTUNITIES FOR WOMEN



Enhancing the role of women in Azerbaijan's economy is vital for the country's sustainable socio-economic development and contributes to achieving **SDG 5: Gender Equality**, **SDG 10: Reduced Inequalities**, **SDG 8: Decent Work and Economic Growth** and **SDG 4: Quality Education in the country**. Promoting gender equality in the workforce ensures that women have equal access to employment, leadership roles, and economic opportunities. This approach not only fosters a fairer society but also strengthens economic growth by leveraging the talents and skills of the entire population.

Gender segregation on the labour market

In recent years, Azerbaijan has demonstrated notable progress in advancing gender equality, particularly in the areas of economic participation and legal rights. According to the 2023 Global Gender Gap Index by the World Economic Forum, Azerbaijan improved its position, ranking 97th out of 146 countries, a step forward from its previous rank of 101.¹¹² The World Bank's 2024 Women, Business and the Law report further underscores this progress, with Azerbaijan moving up 35 positions to the 69th place among 190 countries. This upward trend reflects Azerbaijan's commitment to creating a more inclusive business environment, enhancing opportunities for women, and fostering an equitable landscape for economic participation. These improvements signify ongoing alignment with global gender equality standards, reinforcing Azerbaijan's appeal as a forward-looking economy.

According to national statistics, women make up 49.8% of the working-age population in 2024, which makes a relatively small gender gap in the labour market in absolute terms. [14] However, the "soft" barriers,¹¹³ such as gender stereotypes in society still impede women's access to employment in traditionally male-dominated sectors of the economy. Female employees tend to take lower-wage positions and prevail in health and education sectors, while males usually have higher-paid managerial careers and dominate in such fields as transportation and logistics, energy, or construction. This workplace segregation contributes to a high gender pay gap, with men earning, on average, 35.2% more than women.

Azerbaijan has taken certain measures to promote gender equality and access to jobs for women. In November 2022, the country lifted the job restrictions on women's employment in several sectors of the economy adopting a health risk-based approach to certain jobs. Greater women's participation in the labour market would expand employers' hiring options and improve the market dynamics and productivity. It will also increase compliance with the European Social Charter of the Council of Europe. [113]

Funded by the EU through the Azerbaijan Rapid Technical Assistance Facility, the World Bank has implemented a programme on "Strengthening women's human capital for their better labour market outcomes: 2023-2024". This initiative is implemented in close coordination with the Government of Azerbaijan to address the soft barriers to women's employment through a range of activities, including public awareness campaigns. The initiative also nurtures the female talent pool by strengthening pathways between employers and education institutions that prepare graduates for the 'male-dominated' economic sectors. [113]

The EU4GenderEquality programme, a joint initiative of the European Union and United Nations, supports gender equality and women's empowerment across Eastern Partnership countries, including Azerbaijan.¹¹⁴ The program promotes women's economic empowerment, addresses gender-based violence, and encourages equal participation in decision-making. In Azerbaijan, EU4GenderEquality has helped increase women's access to economic opportunities and strengthen protections against gender-based violence. The programme consists of two sister projects: "Together Against Gender Stereotypes and Gender-Based Violence" and "EU4Gender Equality: Reform Helpdesk". From 2021 to 2024, the Reform Helpdesk supported key structures in Azerbaijan, including the State Committee for Family, Women, and Children Affairs, gender focal points, and several government ministries, including the Ministry of Labour and Social Protection of the Population. It promoted gender mainstreaming in areas like social services, justice, education, public finance, and administrative reforms. Some key contributions included drafting amendments to the Law "On Guarantees of Gender (Men and Women) Equality," developing gender-responsive budgeting guidelines, and providing gender training to over 300 civil servants. The second phase of the Helpdesk project commenced on August 15, 2024, and will run for three years. Through partnerships with local organisations and government bodies, the program works to create lasting, positive change for gender equality in the region.

Access to education

According to the State Statistical Committee of the Republic of Azerbaijan, 58% of the employed women have only secondary education, 15% have higher education and 15% have secondary specialised education. These indicators for men are 60%, 19% and 8%, respectively. Only 3.8% of the employed women and 7.6% of the employed men have vocational education. Women make up 23% of entrepreneurs in the country, 41% of which are in the agriculture sector and 18% in the trade sector.¹¹⁵

Overall, female students make up 34% of those in vocational education, 63% in secondary specialised education, and 51% in higher education institutions. In higher education, almost half of women study in the fields of education, social sciences and humanities. [115] Over the last decade in Azerbaijan, women have increasingly chosen Economics and Management, Technical and technological fields of study, but they are still underrepresented in these areas. For comparison, in 2022, women constituted 54.2% of all tertiary education students in the European Union, with a predominance in Arts and Humanities (65%), Health and Welfare (72%) and Business, Administration and Law (57%).¹¹⁶

Women in European companies in Azerbaijan

In the Business Climate Survey, 2024 European companies indicate that women constitute **44%** of the workforce on average, while men make up **56%**. This shows a slight improvement compared to the 2021 results, as well as to the national statistics from 2023 (where women made up 40% and men 60%). These figures reflect ongoing efforts towards inclusivity in the workplace, though additional initiatives may be needed to achieve full gender parity.

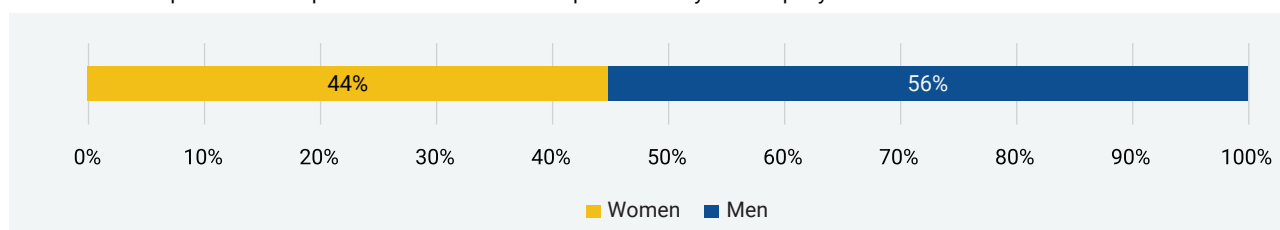
Interviews with European companies highlighted notable progress in gender equality in Azerbaijan, particularly in the private sector, with increased female representation in the financial and HORECA sectors, including senior roles. However, cultural and societal expectations continue to limit women's participation, especially in managerial and technical positions, and pose significant barriers for women in rural areas attempting to start businesses, often due to restricted property rights and limited access to credit. There is still underrepresentation of women in entrepreneurship, hindered by limited capital access and societal perceptions that discourage women from pursuing careers. In this regard, European companies hope for further improvement of the policies to ensure women's access to credit, foster gender-sensitive practices, and create a supportive environment for female workforce participation.



“Unfortunately, the mindset remains the strongest factor. It needs to change for progress on gender equality to materialise, and there are some gradual changes among the younger generations. Globalisation may contribute to such shift and fasten it as well.”

CEO, Construction and engineering

FIGURE 2.5 Responses to the question “What share of the personnel in your company are women?”



SOURCE: EU Business Climate Survey 2024

The table below provides a comparative overview of gender distribution across sectors in Azerbaijan, based on the State Statistical Committee's 2023 data and the responses from the EU Business Climate Survey 2024. Although men continue to dominate the workforce in both Azerbaijani and European companies, gender distribution is more balanced among EU companies compared to national statistics, which also confirms the trend observed for the first time in the 2021 Business Climate Survey.

The shift toward more balanced employment is particularly evident in sectors such as agriculture, manufacturing, and transportation, where European companies show a 20-30% higher share of female employment than is observed domestically. Sectors like education, health and social work still maintain a strong female representation in both groups, but the broader picture reveals that European companies are progressing toward greater gender inclusivity in traditionally male-dominated fields.

TABLE 2.1 Comparison of employees' gender distribution in EU companies vs average in Azerbaijan

SECTORS	State Statistical Committee of Azerbaijan		EU Business Climate Survey 2024	
	Gender distribution of employees in 2023, %		Gender distribution of employees in 2024, %	
	WOMEN	MEN	WOMEN	MEN
Agriculture, forestry and fishing	22	78	39	61
Mining	12	88	32	68
Manufacturing	26	74	47	53
Construction	8	92	35	65
Trade: repair of transport means	28	72	39	61
Transportation and storage	17	83	48	52
Information and communication	30	70	31	69
Education	73	27	63	37
Human health and social work activities	78	22	68	32
Total	40	60	44	56

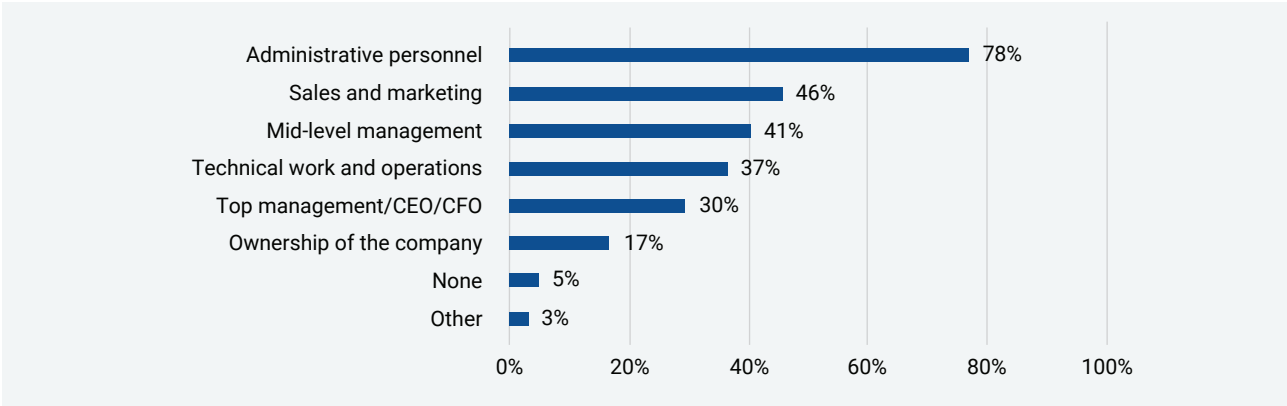
SOURCE: EU Business Climate Survey 2024

“Foreign companies are more likely to have structured gender equality initiatives, driven by global standards, while local businesses are gradually adopting these practices.”

Country Director,
Machinery and equipment company

The distribution of women across various roles within companies reveals a significant concentration in certain positions. The results of the survey suggest that while women are well-represented in mid-level and support roles, there is still a gap in senior leadership and ownership positions. These figures highlight an ongoing challenge for gender diversity at the highest levels of decision-making, signalling an area where further progress toward gender equity is needed.

FIGURE 2.6 Responses to the question “In which positions women are the most represented in your company?”

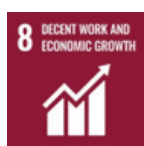


SOURCE: EU Business Climate Survey 2024

Like the previous year’s findings, administrative roles remain overwhelmingly female-dominated with 78% representation, according to the obtained responses. Sales and marketing also have a strong female presence at 46%, followed closely by mid-level management with 41% representation. It is worth mentioning that 41% of women in technical work and operations, as well as 30% in top-management and C-level positions, signal improvement of these indicators compared to the 2021 Survey’s results (32% and 22%, respectively) and require further observation. Meanwhile, women’s representation drops when it comes to company ownership, where only 17% are women.



2.4 DIGITALISATION FOR SUSTAINABLE ECONOMIC GROWTH



Advancing digitalisation in Azerbaijan is a key driver for **SDG 9: Industry, Innovation, and Infrastructure** and **SDG 8: Decent Work and Economic Growth**. By enhancing digital infrastructure and promoting innovation, Azerbaijan can boost productivity across industries, supporting sustainable economic growth and creating new job opportunities. Digital transformation enables businesses to operate more efficiently and adapt to modern challenges, while also fostering a resilient economy prepared for the future.

