

# ECONOMIC FREEDOM IN AZERBAIJAN

&

The results of a face-to-face poll conducted among 700  
(seven hundred) small businesses in the Azerbaijan  
Republic  
(July – August, 2011)

*By Sabit Bagirov, Ph.D.,  
Entrepreneurship Development Foundation,  
Center for Economic and Political Research*

# 1. Size of Government

	2005	2008	2009
<b>Summary Rating (Rank)</b>	<b>6.11</b>	<b>6.55</b>	<b>6.50</b>
<b>1. Size of Government</b>	<b>5.00</b>	<b>5.27</b>	<b>5.37</b>
A. Government consumption	6.00	4.65	5.02
B. Transfers and subsidies	7.10	9.44	9.44
C. Government enterprises and investment	2.00	2.00	2.00
D. Top marginal tax rate	5.00	5.00	5.00
(i) Top marginal income tax rate	7.00	7.00	7.00
(ii) Top marginal income and payroll tax rates	3.00	3.00	3.00

Source: Economic Freedom of the World. Annual Report. 2011

# Size of Government. Government Consumption

(Government Consumption /  
Total consumption)\*100%

**1A - Government  
Consumption:**

2002:	16.5	6.9
2003:	17.1	6.7
2004:	18.8	6.2
2005:	19.8	5.9/ 6.0
2006:	18.7	6.3
2007:	22.4	5.2
2008:	20.3	5.8/ 4.65
2009:	20.6	5.7/ 5.02

Source:

[http://www.azstat.org/statinfo/system\\_nat\\_accounts/en/index.shtml](http://www.azstat.org/statinfo/system_nat_accounts/en/index.shtml)

# Size of Government.

## Legal Structure and Security of Property Rights

	2005	2008	2009
<b>Summary Rating (Rank)</b>	<b>5.70</b>	<b>6.40</b>	<b>5.96</b>
A. Judicial independence	3.00	4.79	3.86
B. Impartial courts	3.40	4.88	4.19
C. Protection of property rights	4.40	5.36	4.76
D. Military interference in rule of law and politics	6.70	6.67	5.83
E. Integrity of the legal system	6.00	5.83	5.83
F. Legal enforcement of contracts	7.30	7.55	7.55
G. Regulatory restrictions on sale of real property	8.80	9.73	9.73

Source: Economic Freedom of the World. Annual Report. 2011

# Size of Government. Access to Sound Money

	2005	2008	2009
<b>Summary Rating (Rank)</b>	<b>7.30</b>	<b>7.55</b>	<b>7.83</b>
A. Money growth	8.60	6.88	7.58
B. Standard deviation of inflation	7.80	7.49	4.00
C. Inflation: most recent year	7.70	5.84	9.72
D. Freedom to own foreign currency bank accounts	5.00	10.00	10.00

Source: Economic Freedom of the World. Annual Report. 2011

# Size of Government.

## Freedom to Trade Internationally

	2005	2008	2009
<b>Summary Rating (Rank)</b>	<b>6.60</b>	<b>6.66</b>	<b>6.44</b>
A. Taxes on international trade	6.90	7.91	8.07
(i) Revenues from trade taxes (% of trade sector)		9.19	9.19
(ii) Mean tariff rate	7.90	8.18	8.22
(iii) Standard deviation of tariff rates	5.90	6.36	6.80
B. Regulatory trade barriers	3.50	4.00	3.95
(i) Non-tariff trade barriers	4.40	4.81	4.21
(ii) Compliance cost of importing and exporting	2.60	3.19	3.69
C. Size of trade sector relative to expected	7.70	5.67	4.59
D. Black-market exchange rates	10.00	10.00	10.00
E. International capital market controls	4.90	5.74	5.61
(i) Foreign ownership / investment restrictions	6.70	6.48	5.84
(ii) Capital controls	3.10	5.00	5.38

Source: Economic Freedom of the World. Annual Report. 2011

# Size of Government.

## Regulation of Credit, Labor, and Business

	2005	2008	2009
<b>Summary Rating (Rank)</b>	<b>6.00</b>	<b>6.86</b>	<b>6.90</b>
A. Credit market regulations	6.60	7.50	7.75
(i) Ownership of banks	5.00	5.00	5.00
(ii) Foreign bank competition	6.00	6.00	6.00
(iii) Private sector credit	6.50	10.00	10.00
(iv) Interest rate controls / negative real interest rates	9.00	9.00	10.00

