

ENTREPRENEURSHIP DEVELOPMENT FOUNDATION  
CENTER FOR SUPPORT TO DEVELOPMENT OF SMALL AND MEDIUM  
BUSINESS

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

(Preliminary analysis)

An opinion poll was conducted among 700 (seven hundred) small businesses in the Azerbaijan Republic on 28 July-1 September 2001 as part of the project "Building dialogue on economic reforms".<sup>1</sup>

The questionnaire was prepared on the basis of business environment indicators used by the World Bank and other international organizations. The views of prominent Azerbaijani experts were also used to prepare the questionnaire.

The questionnaire includes 43 questions covering the following issues:

1. A general assessment of the environment for small businesses;
2. Audits carried out by government agencies;
3. The preliminary results of the government's anti-corruption measures in 2011;
4. Conditions for competition;
5. Receipt of licences;
6. The registration of real estate;
7. Accessibility of government loans;
8. The taxation system;
9. Customs procedures;
10. Suspension of activities;
11. Permits required for construction work;
12. Awareness of legislation;
13. Electronic services by government agencies;
14. Ways of improving the business environment;
15. Addresses for complaints;
16. Preparation for membership of the World Trade Organization;
17. General views of entrepreneurs.

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<sup>1</sup> The project is supported by the Centre for Private Enterprise (USA)

Criteria for attributing businesses to the category of small businesses were determined by 18 December 1992 Resolution No 192 issued by the Cabinet of Ministers of Azerbaijan. These criteria are given in the following table:

Category of entrepreneurship	Average number of staff members	Preliminary 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

According to the decision of the Cabinet of Ministers, in order to attribute a business to the sector of small businesses, there should be two criteria within a determined limit. The annual turnover criterion for new businesses is not taken into account during the year. For physical persons engaged in business activity without establishing a legal person, the criterion for being attributed to small businesses is the annual turnover criterion.

When small businesses were selected for this poll as respondents, the criteria described in the Cabinet of Ministers decision was taken as a basis.

The breakdown of legal and physical persons (a person engaged in business activity without establishing a legal person) who participated in the poll is the following:

- Legal persons – 12.3 per cent
- Physical persons – 87.7 per cent

This breakdown is based on statistical data.<sup>2</sup> In 2009, there were only 205,028 small businesses in all spheres of the economy, and 186,765 (91.1 per cent) were physical persons engaged in individual entrepreneurship.<sup>3</sup>

The poll covered the city of Baku and eight economic districts of Azerbaijan. The breakdown of population centres where the poll was conducted and the number of respondents are reflected in the following table.

<sup>2</sup> [http://www.azstat.org/statinfo/industry/az/010\\_3.shtml#s3](http://www.azstat.org/statinfo/industry/az/010_3.shtml#s3)

<sup>3</sup> Ibid

№	Economic district	Name of population centre	Number of respondents
1.		Baku	280
2.	Absheron		45
		Sumgayit	45
3.	Ganja-Gazax		100
		Ganja	60
		Shamkir	40
4.	Sheki-Zagatala		45
		Sheki	25
		Zagatala	20
5.	Lankaran		45
		Lankaran	25
		Masalli	20
6.	Guba-Khachmaz		35
		Guba	20
		Khachmaz	15
7.	Aran		120
		Kurdamir	20
		Goychay	20
		Salyan	20
		Yevlakh	20
		Shirvan	20
		Barda	20
8.	Yuxari Garabag		10
		Ter-Ter	10
9.	Daglıg Shirvan		20
		Agsu	20
	Total		700

This breakdown is based on statistical data concerning the location of small businesses in the country's territory.<sup>4</sup> The small differences are explained by the financial constraints of the project.

The following is the breakdown of businesses in various spheres of the economy:

- Trade – 58.1 per cent
- Services – 33.9 per cent
- Production – 4 per cent
- Agriculture – 4 per cent

This breakdown is also based on statistical data. For example, the number of those engaged in wholesale and retail businesses was 64.2 per cent in 2009.<sup>5</sup> In 2009, small

<sup>4</sup> [http://www.azstat.org/statinfo/industry/az/010\\_3.shtml#s3](http://www.azstat.org/statinfo/industry/az/010_3.shtml#s3)

businesses comprised only 2.3 per cent in the industrial sector. Those engaged in agriculture, forestry and fishing comprised only 1.9 per cent.

Although it was announced that anonymity would be observed during the poll, respondents were somewhat apprehensive about the poll and subjectivity was sensed due to this fear.