ICT infrastructure

Following the pandemic-driven acceleration in digitalisation Azerbaijan, like many other countries, continues to show growth trends in its ICT sector, though there remains room for improvement. In July 2022, Azerbaijan adopted the "Socio-economic development strategy for 2022-2026," with its fifth national priority focusing on "A clean environment and country of green growth". This priority focuses on advancing the digital economy and adopting greener technologies, including renewable energy integration, smart infrastructure, and environmental sustainability measures.

Some efforts have been made to adopt the Digital Code.¹¹⁷ The development of the draft Code began in late 2023, with the Agency for Innovation and Digital Development under the Ministry of Digital Development and Transport initiating its preparation. This process involves collaboration with an international consulting company and draws on both international and domestic experiences in digital development.

In the 2024 Global Digitalization Index (GDI), Azerbaijan is classified among the "Starter" countries, ranking 66th out of 77 with a score of 31.6.¹¹⁸ This categorisation indicates that Azerbaijan is in the early stages of digital transformation, focusing on foundational aspects such as infrastructure development and policy formulation to enhance its digital economy.

In recent years, the Internet has become more accessible to the population. According to the State Statistical Committee of the Republic of Azerbaijan, the number of both internet users and broadband internet users is 89 people out of 100.¹¹⁹ The pricing of the internet also shifted to more affordable levels. The cost per Mbit/s has dropped from AZN 0.45 to AZN 0.25 (≈ from EUR 0.24 to EUR 0.13), and a new minimum speed benchmark of 100 Mbit/s has been established for subscribers. The new tariffs are priced at AZN 25 (≈ EUR 13.25) for 100 Mbit/s, AZN 30 (≈ EUR 15.9) for 150 Mbit/s and AZN 36 (≈ EUR 19.1) for 250 Mbit/s.¹²⁰

According to the World Economic Forum, there is a large gap in broadband connectivity between rural and urban areas, with Baku having the highest connectivity level. Digital adoption also varies across economic sectors: On digital payments, IT services and telecom/media have reached 100%, E-commerce and consumer electronics are at 90%, and banking/finance stands at 92% of adoption, while information about other sectors is currently absent.¹²¹

The EU4Digital Initiative supports Azerbaijan's digital reform agenda, aiming to align the country's digital economy with EU norms.¹²² A key project is the 'eCommerce in EU Marketplaces' course, launched in 2024, which helps Azerbaijani SMEs understand major EU eCommerce platforms like Amazon and eBay, covering marketplace selection, registration, and EU regulations. Additionally, EU4Digital has developed recommendations to harmonise the eCommerce environment between the Eastern Partnership and the EU, focusing on legal frameworks and standards to ease cross-border trade and support digital transformation in Azerbaijan.

Cybersecurity

Cybersecurity remains a global issue of growing importance. According to the Global Cybersecurity Index (GCI) by the International Telecommunication Union (ITU), Azerbaijan is ranked as Tier 2 among advancing countries, with a score of at least 85 out of 100.¹²³ The country scored the highest in legal and cooperation measures and lowest in capacity development.

On August 28, 2023, the "Strategy of the Republic of Azerbaijan on Information Security and Cyber Security for 2023-2027" was approved. [8] It is designed to enhance the nation's information security standard and facilitate secure utilisation of ICT by the government, businesses, and individuals. This policy aims to protect the information space from threats, improve the legal framework for information security, and outline upcoming tasks in this area.

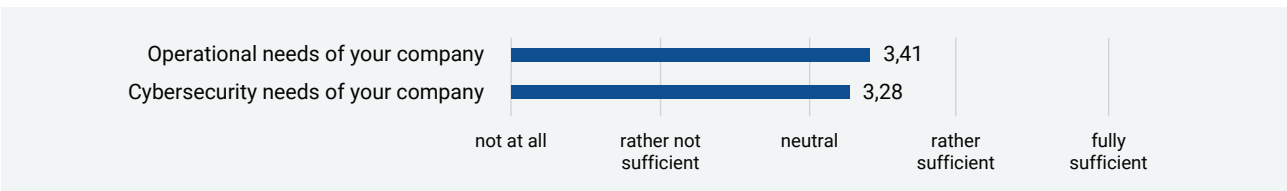
On March 28, 2023: The Azerbaijan Cyber Security Centre was established in collaboration with Israel's Technion Institute and supported by PASHA Holding. The centre aims to train over 1,000 individuals within three years, enhancing the country's cybersecurity capabilities.¹²⁴

Views of European companies

The 2024 Business Climate Survey shows gradual but steady improvements in Azerbaijan's digital landscape. EU companies rate the sufficiency of Azerbaijan's IT infrastructure for operational needs at 3.41 on a 5-point scale, which is between "neutral" and "rather sufficient." This is not much different from the 2021 results, where the IT infrastructure in urban areas like Baku was rated at a roughly "satisfactory" level.

In terms of cybersecurity needs, the 2024 survey scores the infrastructure at a similar level of 3.28, slightly exceeding "neutral" towards "rather sufficient". In 2021, EU companies had a similar cybersecurity confidence rating of 3.09. These indicators reflect growing, albeit cautious, confidence in IT infrastructure and cybersecurity measures, though the results indicate that further enhancements are still needed.

FIGURE 2.7 Responses to the question "To which extent the IT infrastructure in Azerbaijan is sufficient for..."



SOURCE: EU Business Climate Survey 2024

During the interviews, EU companies mentioned cybersecurity as an emerging trend and an area where private and public sector are interested to cooperate. More companies started paying attention to cyber defence infrastructure after attacks under the Karabakh military campaign. Nowadays, the level of cybersecurity awareness and practices significantly vary across the sectors. The best results are shown in the banking and ICT sectors.

While Azerbaijan has made partial strides in digital infrastructure, there is a strong demand from the business community for more targeted improvements across multiple areas to fully unlock the potential of digitalisation. This year, 96% of businesses indicate that further improvements are needed. Similar to the past years, the most critical area highlighted remains the speed and quality of the internet, with 68% of respondents calling for enhancements. Following closely, 59% of respondents emphasise the need for improved conditions provided by internet providers, particularly regarding connectivity and infrastructure.

Additionally, 57% of businesses identify the digital skills of employees as a priority area, underscoring the importance of building a digitally savvy workforce to drive effective digital transformation. According to the Network Readiness Index (NRI), the country ranked 75th out of 134 in 2023. The Technology and People pillar of this index falls below the Governance and Impact pillars. The country performs quite well in terms of adult literacy rate, as more than 65% of the general population in Azerbaijan possesses basic ICT skills to perform digital operations. However, the advanced digital skills still lag behind regional peers, which can become a serious obstacle to business digitalisation.

Other areas for improvement include support services for digital transformation (27%) and awareness and trust in online services (33%), indicating that some businesses see the need not only for technical upgrades but also for resources and confidence-building measures that can facilitate smoother transitions to digital platforms.

FIGURE 2.4 “Responses to the question “Whether the local labour market has advanced enough.”



SOURCE: EU Business Climate Survey 2024

Online payment systems were noted by 37% of respondents as requiring improvement, highlighting the ongoing need for streamlined and secure payment solutions to support e-commerce and digital operations. The use of digital payments is relatively low in Azerbaijan, primarily due to insufficient levels of advanced digital skills and a lack of trust in digital banking. Marketplaces tend to avoid using international payment systems in transactions due to a lack of clarity on cross-border payment rules, insufficient cross-border IP rights enforcement and the current regulatory restrictions.



“Efforts to improve digital payments are underway, including government initiatives and emerging fintech solutions, but smaller business, especially local, still require more accessible, cost-effective options and digital literacy support to fully benefit from the growing digital economy.”

Managing director, ICT company

During the interviews, EU companies mentioned that MSMEs in Azerbaijan face significant barriers to adopting online payment systems due to high transaction fees, complex regulatory requirements, limited support from local banks, and the unavailability of global platforms like PayPal and Stripe for receiving payments. While some local payment options exist, such as GoldenPay and E-PUL, they often lack integration with e-commerce platforms and can be costly or technically challenging for smaller businesses.



2.5 LOCAL REFORMS



Implementation of local reforms in Azerbaijan strengthens institutional frameworks, enhances transparency, and improves regulatory efficiency, which creates a more reliable environment for businesses and investors. Efforts of the government to advance the reforms contribute to sustainable development, job creation, and inclusive economic growth. Collectively, this builds a solid foundation advancing **SDG 16: Peace, Justice, and Strong Institutions, SDG 9: Industry, Innovation, and Infrastructure, SDG 8: Decent Work and Economic Growth, and SDG 17: Partnerships for the Goals.**

Azerbaijan continues to implement local reforms aimed at improving the business climate and, as a result, the economic well-being of the country. The reforms usually include advancing local legislation and regulations, adopting new state policies, as well as establishing new public bodies and introducing electronic services to reduce bureaucracy. European companies highly appreciate the efforts and provide their feedback on observed progress via the Business Climate Surveys.

Public institutions

In recent years, Azerbaijan continues to establish governmental bodies to support its socio-economic development and drive sector-specific reforms. In the **EU Business Climate Survey 2024**, respondents evaluated the effectiveness of these organisations, highlighting both achievements and areas for improvement, especially in terms of their support for business and investment operations. These insights provide a valuable perspective on how businesses perceive the impact of these new institutions on the local business climate.

European companies define **KOBIA/SME Development Agency** as an absolute leader in terms of effectiveness. Among the proposed list of governmental bodies, it received the highest effectiveness rating of 2.36 out of a maximum of 3, showing a slight improvement over the 2021 results. This suggests consistent recognition by EU businesses of the role of this institution in supporting small and medium enterprises.

In December 2022, the Law "On the Development of Micro, Small, and Medium Entrepreneurship" was approved, defining the priority types and programs for support to MSMEs and creating a legal background for a single Coordination Group under KOBIA to ensure effective coordination of state bodies in the field of the MSME development.¹²⁵ In February 2024, Azerbaijan's Cabinet of Ministers approved a list of priority economic sectors designated for additional support to MSMEs, which include industry, agriculture, ICT, tourism, construction, transportation, and trade.¹²⁶

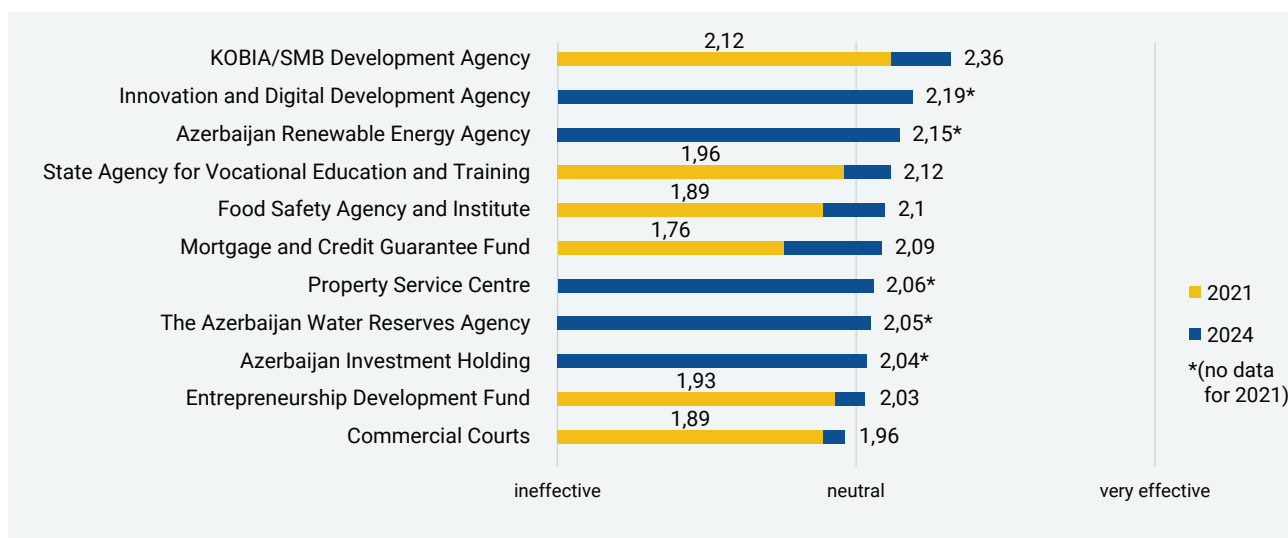
KOBIA provides its services via a chain of **SMB (Small and Medium Business) Houses and SMB-Friends**. In 2024, Azerbaijan's SMB House model was recognised as an innovative initiative by the OECD's Research Centre for Innovations in the Public Sector.¹²⁷ Around 50 state and private institutions in the "Baku SME House" provide "G2B" (Government to Business) and "B2B" (Business to Business) services in Baku, Khachmaz, and Yevlakh, with plans for further expansion to other cities. Service windows and SMB-friend offices are also present in the Karabakh and East Zangezur economic regions. The most demanded types of support in 2024 include requests from entrepreneurs for obtaining licenses and permits, food safety certificates, auction documentation, and implementation of individual accounting in the state social insurance system.¹²⁸ The "SMB Customs Warehouse" has been created as a joint initiative of the State Customs Committee of the Republic of Azerbaijan and KOBIA to store and facilitate the efficient customs clearance of SMB goods.¹²⁹ Since 2024, SME houses also provide a certificate confirming the country of origin of goods in Baku.