Source: Economic Freedom of the World. Annual Report. 2011

# Size of Government.

## Regulation of Credit, Labor, and Business

	2005	2008	2009
<b>Summary Rating (Rank)</b>	<b>6.00</b>	<b>6.86</b>	<b>6.90</b>
B. Labor market regulations	6.50	6.89	6.80
(i) Hiring regulations and minimum wage	6.70	10.00	8.33
(ii) Hiring and firing regulations	7.80	6.77	6.66
(iii) Centralized collective bargaining	7.60	7.59	8.02
(iv) Hours regulations	8.00	8.00	8.00
(v) Mandated cost of worker dismissal	8.00	7.96	8.79
(vi) Conscription	1.00	1.00	1.00

Source: Economic Freedom of the World. Annual Report. 2011



# Size of Government.

## Regulation of Credit, Labor, and Business

	2005	2008	2009
<b>Summary Rating (Rank)</b>	<b>6.00</b>	<b>6.86</b>	<b>6.90</b>
C. Business regulations	4.90	6.18	6.16
(i) Price controls	6.00	6.00	6.00
(ii) Administrative requirements	4.00	5.29	4.49
(iii) Bureaucracy costs	5.90	5.18	5.58
(iv) Starting a business	8.30	9.65	9.71
(v) Extra payments / bribes / favoritism	4.60	4.51	3.90
(vi) Licensing restrictions	5.70	6.87	6.84
(vii) Cost of tax compliance	0.00	5.79	6.57

Source: Economic Freedom of the World. Annual Report. 2011

# General information on survey

- **Project name:** “Building dialogue for economic reform” (sponsored by CIPE). The aim of project: National Business Agenda for Azerbaijan;
- **Duration of survey:** 33 working days;
- **Number of respondents:** 700;

# DEFINITIONS OF SMALL BUSINESSES IN AZERBAIJAN

Category of entrepreneurship	Average number of staff members	Annually turnover (Without VAT, excise duties)
Industry and construction	< 50	≤ 500 thousand manat
Agrarian sector	< 25	≤ 250 thousand manat
Wholesale	< 15	≤ 1 million manat
Retail trade, transport, services and other activity	< 10	≤ 250 thousand manat

# Geography of survey

<b>№</b>	<b>Name of economic region/ city</b>	<b>Number of respondents</b>
1.	Baku	280
2.	Absheron	45
3.	Ganja-Gazakh	100
4.	Sheki-Zagatala	45
5.	Lankaran	45
6.	Guba-Khachmas	35
7.	Aran	120
8.	Yuxarı Garabag	10
9.	Daglig Shirvan	20
	<b>Total</b>	<b>700</b>

# Information about respondents

## Status:

- Juridical Entity – 12,3%
- Individually – 87,7%

## Business area:

- Trade – 58,1%
- Services – 33,9%
- Industry – 4,0%
- Agrarian – 4,0%

# The questionnaire includes 43 questions covering the following issues:

- A general assessment of the environment for small businesses;
- Audits carried out by government agencies;
- The preliminary results of the government's anti-corruption measures in 2011;
- Conditions for competition;
- Receipt of licence;
- The registration of real estate;
- Accessibility of government loans;
- The taxation system;
- Customs procedures;
- Suspension of activities;
- Permits required for construction work;
- Awareness of legislation;
- Electronic services by government agencies;
- Ways of improving the business environment;
- Addresses for complaints;
- Preparation for membership of the World Trade Organization;
- General views of entrepreneurs.

# 1. A general assessment of the environment for small businesses

43 per cent of respondents who participated in the poll said that the existing business environment was neither good nor bad. 31 per cent of respondents said that the situation was "favourable". 13.3 per cent said "unfavourable", 7.7 per cent – "extremely favourable" and 3.6 per cent – "extremely unfavourable". 1.1 per cent or eight respondents had difficulty answering this question.

# 1. A general assessment of the environment for small businesses

Two more questions regarding the general assessment of the environment concerned entrepreneurs' ability to expand their business in recent years and their plans on expansion in the future. 38 per cent of respondents expanded their businesses considerably in recent years, while 16.6 per cent expanded them slightly. That's to say more than half the respondents (38% + 16.6% = 54.4%) managed to expand their businesses in recent years. In some way, this goes to show that the environment makes expansion possible.

40.1 per cent of respondents (23.1 per cent in one year, 9 per cent in three months and 8 per cent in six months) said that they planned to expand their businesses. 42.7 per cent noted that they did not plan to expand their businesses in the near future.