In general, the results acquired during the poll allow us to say that positive changes have taken place in recent years.

Highly-qualified specialists participated in the conduct of the poll, collection of necessary information, the processing of the results of the poll with a special statistical programme (SPSS) and in the process of analyzing the results.

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.

The answers to the same question in a poll that was conducted three years ago in 2008 were as follows: 4.5 per cent of respondents assessed the situation as extremely favourable; 35 per cent - favourable; 37.2 per cent – neither good nor bad; 19.8 per cent - unfavourable; 3.1 per cent – extremely unfavourable. Others refused to answer the question.

While comparing the results of 2011 with the results of 2008, we see the picture in the following diagram.

	2008	2011
Extremely favourable	4.5%	7.7%
Favourable	35.0%	31.0%
Neither good nor bad	37.2%	43.0%
Unfavourable	19.8%	13.3%
Extremely unfavourable	3.1%	3.6%
Refuse to answer	0.4%	1.1%

Thus, if the number of those who assessed it as favourable was 39.5 per cent in 2008, in 2011 this indicator was 38.8 per cent, that's to say it slightly dropped. The number of those who assessed the situation as unfavourable also slightly dropped. These small differences show that in terms of quality, the situation remained the same.

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

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<sup>5</sup> Ibid

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.

50.6 per cent of those who participated in the 2008 poll stated that they had no intention of expanding their businesses. 42 per cent expressed their desire to expand their businesses (4.7 per cent in the next three months, 14.4 per cent in the next six months and 22.9 per cent in one year). 7.4 per cent of respondents had difficulty answering the question.

Thus, entrepreneurs' optimism appears to have slightly increased in the last three years. The number of those who plan to expand their businesses has increased by 8 per cent.

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.

Although 40.1 per cent of the respondents in the 2008 poll said they were totally protected from officials' arbitrariness and 22.4 per cent said they were partly protected, 35.7 per cent said they were totally unprotected.

Thus, according to the results of the 2011 poll, small businesses said they felt better protected from officials' arbitrariness than in 2008.

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.

Only 37.3 per cent of the 1,000 entrepreneurs who participated in the 2008 poll said that it was possible in Azerbaijan. 515 businessmen (51.5 per cent) denied this. Another 112 people (11.2 per cent) had difficulty answering the question.

*2. Audits carried out by government agencies.* The poll investigated the frequency of audits, which government agencies audit businesses more often and the causes of the audits. The results are reflected in the following table.

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

On the basis of the information in this table (taking into account the number of weeks, months and half-years), we can calculate 700 respondents expect 16,128 audits in their offices: 35.6 per cent – at least once a week, 49.1 per cent – at least once a month, 8.8 per cent – at least once in six months and 6.5 per cent – at least once a year. Of the 16,238 audits, 6,770 audits were carried out by police, 3,660 by tax inspectors, 2,167 by sanitary-epidemiological stations, 1,543 by employees of the Ministry of Emergencies, 625 by employees of the Ministry of Economic Development, 469 by employees of the executive authorities, 354 by employees of the standards committee, 288 by the ecology department, 112 by employees of the Ministry of National Security and 138 by employees of other 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.

As far as audits are concerned, it is possible that respondents are slightly exaggerating the situation. Along with that, the government also notes that audits are a serious obstacle to the development of entrepreneurship, and according to a presidential

decree<sup>6</sup>, a special registration system is being used to regulate audits. The Fund to Assist the Development of Entrepreneurship and Market Economy has already started monitoring this system and will announce the preliminary results by the end of the year.

The answers were as follows in the 2008 poll:

- |                                 |       |
|---------------------------------|-------|
| - At least one a week -         | 4.8%  |
| - At least once a month -       | 39.0% |
| - At least once in six months - | 19.3% |
| - At least once a year -        | 9.2%  |
| - No audit so far -             | 21.4% |
| - Refuse to answer -            | 6.3%  |

As far as the reasons for the audits are concerned, 55.1 per cent of respondents noted that officials visit businesses precisely for legal audits

23 per cent said these visits are aimed at demanding monthly or annual payments. This shows that negative cases are still common in relations between officials and entrepreneurs. If we ignore the fact that 16 per cent had difficulty answering this question, other answers comprise 5.5 per cent.