During 2021-2024, 5 **grant competitions** have been organised by KOBIA to support the financing of SMB projects in the fields of education, science, research, and support.¹³⁰ The "**Startup**" certificates were provided¹³¹ and a **startup competition "From us to business"** was held to stimulate innovation. The recent initiative of the Agency includes a **digitalization program** for SME, presenting SME model enterprise to improve business knowledge and skills.¹³²

KOBIA also supports **green business**. To date, KOBIA has allocated support tools such as grants, "Startup" certificates, internal market research, training, and access to exhibitions to 19 "green projects".¹³³ Furthermore, training and consulting were provided to entrepreneurs related to the "green economy." The Agency also takes part in the development of the state standards on green business.

KOBIA has created an **investment portal** to expand investment opportunities for SMEs in Azerbaijan. The portal features various investment projects and business ideas. As of October 2024, 104 projects, 4 investment suggestions, 11 business sales, and 9 startup projects were available on the KOBIA portal.¹³⁴

FIGURE 2.9 Responses to the question “To what extent do you perceive the effectiveness of the newly established governmental bodies?”



SOURCE: EU Business Climate Survey 2024

The Innovation and Digital Development Agency (IRIA) and **the Azerbaijan Renewable Energy Agency (AREA)** are also among the higher-rated new entities, with scores of 2.19 and 2.15 out of 3, respectively, somewhat exceeding the “neutral” level of effectiveness. These ratings reflect moderate effectiveness, with an upward trend as they are gaining traction in promoting digital and renewable energy initiatives.

The Innovation and Digital Development Agency, established under the Ministry of Digital Development and Transport in October 2021, leads digital transformation efforts in Azerbaijan, focusing on building digital skills, fostering innovation, and strengthening the ecosystem. The “Relocation program” [9] launched in 2022, and the changes to the regulations on technoparks which entered in the force on 2023 [10] offer advantages for foreign companies, including simplified documentation, residence, and work permit processes, with fully digital registration available. The IRIA helped establish Caucasus Ventures, Azerbaijan’s first venture capital fund, in February 2023, to attract foreign start-ups and investors.¹³⁵ Additionally, the “Technovate - Sabah Angel Investors Club,” was launched in October 2023 to train future angel investors, further supporting the innovation ecosystem.¹³⁶

The AREA, established under the Ministry of Energy in September 2020, oversees state policy on renewable energy and promotes private sector involvement.¹³⁷ The Agency has initiated projects for wind, solar, and hydropower plants, including the country’s first renewable energy auction that was concluded during the COP29.¹³⁸ China’s Universal International Holding Limited is a winner of this auction announced within COP29. As a winner, it will implement the construction of a 100 MW Gobustan solar plant in Azerbaijan with EBRD support. The plant is expected to be commissioned in 2027 and will produce about 260 mln kWh of electricity annually.

A roadmap for offshore wind energy and decentralised energy projects, in collaboration with the German Energy Agency, has also been developed.¹³⁹

The Mortgage and Credit Guarantee Fund has increased its entrepreneurship support tools since August 2022. This is reflected in the current Business Climate survey by showing the strongest growth of its efficiency in the eyes of European companies. The introduction of new tools will allow increasing access to financial resources for MSMEs operating in the non-oil sector, as well as for issuing companies. Two new instruments have been introduced - guaranteeing the loan portfolio for loans received by entrepreneurs in manat, and mechanisms for guaranteeing the obligations of issuers (entrepreneurs) on bonds. Interest subsidies could be obtained for loans with an annual interest rate of less than 20%.¹⁴⁰

At the lower end, **Commercial Courts** scored at 1.96 out of 3, indicating relatively the lowest perceived effectiveness and becoming the only institution that scored below the “neutral” level. This suggests that EU businesses may find the current operations of **Commercial Courts** not responding to the needs of the private sector.

E-services

Over the last decade, the range and quality of e-services in Azerbaijan have been steadily improving, allowing the government to combat bureaucracy, reduce corruption, and accelerate administrative procedures. A key milestone in the country’s digital transformation was the establishment of the Azerbaijan Service and Assessment Network (ASAN) back in 2012, which set the foundation for streamlined and transparent public service delivery.¹⁴¹

Since then, state electronic services significantly expanded, making it easier for businesses to access government resources quickly and efficiently, while fostering greater public trust in digital governance. The Digital Document Circulation subsystem has been extended to 1,083 institutions to integrate digital solutions across various government bodies, fostering a more cohesive digital infrastructure.¹⁴² For example, the AI-based Automated Risk Analysis System is being implemented by the State Customs Committee from

January 2024, enabling faster border crossing of cargo and vehicles and flexible customs clearance, and reducing operational costs of business entities through data pre-processing.¹⁴³ Another example is a newly established procedure for the construction sector, which set up a system for issuing permits for construction and the operation of construction objects, as well as handling information electronically on the basis of the "one-window" principle through the "Electronic Construction Portal".¹⁴⁴

It is planned to bring the level of digitalisation of public services in Azerbaijan to 80% by 2026.¹⁴⁵ It is worth mentioning that Azerbaijan has achieved high results in the GovTech Maturity Index (GTMI) report prepared by the World Bank for 2021. This index, which assesses 198 countries, ranks Azerbaijan second in terms of the level of GovTech and includes it in the "high significant focus on GovTech" group of 59 countries.¹⁴⁷

Results of the EU Business Climate Survey show a positive perception of electronic services for businesses and investors, with incremental improvements in effectiveness from 2021 to 2024. On average, the ranking of e-services received higher scores compared to other public institutions indicating that Azerbaijan's digital infrastructure is highly appreciated by EU businesses and is developing in the right direction to meet the evolving demands of investor communities.

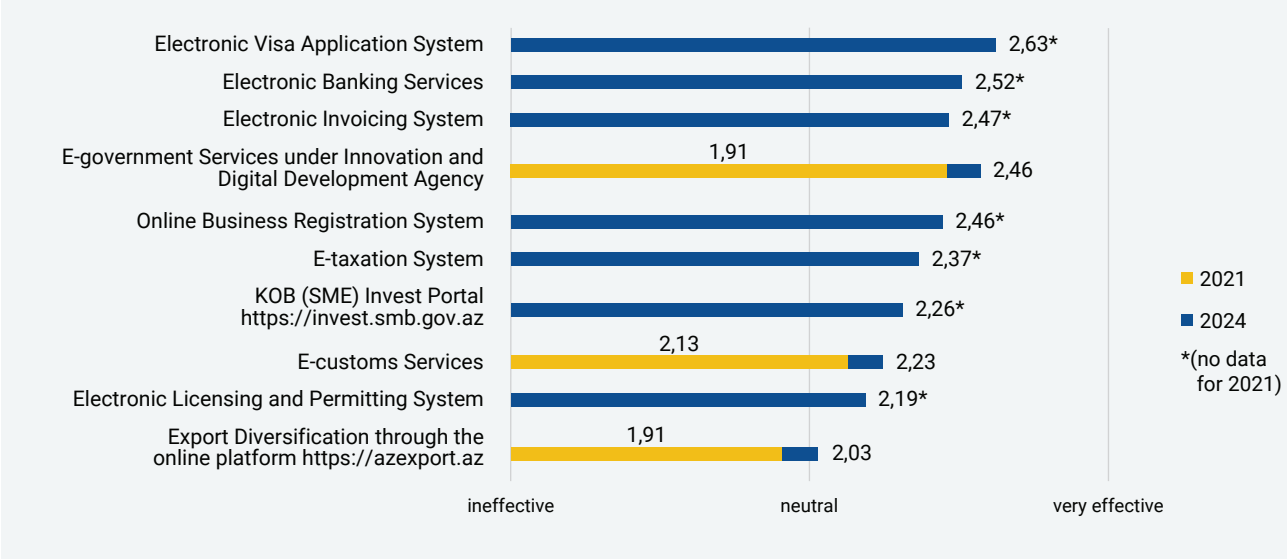


"Digitalisation efforts in access to state services have reduced corruption opportunities and improved operational efficiency. This is a crucial factor allowing companies to spend their time and resources more efficiently."

Country Director,
Transportation and logistics company

Leading the rankings, the **Electronic Visa Application System** scored **2.63** out of 3 in 2024, up from **2.5** in 2021, reflecting its growing efficiency in facilitating entry processes for investors and businesses. **ASAN VISA** has been implemented since 2016, enabling foreigners and stateless persons from 81 nationalities to apply and get e-visas to Azerbaijan. The entire process is done online and takes only 3 working days. Besides, since July 2024, the list of documents has been revised and travellers applying for this service no longer need to provide their travel history concerning the "Karabakh" region.¹⁴⁸

FIGURE 2.10 Responses to the question "How effective do you find the following electronic services for businesses/ investors?"



SOURCE: EU Business Climate Survey 2024

Electronic Banking and Electronic Invoicing Systems also show strong ratings at 2.52 and 2.47 out of 3, respectively, with both slightly improving since 2021, underscoring their value in streamlining financial transactions. **E-government services provided by the Innovation and Digital Development Agency** and the **Online Business Registration System** each hold a score of **2.46** out of 3, indicating growing reliability in supporting business operations. However, lower scores highlight areas where businesses feel further improvements are necessary, particularly in investment and export-related digital resources.

E-taxation and E-customs services were evaluated at a similar level this year compared to 2021 results. This signals that these services were not demonstrating increased effectiveness in recent years and went down in the rankings compared to newly introduced services. **Export Diversification** through the **azexport.az** platform continues to obtain the lowest rating among digital services, suggesting it has yet to meet the expectations of businesses seeking export support.