# 1. A general assessment of the environment for small businesses

Another question regarding the general assessment of the environment concerned officials' arbitrariness. While 47.9 per cent of respondents or 335 respondents said that they were totally protected from officials' arbitrariness and 26.3 per cent or 184 respondents said they were partly protected, 16.4 per cent or 115 respondents stressed that they were unprotected. 9.4 per cent or 66 respondents said they had difficulty answering the question.

# 1. A general assessment of the environment for small businesses

Another question regarding the environment was the possibility of doing business without breaking the law. The majority (46.1 per cent or 323 respondents) said it was possible to work without giving a bribe. 22 per cent or 154 respondents said that it was impossible to work without giving a bribe. 17.3 per cent or 121 respondents said "yes, but it is difficult and it is easier to work if you pay a bribe". Finally, 14.6 per cent or 102 respondents said they had difficulty answering the question.

## 2. Audits carried out by government agencies

Ministry or other state body	At least once a week	At least once a month	At least once in six months	At least once a year	They have not visited me yet
1. Tax Ministry	10	212	183	229	66
2. Ministry of Economic Development	0	12	136	209	343
3. Ministry of Emergencies	3	67	202	179	249
4. State Committee for Standards	2	9	38	66	585
5. Police	79	213	39	17	352
6. Ministry of National Security	1	1	8	32	658
7. Ministry of Ecology and Natural Resources	1	8	25	90	576
8. Local Government	2	17	34	93	554
9. Sanitary bodies	11	114	47	131	397
10.	1	7	1	0	0

## 2. Audits carried out by government agencies

On average, there are 22 audits per each of the 700 respondents. However, according to the poll (as can be seen from the table), some businesses are not visited by auditors. Taking this fact into account, we can say regarding those audited over the last year:

- Police disturb each of those audited 19.45 times a year on average;
- Sanitary-epidemiology stations – 7.15;
- Tax inspectors – 5.77;
- Employees of the Ministry of Emergencies – 3.42;
- Employees of the executive authorities – 3.21;
- Standards committee – 3.08;
- Employees of the Ministry of National Security – 2.67;
- Employees of the Ministry of Economic Development – 1.75;
- Ecology department – 0.43

## 4. Conditions for competition

The absolute majority of respondents (59 per cent or 413 respondents) regard conditions for competition as fair. Only 26.3 per cent or 184 respondents said that the conditions for competition were unfair. 14.7 per cent or 103 respondents said they had difficulty answering this question

# 5. Receipt of licences

Studies show that small businesses normally apply for licences to sell alcoholic beverages and tobacco. For example, only 44.3 per cent or 310 respondents who participated in the poll said they had to apply for a licence. Of them, only 30.6 per cent said that they faced certain difficulties while applying for a licence. 53.4 per cent of respondents who faced difficulties while applying for a licence said that the main difficulty was redtape. 26.2 per cent of respondents complained that they had to collect a great number of documents. Finally, 20.4 per cent or 21 respondents expressed their dissatisfaction that the rules were ambiguous and unclear. The absolute majority of respondents who answered the question about bribes (55.8 per cent or 53 respondents) said that it was impossible to get a licence without a bribe. 27.4 per cent or 26 respondents said it was possible, but took a lot of energy and time. Only 16.8 per cent or 16 respondents said it was possible to get a licence without a bribe.

## 6. Registration of real estate.

Only 35.7 per cent or 250 of the 700 respondents who participated in the poll said that they had registered their real estate. Only 26.8 per cent or 67 respondents said they had certain difficulties in the process of registration. 46.5 per cent or 33 respondents who had difficulties while registering their property said that the main difficulty was redtape. Another 35.2 per cent of respondents complained that they had to collect a great number of documents. 14.1 per cent expressed dissatisfaction that the rules were ambiguous and unclear. Finally, 4.2 per cent or three respondents stressed that they had to pay a bribe.

# 7. Accessibility of government loans

Although the poll involved 700 small businesses and the territory covered by the poll was vast enough, only 7.3 per cent of respondents or 51 per cent said they had applied to the National Fund to Support Entrepreneurship. 88.9 per cent or 622 respondents said they had applied to this fund, while 3.9 per cent or 27 respondents said that they were totally unaware of such a fund. 49 per cent of respondents who applied to the fund said they got a loan, while 51 per cent noted that they failed to get a loan. It is pleasing that the absolute majority of entrepreneurs who applied for loans (60.8 per cent) said that they were not asked to pay a bribe. 23.5 per cent said they were asked to pay a bribe, while 15.7 per cent refused to answer.