Electronic banking services in Azerbaijan benefit from a robust infrastructure supporting digital financial services. A localised processing network operates competitively among processing centres, while the Instant Payment System enables 24/7, low-cost transactions for individuals, businesses, and government entities.¹⁴⁹ An Application Programming Interface allows banks to open data and processes to customers, trusted partners, or authorised third parties, enabling access to services by FinTechs.¹⁵⁰ The Law on Payment Services and Payment Systems, adopted in July 2023, promotes the development of innovative digital services, further integrating payment providers with the national infrastructure.¹⁵¹ CBAR has also begun licensing fintech companies and implementing a regulatory sandbox to support innovative solutions in a test environment.¹⁵²

The **Electronic Invoice System (e-invoices)** has been implemented in Azerbaijan since April 2017 following amendments to the Tax Code. Entities registered for VAT and some specified persons in the Tax Code are required to submit e-invoices for goods delivered, work completed, and services provided in connection with entrepreneurial

activities. E-invoices are available to taxpayers through two methods: online mode, using an enhanced electronic signature and the e-Tax Account Invoice (e-TAI), and offline mode, primarily intended for large taxpayers, using the Electronic Invoicing Software and e-invoice system with an enhanced electronic signature. The Azerbaijani government has mandated e-invoicing for all legal entities and individual entrepreneurs.¹⁵³

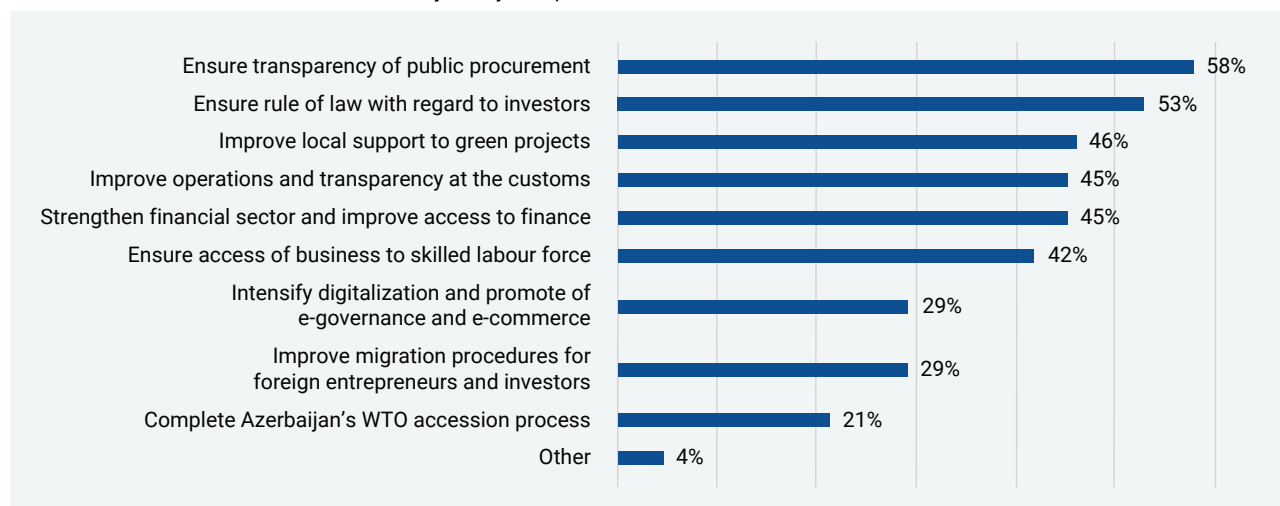
A multi-channel approach to e-services in Azerbaijan is provided through **E-government Services under the Innovation and Digital Development Agency, e-gov.az (my-gov.az)** portal. The portal offers digital access to **162 state entities, 463 public services, and 655 electronic services**. Supported by ASAN and complemented by Asan Centres across the country, the portal provides over **500 digital services** from various ministries and agencies, including migration, customs, and business registration services. The number of users on eGOV and myGOV has grown rapidly, with high demand for services related to utilities, housing, customs, and public procurement. Plans are underway to integrate **AI into the myGOV portal** by the end of 2024.¹⁵⁴

Top 5 emerging priorities for reforms

Azerbaijan has made strides in economic development and modernisation, yet challenges remain that necessitate comprehensive reforms. The EU Business Climate Reports consistently highlight areas for improvement, including strengthening the rule of law, enhancing transparency in public procurement, combating corruption, and reducing bureaucratic hurdles. The U.S. Department of State's 2024 Investment Climate Statement echoes these concerns, noting that corruption, limited judicial transparency, and the dominance of government-connected holding companies continue to hinder the growth of a competitive private sector.¹⁵⁵

Addressing these issues is crucial for fostering a more favourable business environment and ensuring sustainable economic progress, and the EU Business Climate Survey 2024 highlighted the specific top priority areas for further improvements.

FIGURE 2.11 Responses to the question “Which of the following reforms are the most important to further improve the business and investment climate in Azerbaijan, in your opinion?”



SOURCE: EU Business Climate Survey 2024

Priority #1 - Ensure transparency of public procurement

The 2024 EU Business Climate Survey reflects a significant shift in reform priorities, with transparency in public procurement now ranked as the most critical area for improvement, cited by 58% of respondents. This priority signals strong demand from the business community for reforms that ensure fair competition and accountability in public spending. This increased focus on procurement transparency coincides with Azerbaijan's expanded budget for reconstruction efforts in Karabakh and East Zangezur, where AZN 4 bn (≈ EUR 2.2 bn) is planned to be allocated in 2025 alone. Concerns about transparency have been heightened as some high-value tenders for these projects were awarded with limited openness in the selection process. Information about the tenders, particularly the ones in the Karabakh and East Zangezur economic regions is often not announced publicly. Both the Law on Public Procurements of Azerbaijan that was adopted in August 2023¹⁵⁶ and the Law on Public-Private Partnership (PPP) enacted in December 2022¹⁵⁷ require further clarification and secondary legislation. More clarity is needed regarding the responsibilities of the public procurement between government organisations. Local MSMEs are often given preference and provided with price incentives for public procurements by the government. [156] While PPP are not developed and utilised enough in the country, state-owned enterprises keep receiving a larger percentage of government contracts or business than their private sector competitors.¹⁵⁸

Priority #2 - Ensure the rule of law regarding investors

Ensuring the rule of law regarding investors has traditionally been considered a critical reform, emphasised by 53% of respondents. This underscores the business community's need for a reliable legal framework that protects investor rights and fosters a stable investment environment. The World Bank's 2022 Worldwide Governance Indicators assign Azerbaijan a score of -0.62 for the rule of law, reflecting concerns about the strength of legal frameworks and enforcement mechanisms.¹⁵⁹ This score reflects concerns about contract enforcement, property rights, and the judiciary's independence. During the last few years, the government has made various efforts to reform the judicial sector; however, these measures have not yet resulted in significant improvements. The new Law of the Republic of Azerbaijan "On Arbitration" was approved on December 26, 2023.¹⁶⁰ With the adoption of the law, the Law of the Republic of Azerbaijan "On International Arbitration" was repealed, and domestic arbitration was included in the list of alternative dispute resolution mechanisms, along with international arbitration. This change is expected to improve the current state of the rule of law in the country. However, meanwhile commercial courts still demonstrate limited effectiveness, and enforcement mechanisms and bodies have been reported as lacking efficiency and transparency. In these circumstances, foreign investors continue to prefer foreign arbitration.



"There is a strong call for judicial reforms and the government to keep trying to introduce relevant changes for many years. However, the situation is improving only in small increments. Sometimes, introduced reforms are not deep enough to address the underlining issues. And sometimes public institutions just lack capacity to implement them in full scale."

Partner, Consulting company

Priority #3 - Improve local support for green projects

The government has been implementing several initiatives to support green projects, such as developing standards for green business and offering assistance through various mechanisms such as grants, training and access to exhibitions. However, the support remains insufficient, as the markets still lack the necessary awareness about green projects. Access to cheaper funds for green businesses remains especially challenging. While some fragmentary initiatives exist, there is still no established financial pipeline for MSMEs to ensure their access to affordable funds for green projects. Another area for improvement is the state financial support policy, which can make the green sector even more attractive in terms of taxation, tariffs and agreements. At COP29 in Baku in November 2024, the CBAR presented green taxonomy. Developed in cooperation with the International Finance Corporation (IFC), the taxonomy aims to define criteria for green businesses that banks can use when providing loans.¹⁶¹



"A real green transition can be made only via the broad engagement of the MSMEs. This requires investments. Azerbaijan needs to ease access of small companies to affordable funds for green projects. We have successful pilots, but there is a need now to streamline such financial products on the market."

Country Director, Banking sector

Priority #4 - Improve transparency and operations at the customs

Although the efforts of the government to digitalise the customs procedures have led to improvements in the transparency at the customs operations, transparency concerns persist and need to be addressed by the government. Entrepreneurs also continue to face problems at the border, such as the payment of VAT at the time of product realisation, difficulties in customs clearance without involvement from the Food Safety Agency of the Republic of Azerbaijan, and high fines related to incomplete import declarations. The customs clearance process remains unpredictable and takes a long time, delaying cargo at the border and leading to increased costs, such as additional logistics and storage expenses. Furthermore, the 180-day period of payment of funds for goods or services exported through consignment is not sufficient for the entrepreneurs.¹⁶²

Priority # 5 - Strengthen the financial sector and improve access to finance

During the reporting period, softening of the lending standards to MSMEs were observed in Azerbaijan.¹⁶³ The high liquidity position of banks and overall economic expectations have contributed to it. The improvement of digital financial services helped enhance the access to finance for business. However, the high level of asset consolidation within the banking system and dollarisation has negatively affected the lending of the banks. Banks mostly attract short-term liabilities, which restricts their ability to lend longer-term credits.¹⁶⁴ The risk appetite of banks for lending to MSMEs has also remained low in the face of prevailing risks issues in the business sector, such as underdeveloped accounting practices of MSMEs. Start-ups also face challenges in accessing finance, as venture capital funds are not yet developed in the country. Businesses in the regions need legislative changes to have better access to collateral. The agriculture sector, too, needs progressive lending instruments to improve its access to finance.





ANNEX 1: RESULTS OF EU BUSINESS CLIMATE SURVEY 2024

Participants: European businesses present or interested to work in Azerbaijan
and Azerbaijani companies doing business with the EU

Total population: ~ 740 companies

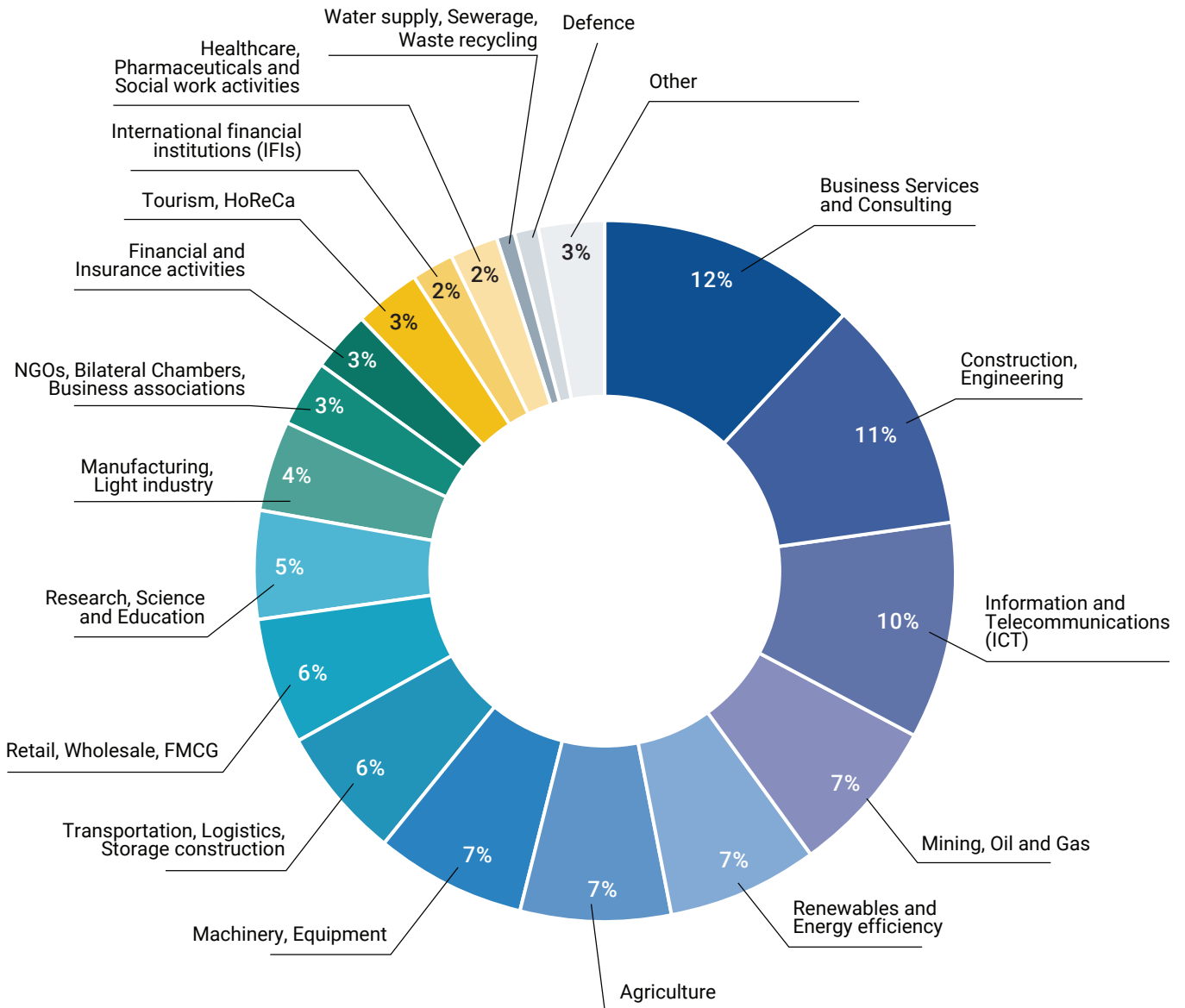
Number of responses approved for the sample: 117

Number of countries represented: 27

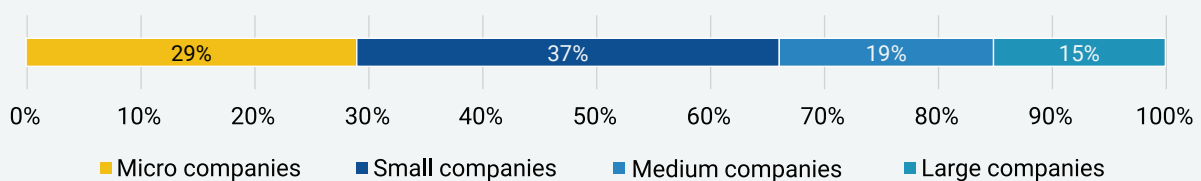
Number of sectors represented: 18

PARTICIPANTS OF THE SURVEY

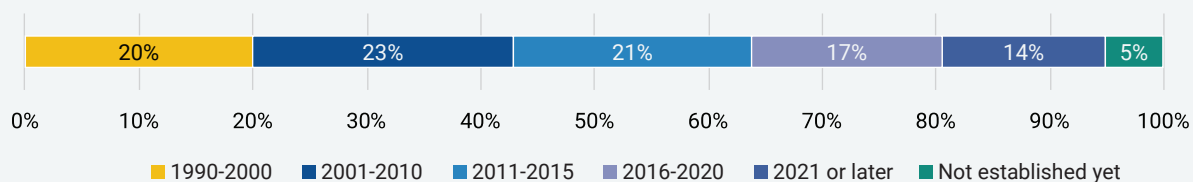
MAJOR SECTOR THE COMPANIES



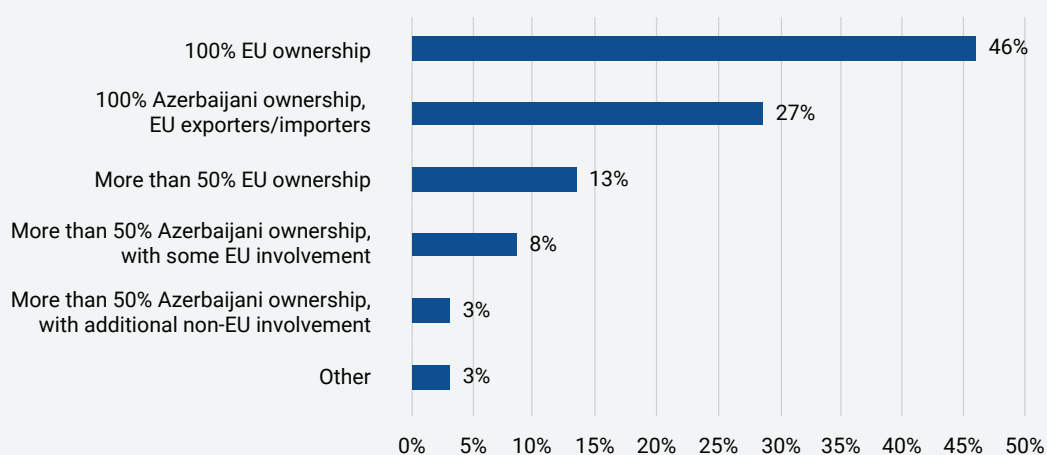
SIZE OF THE COMPANIES PER NUMBER OF EMPLOYEES



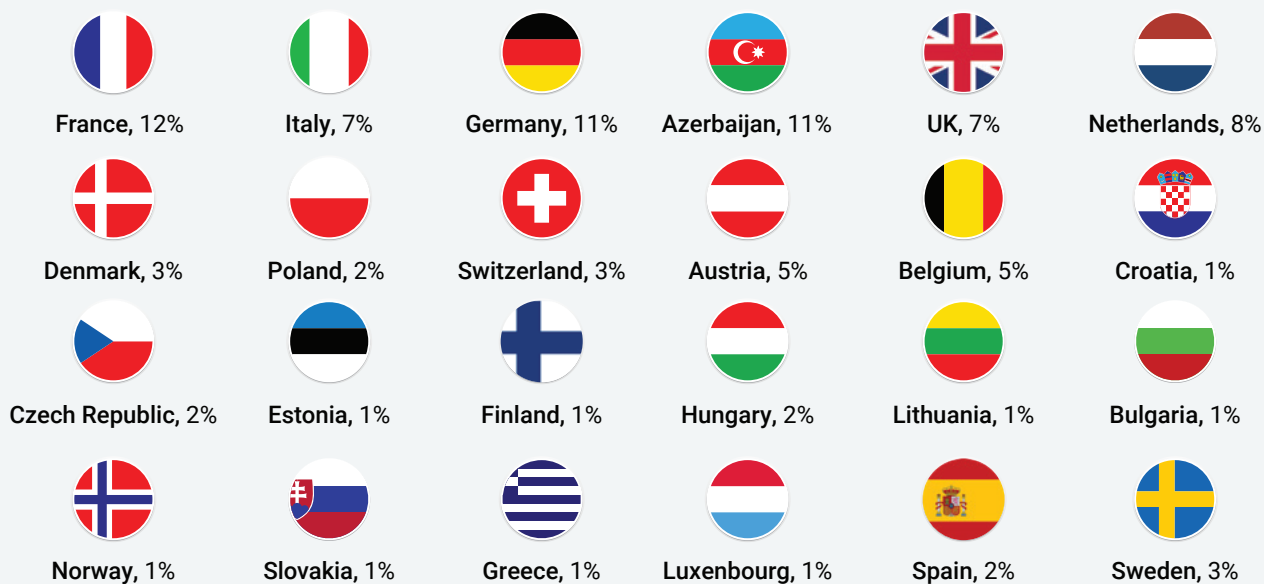
YEAR THE COMPANIES WERE ESTABLISHED IN AZERBAIJAN



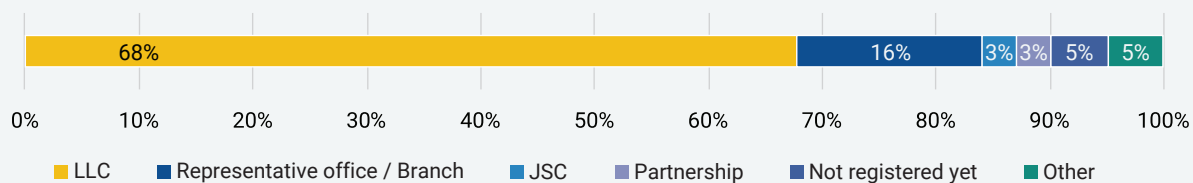
OWNERSHIP STRUCTURE OF THE COMPANIES



COUNTRIES REPRESENTED BY THE COMPANIES

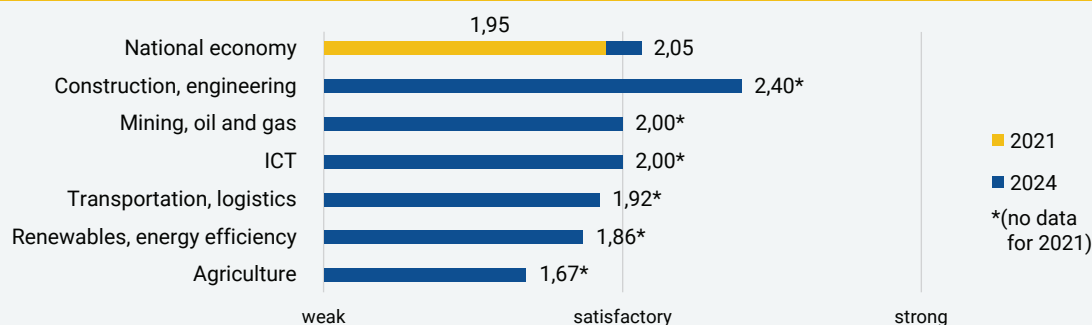


LEGAL STATUS OF THE COMPANIES IN AZERBAIJAN

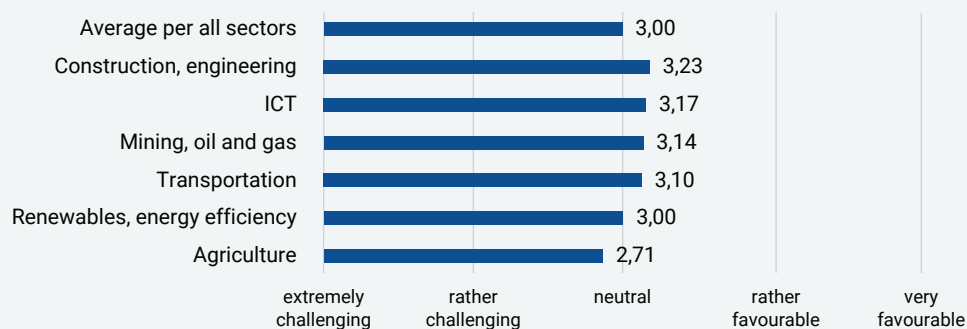


BUSINESS CLIMATE 2024. SECTORIAL OVERVIEW

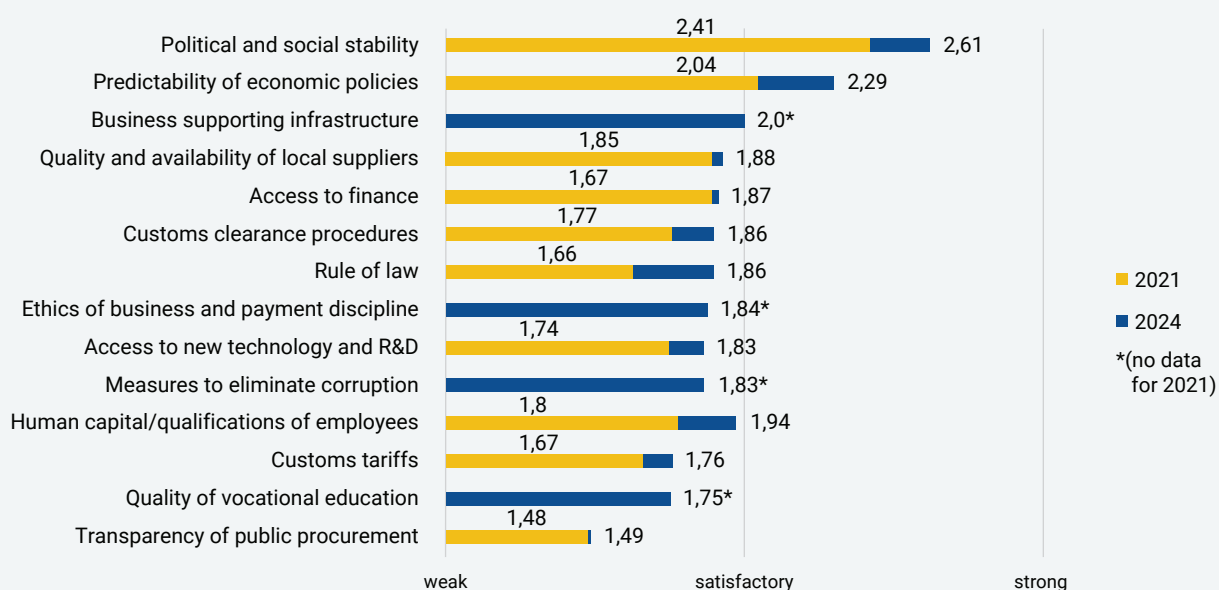
Q1. How do you evaluate the current economic situation?