# 8. Taxation system

700 respondents answered this question. The respondents were given a chance to select several variants of questions. For this reason, 735 answers were received: 666 respondents selected one answer, 66 respondents two and one respondent three variants. 37 per cent or 272 answers call for a cut in taxes. 26.1 per cent suggested reducing the number of taxes. 20.7 per cent said they had difficulty answering the question. 8.2 per cent called for reshuffles while 6.7 per cent noted that everything was pointless in the current situation. The entrepreneurs' proposals include raising the threshold for simplified taxation, lowering the threshold for fines, exempting the processing of agricultural produce from taxes, eliminating bribery and so on.

# 9. Customs procedures

The absolute majority of respondents (94 per cent or 658 respondents) said they were not engaged in foreign trade operations. 1.3 per cent or nine respondents said that they were previously engaged in foreign trade operations. Only 4.7 per cent or 33 respondents said they were engaged in foreign trade operations. While 33.3 per cent or 11 respondents of who answered the question said that there were too many procedures for registering documents for foreign trade operations, 51.5 per cent or 17 respondents assessed the number of these procedures as normal. Another 15.2 per cent or five respondents had difficulty answering this question.

# 10. Suspicion of activities

During the poll, only 5.4 per cent or 38 respondents said they had to close their companies. Only 7.9 per cent or three respondents said they paid an unofficial fee while closing their company

# 11. Permits required for construction work

24 per cent or 168 small businesses who participated in the poll said they had to seek a permit to carry out construction work. 44.6 per cent or 75 respondents said it was impossible to get a permit without a bribe.

# 12. Awareness of legislation

It is pleasing that 60.3 per cent or 422 respondents said that they could obtain government agencies' decisions concerning business activity in a timely fashion. At the same time, respondents said that they often obtained information about legislation from television and Internet websites of relevant ministries, which creates grounds for boosting the propaganda campaign through these means of communication.

# 14. Ways of improving the business environment

	<i>very important</i>	<i>important</i>	<i>not important</i>
To protect private business from groundless checks	402	243	55
To improve the crediting of private business	349	230	121
To increase anti-monopoly control	291	186	223
To reduce tax payments	463	163	74
To facilitate customs procedures	327	217	156
To reduce social payments	309	220	171
Simplification of procedures for registration of property	231	240	229
Simplification of procedures for obtaining building permits	231	213	256
Simplification of procedures for obtaining licenses and various permits	316	180	204
increasing of independency of courts	449	142	109

# 14. Ways of improving the business environment

	<i>very important</i>	<i>important</i>	<i>not important</i>
To organize themselves (establishing of associations) and lobby their interests	278	225	197
To promote their problems in the media more actively	207	257	236
To refuse to pay bribes to officials	543	108	49
Improving awareness on laws	367	226	107
increase knowledge on business management	345	229	126

# 15. Addresses for complaints

According to the results of the poll, entrepreneurs do not complain to anyone if they are unfairly treated by representatives of government agencies and try to find a common language with those officials. For example, 47.3 per cent of the 700 respondents who participated in the poll said they did not complain to anyone and tried to find a common language with a relevant organization. 16.6 per cent said they complained to the courts, 12.7 per cent to the leadership of a relevant ministry (government agency), 11.7 per cent to all possible organizations, 9.7 per cent to the president, and finally, 2 per cent to the parliament.



# 16. Preparation for membership of the World Trade Organization

Azerbaijan is preparing to become a member of the World Trade Organization. The results of the poll showed that 46.3 per cent or 324 respondents were unaware of this. Another 29.4 per cent said they were aware of this, but had no idea how it could affect business activity. Only 24.3 per cent said they had detailed information about the issue.

Interestingly, 52.6 per cent or 368 respondents, which is the majority, said they did not need additional information about Azerbaijan's membership of the World Trade Organization.

# 17. General views of entrepreneurs

The respondents were also asked to assess the business environment in the country not only in relation to their own businesses, but also in general. 47.9 per cent or 335 respondents assessed the business environment in the country as good. 36.9 per cent said it was satisfactory. Another 12.3 per cent expressed their dissatisfaction and assessed the current business environment as unsatisfactory. 3 per cent said they had difficulty answering this question.