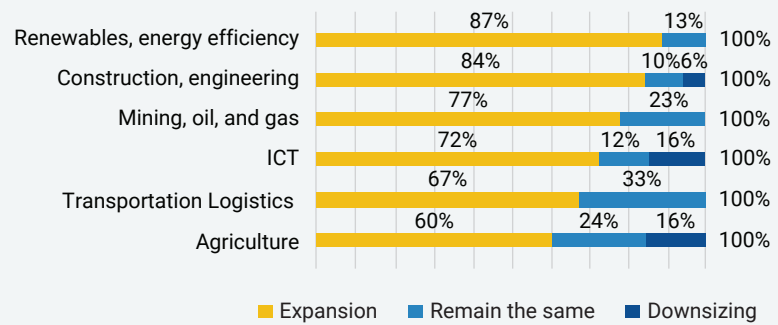
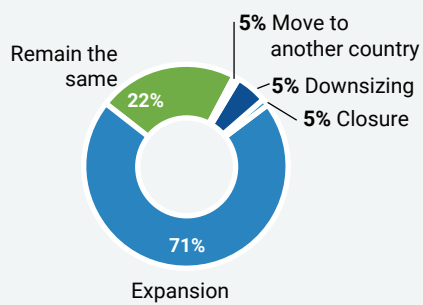
Q2. Based on your experience, how you evaluate business climate in Azerbaijan?



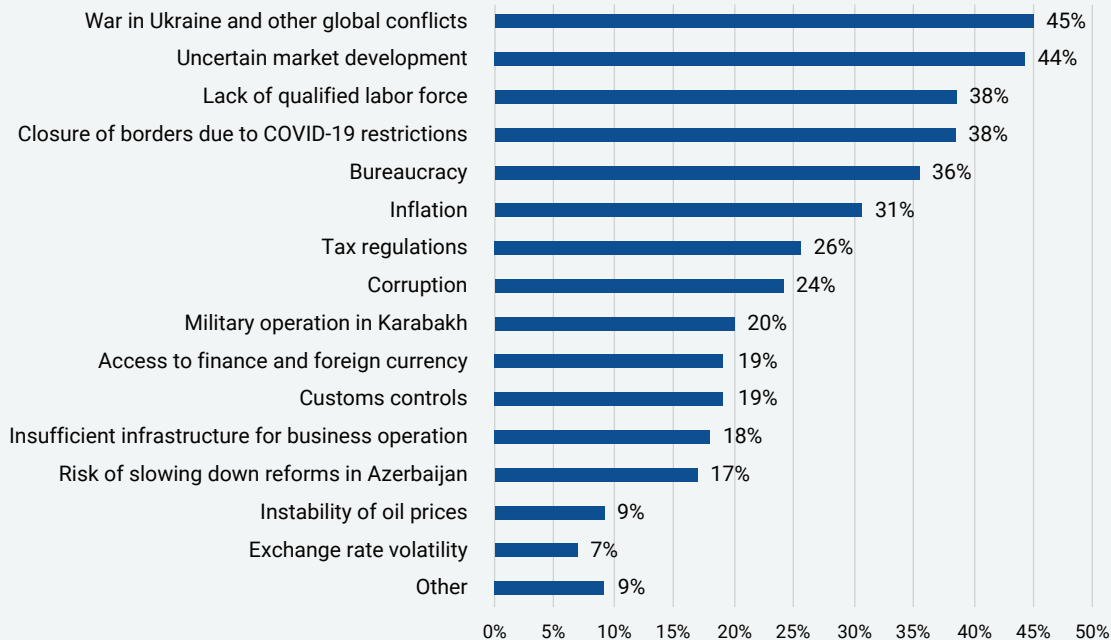
Q3. How do you rate the following local indicators in Azerbaijan in the last years?



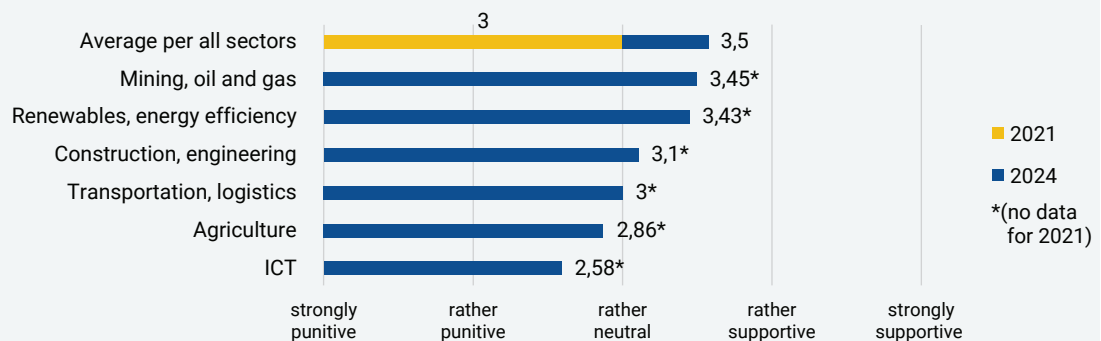
Q4. What is the most likely development of your company in Azerbaijan in the next few years?



Q5. Select the factors that have affected your company the most in recent years. (% share of companies)



Q6. Please, choose the statement that best describes your experience with public authorities in Azerbaijan (e.g. migration, customs, tax authorities, bodies issuing permits, etc.) by finishing the sentence "Usually public authorities are..."

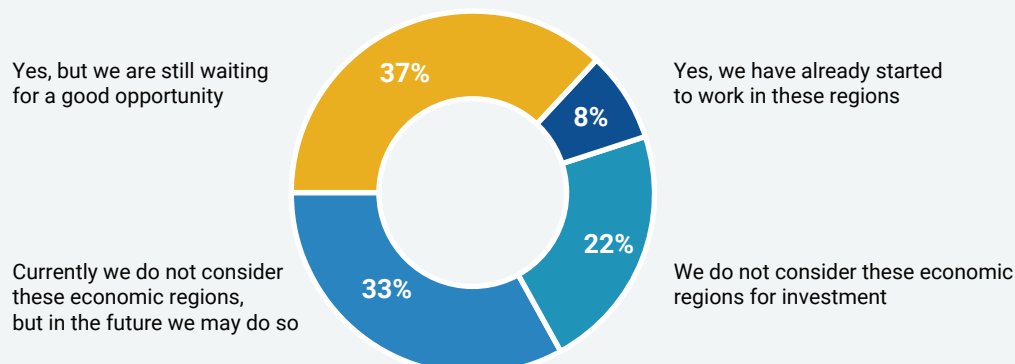


INVESTMENT CLIMATE 2024

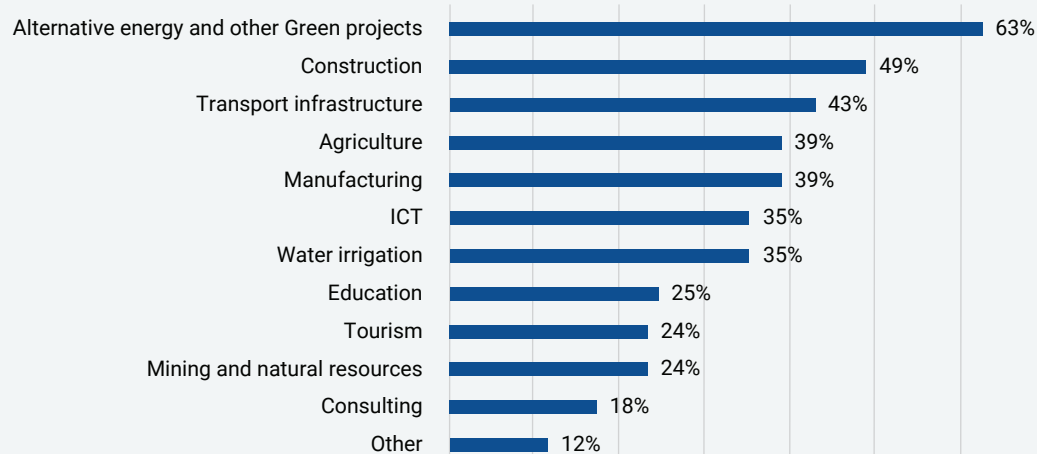
Q7. Which factors attract your company to invest and/or do business in Azerbaijan?



Q8. Does your company consider the Karabakh and East Zangezur economic regions as potential areas for investment in the nearest years?

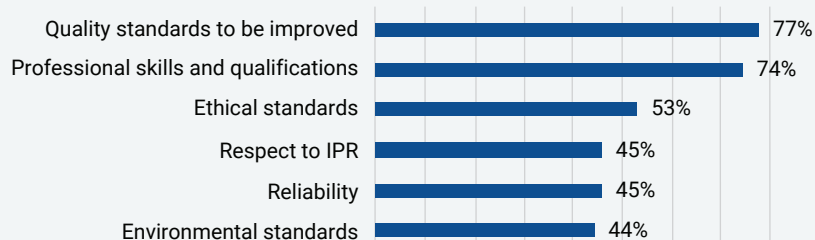
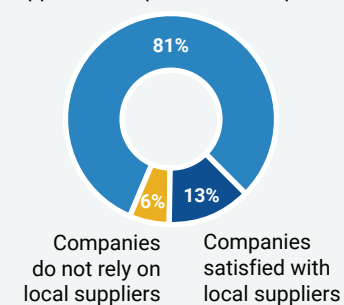


Q9. Which profile of investment you consider for the Karabakh and East Zangezur economic regions?



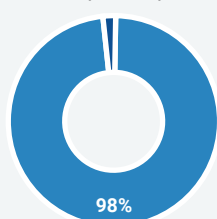
Q10. Share your experience of working with local suppliers.
Which professional aspects need to be further improved by the local suppliers, in your opinion?

Companies expect local suppliers to improve some aspects

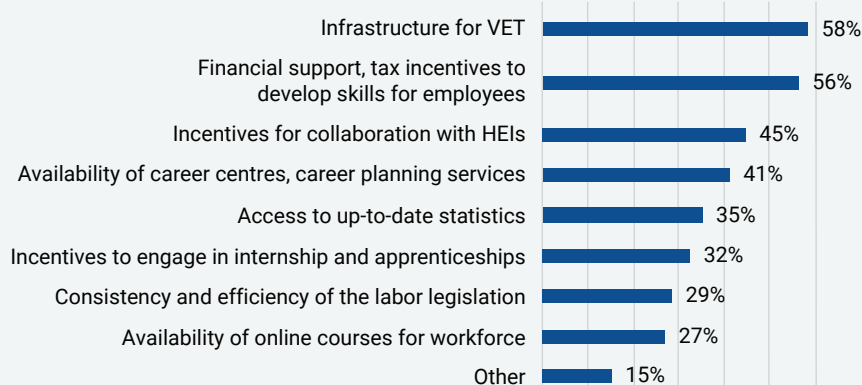


Q11. Whether the local labour market advanced enough or should be improved, in your opinion?
What aspects of labour market need to be prioritised for reforms?

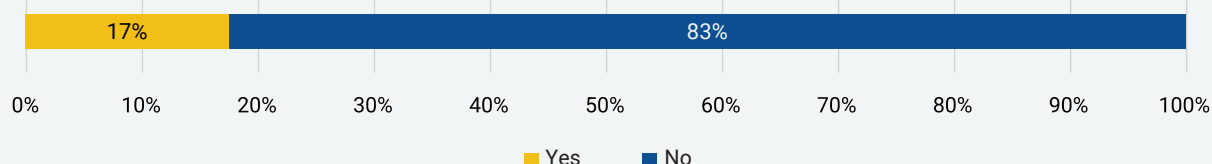
2% Labour market is advanced and does not require improvement

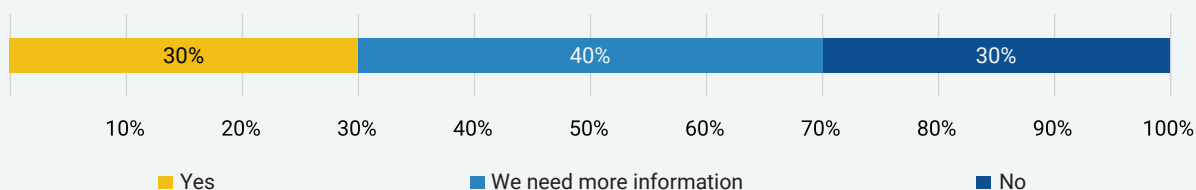


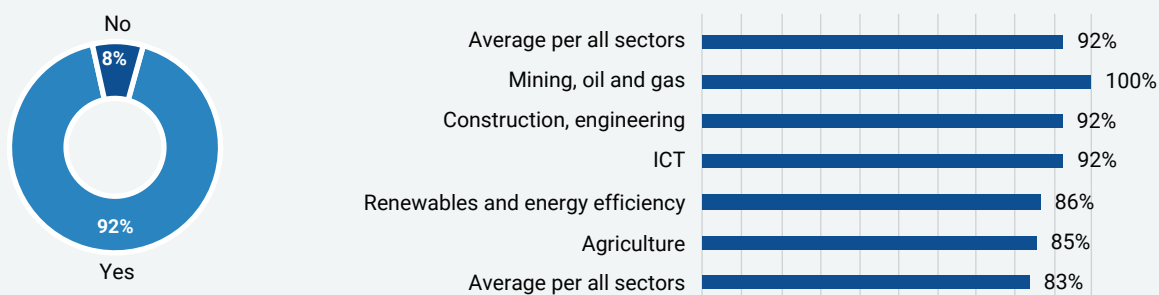
Labour market requires improvement



Q12. Do you have an experience of using the Trans-Caspian Transport Corridor (Middle Corridor) through the territory of Azerbaijan for trade/logistics purposes?



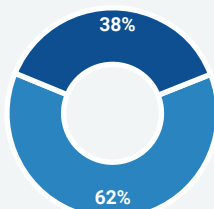
Q13. Do you plan to use the Middle Corridor in the next few years?

Q14. If you have an experience of using the Middle Corridor, to what extent its current capacity and operations quality meet the needs of the market? What challenges you faced while using it?

Q15. Would you choose Azerbaijan again as a preferred location for your business?


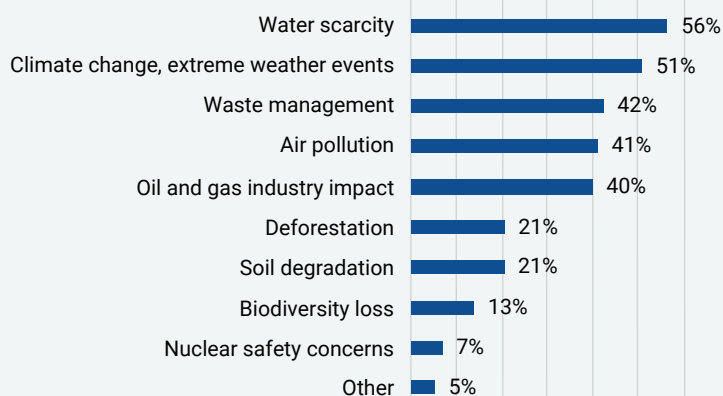
GREEN ECONOMY

Q16. Do you consider environmental challenges in Azerbaijan as a concern or potential risk for your company's operations in the country? If so, what specific challenges are of your main concern?

Companies considering environmental challenges as a risk

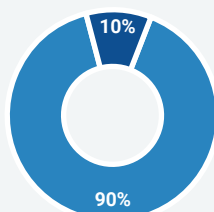


Companies not considering environmental challenges as a risk

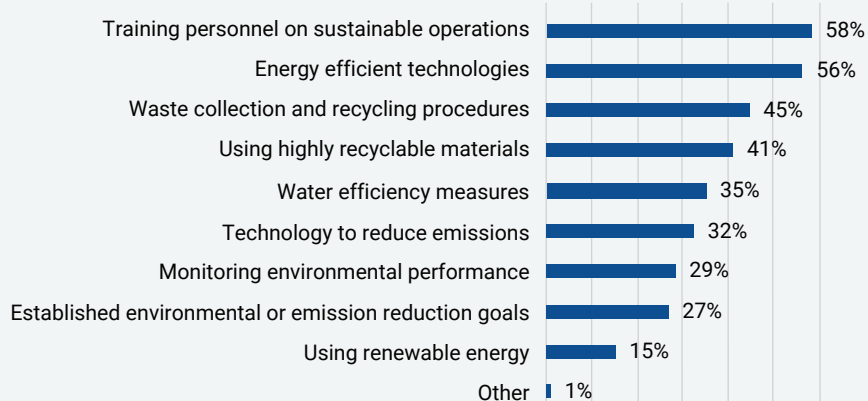


Q17. Does your company apply sustainable practices in its daily operations? If so, what specific practices you apply?

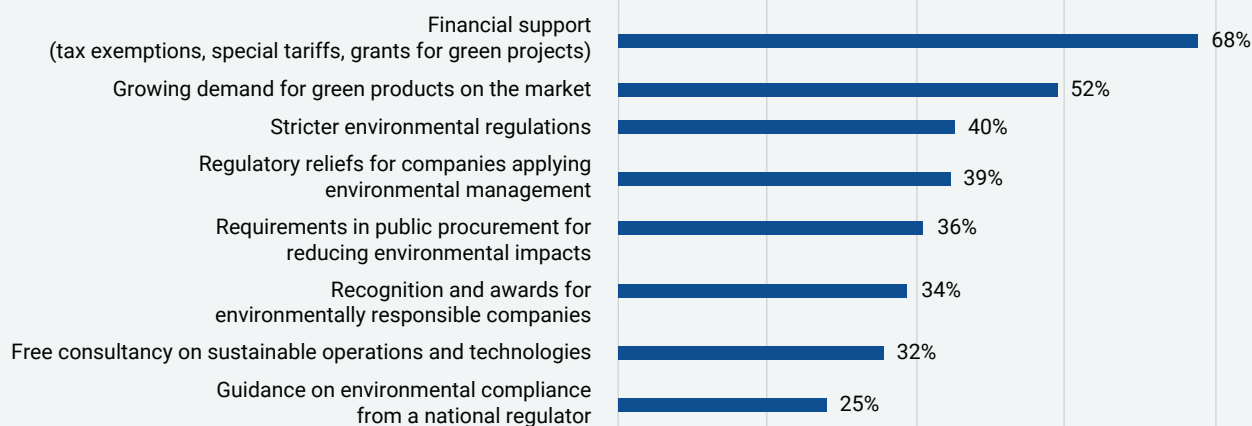
Companies not applying sustainable practices



Companies applying sustainable practices

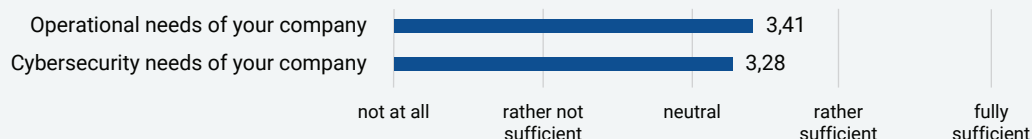


Q18. What would stimulate your company to further develop "green"?



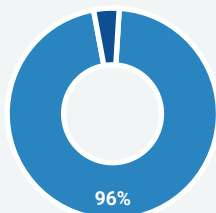
BUSINESS DIGITALIZATION

Q19. To which extent the IT infrastructure in Azerbaijan is sufficient for

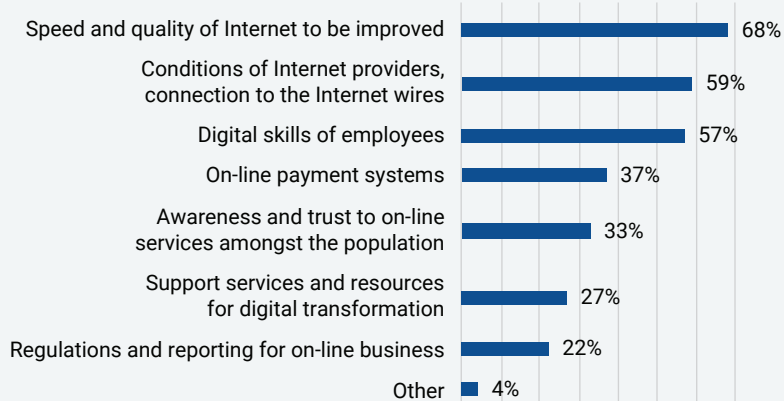


Q20. Does digital infrastructure in Azerbaijan require any further improvement? If so, which aspects should be further improved for effective business digitalization?

4% Digital infrastructure for business is advanced and does not require improvement

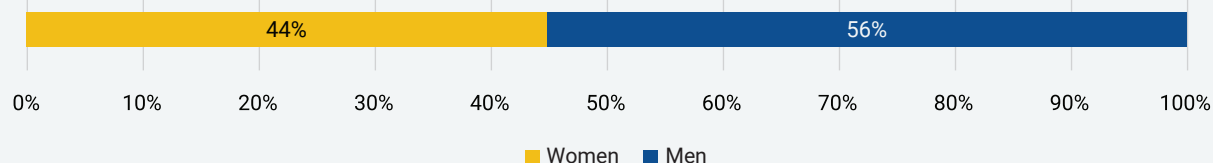


Local digital infrastructure for business requires further improvement

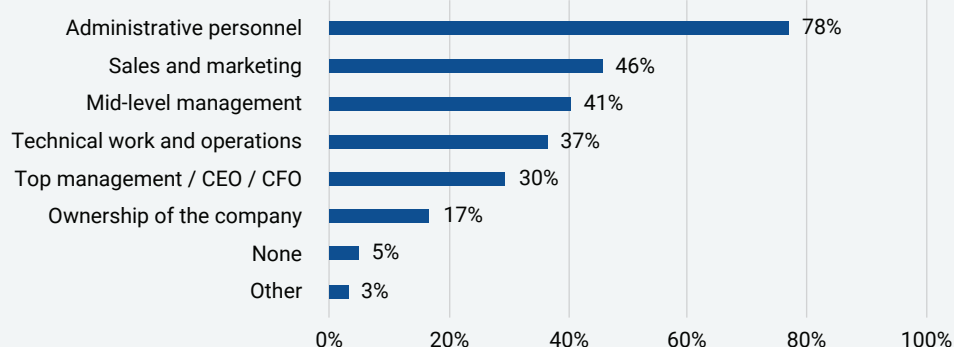


WOMEN IN ECONOMY

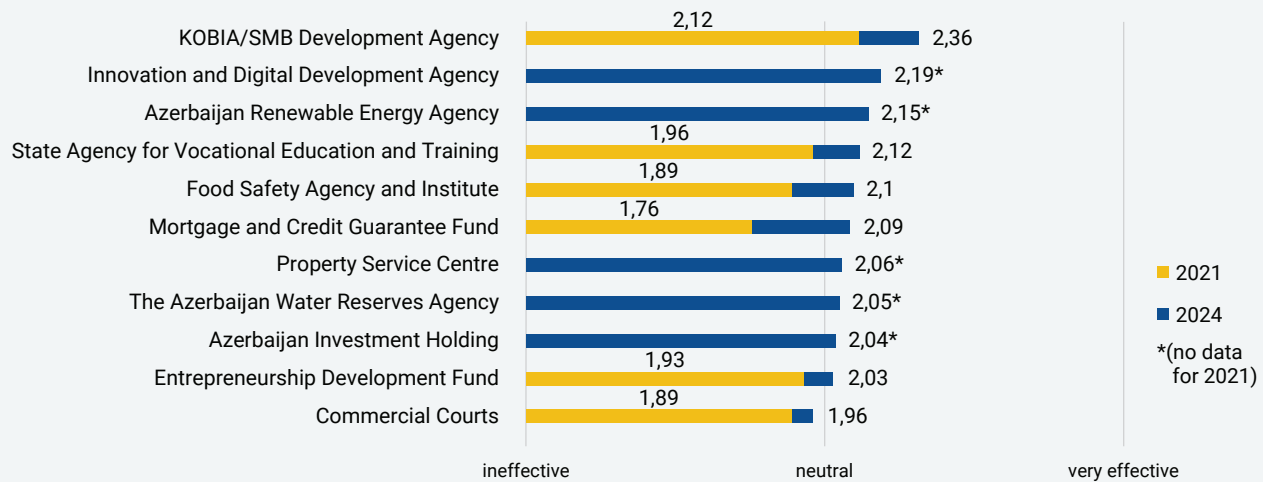
Q21. What share of the personnel in your company are women?



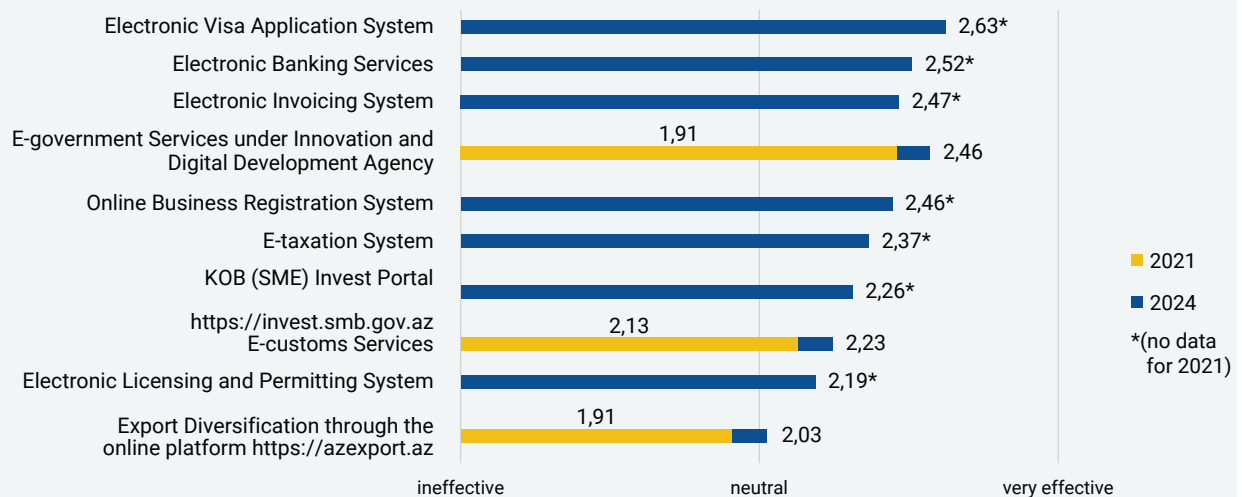
Q22. In which positions women are the most represented in your company?



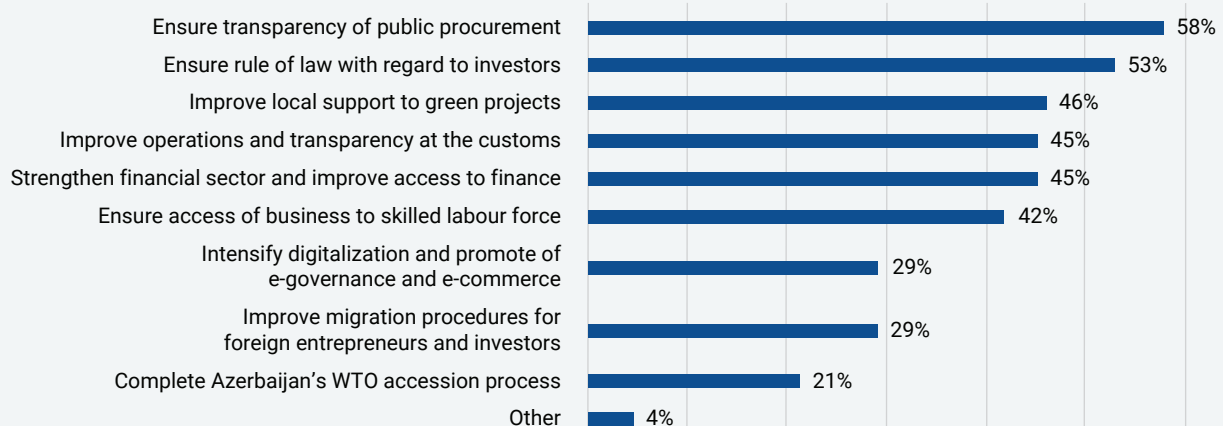
Q23. To what extent do you perceive the effectiveness of newly established governmental bodies?



Q24. How effective do you find the following electronic services for businesses/investors?



Q25. Which of the following reforms are the most important to further improve the business and investment climate in Azerbaijan, in your opinion?



ANNEX 2: ABOUT EU-AZERBAIJAN BUSINESS FORUM 2024-2026



Funded by
the European Union



The project is funded by the European Union and aims to promote economic cooperation between the EU and Azerbaijan by strengthening awareness of the business climate in Azerbaijan, highlighting investment opportunities, and enhancing public-private dialogue. The project is implemented by VM EUROPE in collaboration with business chambers and InvestBaku.

PROJECT'S ACTIVITIES



EU BUSINESS CLIMATE REPORTS AZERBAIJAN

Based on independent surveys of EU investors, we prepare comprehensive annual publications dedicated to the experiences of European companies operating in Azerbaijan. Over the last decade, EU Business Climate Reports have become a reliable source of information about the local business climate, investment opportunities, and progress in local reforms.



EU-AZERBAIJAN BUSINESS FORUMS

Annual high-level business events in Baku are designed to strengthen EU-Azerbaijan cooperation. These forums serve as a solid platform for public-private dialogue, enabling European companies to engage with the local government on key topics. The engaging format of the events provides exceptional networking opportunities for both EU and Azerbaijani businesses.



DIGITAL PLATFORM FOR BUSINESS NETWORKING – euazbusinessforum.az

The platform gathers reliable, up-to-date information for existing and potential EU investors, including major regulatory changes, business events, investments, and public procurement opportunities. The digital networking tool allows EU and Azerbaijani companies to search for potential partners, establish direct contacts, and share their knowledge and experiences.



SECTOR-SPECIFIC BUSINESS MISSIONS TO REGIONS

The business missions with a focus on specific sectors aim to explore current developments and investment opportunities for EU businesses in the Azerbaijani regions. During the missions, EU businesses get a chance to network and meet potential partners outside of Baku.



OVERVIEW OF EU – AZERBAIJAN INTERNATIONAL TRADE

A study provides insights into the international trade relations and tendencies between the countries. The overview has a future-oriented perspective and a special focus on the business environment, as well as practical information on import-export activities.



For more information
scan the QR code or visit
<https://euazbusinessforum.az/>

VM Europe

InvestBaku
Business Services & Investments

METHODOLOGY

Target group

Target group for this study includes:

- ~300 European companies operating in Azerbaijan: businesses from EU member states, EFTA countries, and the UK,
- ~400 Azerbaijani companies, whose primary business operations are related to the collaboration with EU partners,
- ~40 European companies that are interested in entering the Azerbaijani market but have not yet started local operations.

The database of the companies was collected via cooperation with the EU Delegation, the embassies of the EU member states in Azerbaijan, bilateral chambers, organisations of bilateral economic cooperation, and open sources. The database was verified through direct contact with the companies.

Quantitative research

The quantitative data for the Report was collected through an **anonymous online survey**, which took place between May and August 2024. The **2024 questionnaire** was based on the previous surveys and adjusted to reflect current local and global trends. The questionnaire contained 25 questions and was split into six sections: i) Business Climate 2024. Sectorial overview; ii) Investment climate 2024; iii) Green economy; iv) Business digitalisation; v) Women in economics; vi) Local reforms.

The online questionnaire was distributed to companies via official channels and advertised on the official web pages of the implementing organisations and the "EU-Azerbaijan Business Forum". After the quality check of the received forms, **117 responses were approved for inclusion in the sample**, which represents businesses from 27 countries, including 21 EU Member states, 2 EFTA countries, the UK and Azerbaijan. The respondents operate in 18 industries, and 85% representing the SME sector.

The survey was distributed via the open channels what ensured equal chance for companies to participate. The obtained sample represents companies of various sizes, sectors and countries and operating in Azerbaijan over different periods of time. Based on this, it can be assumed that the sample broadly represents the population of European businesses in Azerbaijan. The expected confidence level is 95% with the margin of error of 2.63%.

Qualitative research

The qualitative data was collected via **in-depth interviews** with representatives of European companies and organisations, conducted between August and October 2024. A total of **27 one-on-one interviews** were conducted with companies from seven sectors, which had the most significant representation in the survey. These sectors include business services and consulting; construction and engineering; ICT; retail, wholesale, FMCG; machinery and equipment; mining, oil, and gas; renewables and energy efficiency; agriculture; transportation and logistics. The study also included information gathered from bilateral chambers, EU Delegation and the European Commission, EU initiatives and projects, EU agencies, European development banks, as well as international organisations.

Desk research

Sources for the overviews of the main trends in this report include official Azerbaijani sources of information, such as legislation, the State Statistical Committee of the Republic of Azerbaijan, the Centre for Analysis of Economic Reforms and Communication of the Republic of Azerbaijan, the Central Bank of the Republic of Azerbaijan, and official state media, as well as publications from international organisations, such as ADB, EBRD, EIB, ETF, ILO, IMF, ITU, OECD, UN, UNCTAD, UNDP, UNEP, UNPF, UNWTO, WB, WHO, and others.

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFEZ	Alat Free Economic Zone
APEA	Azerbaijan Public Employment Agency
AREA	Azerbaijan Renewable Energy Agency
ASAN	Azerbaijan Service and Assessment Network
AZN	Azerbaijani Manat
CBAR	Central Bank of the Republic of Azerbaijan
COP29	The 29 th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC)
EaP	Eastern Partnership region
EFTA	European Free Trade Association
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESG	Environmental, Social, and Governance
EU4Business, EU4Climate, EU4Digital, EU4Environment, EU4GenderEquality	EU initiatives in the Eastern Partnership region
ETF	European Training Foundation
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FMCG	Fast-moving consumer goods
FTA	Free trade agreements
GTMI	GovTech Maturity Index
HCI	Human Capital Index
HORECA	Hotel, Restaurant, and Cafe sector
ICT	Information and Communication Technology
IDR	Issuer Default Rating
IMF	International Monetary Fund
IRIA	The Innovation and Digital Development Agency
KOBIA	Small and Medium Business Development Agency of Azerbaijan
LLC	Limited Liability Company
MLSPP	Ministry of Labour and Social Protection of Population

MoSE	Ministry of Science and Education
MoU	Memorandum of Understanding
MSMEs	Micro, Small, and Medium Enterprises
NDC	Nationally Determined Contribution (related to climate commitments)
OECD	Organization for Economic Co-operation and Development
PSA	Production Sharing Agreement
SAVE	State Agency on Vocational Education
SDG	Sustainable Development Goal
SEA	State Employment Agency
SGC	Southern Gas Corridor
SMB	Small and Medium Business
SMEs	Small and Medium Enterprises
SOFAZ	State Oil Fund of the Republic of Azerbaijan
TAP	Trans Adriatic Pipeline
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNIDO	United Nations Industrial Development Organization
UNPF	United Nations Population Fund
UNWTO	United Nations World Tourism Organization
USD	United States Dollar
VET	Vocational Education and Training
WB	World Bank
WHO	World Health Organization
bn	Billion
mln	Million
p.p.	Percentage Points
ha	Hectare
km	Kilometre
m	Meter



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RESEARCH TEAM:

Dr Bogdana A. Efe, Team Leader, Chief research editor

Marius Bordalba, International expert, Qualitative research

Aytan Akhundova, National expert, Desk research

Said Jafarli, National Expert, Consultation on trade and economic topics

Aydan Nabiyeva, National expert, Quantitative research

Maryam Iskandarova, National expert, Quantitative research

QUALITY CONTROL:

Simon Davies, Senior Economist, VM Europe SRL

COLLABORATIONS:

Experts Zibar Huseynova and Javid Mustafayev

SUPERVISION:

Cooperation Section, Delegation of the European Union to the Republic of Azerbaijan

DESIGN:

Nasibli Rovshan

PHOTO ART:

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EU4Digital

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