*3. The preliminary results of the government's anti-corruption measures in 2011.* The results of the poll show that the steps taken by the country's government in early 2011 to reduce corruption have started bearing fruit. For example, 45.9 per cent or 321 respondents noted that the situation had partly improved, while 21.6 per cent or 151 respondents said that the situation had improved considerably. Only 25.3 per cent or 177 respondents stressed that no changes had happened. 7.3 per cent or 51 respondents who participated in the poll said they had difficulty answering this question.

*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.

In the 2008 poll, 63.5 per cent of respondents described conditions for competition as fair and 29.2 per cent as unfair. 7.3 per cent of respondents had difficulty assessing the situation surrounding competition.

Thus, compared to 2008, we can note that conditions for competition slightly worsened in 2011.

*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

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<sup>6</sup> <http://president.az/articles/1591>

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.

In the 2008 poll: Only 476 (47.6 per cent) of the 1,000 respondents had to apply for a licence. These 476 entrepreneurs assess the existing licensing documents as follows. 401 respondents (40.1 per cent or 84.2 per cent of those who applied for licences) regard them as clear and accurate enough. Only 44 (4.4 per cent) of entrepreneurs do not regard them as clear enough and describe them as sometimes ambiguous. 31 businessmen (3.1 per cent) had difficulty answering this question.

*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.

In the 2008 poll: Only 280 (28 per cent) of the 1,000 respondents had to register their real estate. 201 of these 280 respondents regard the existing legal documents for the registration of real estate as clear and accurate enough. Only 60 entrepreneurs do not regard them as clear enough and describe them as ambiguous sometimes. 19 businessmen had difficulty answering this question.

*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.

In the 2008 poll: Only 9 per cent of the 1,000 respondents applied to the National Fund to Support Entrepreneurship for loans. This is partly explained by the lack of information about this fund. For example, 14 per cent of respondents had never heard anything about this state institution to support entrepreneurship. 47 of the 90 businessmen who applied to the NFSE regard relevant legal documents as clear and accurate enough. 14 of the 56 people (of the 90 businessmen who applied to the NFSE for a loan) said that they had to pay unofficial fees while getting a loan from the NFSE,



while 31 said that they did not have to pay anything. Others refused to answer this question.

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.

Asked about the use of the electronic system for paying taxes, 31 per cent of respondents said that they had benefited from the electronic payment system. 3.1 per cent said they were using it and were very pleased with it. Another 18.4 per cent said they were preparing to use these opportunity. However, 47.4 per cent stressed that they did not need to use this payment system. The number of those who do not want to use the electronic tax payment system is so high because computerization is progressing slowly in regions. However, it can be noted that the number of respondents who selected this answer is also high in major cities.

Asked why they are not using the electronic system, 50.1 per cent of respondents said it was easier for them to pay taxes in the traditional way. 41.9 per cent said "it is very difficult for me and I have no experience in using the electronic system". Another 5.2 per cent said they did not trust the electronic system. Finally, 2.8 per cent cited different other reasons.

In the 2008 poll: Asked what should be changed in the tax system, 44 per cent of the 1,000 respondents said it was necessary to reduce taxes. 296 entrepreneurs (29.5 per cent) said it was necessary to reduce the number of taxes.

34.4 per cent of the 1,000 respondents are using the electronic payment system and 22.5 per cent are preparing to do so. 398 (39.8 per cent) said they did not need to use the electronic system. Of them, 104 do not trust the electronic system, 159 have no experience in using the electronic system and regard it as difficult. 327 entrepreneurs (32.7 per cent) find it easier to pay taxes in the traditional way. Another 27 (2.7 per cent) have other reasons to use the electronic system.

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.

In the 2008 poll: It became clear that only 219 (21.9 per cent) of the 1,000 respondents were engaged in foreign trade operations. Of them, 99 said it was very difficult to register documents for foreign trade relations. 106 businessmen did not confirm this.

*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.

In the 2008 poll: Only 46 (4.6 per cent) had to close their companies over the last two years. Slightly more than half of them regard registration of documents as difficult. Asked about unofficial fees, 13 of the 46 entrepreneurs confirmed that they were forced to pay unofficial fees.

*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.

*13. Electronic services by government agencies.* More than half the respondents (50.3 per cent or 352 respondents) said they were aware of the presidential decree dated 23 May 2011. Another 29.1 per cent or 204 respondents said they were looking forward to the decree being enforced. 17.7 per cent or 124 respondents stressed that they were unaware of this decree. Finally, 2.9 per cent or 20 respondents had difficulty answering this question.

*14. Ways of improving the business environment.* The respondents were asked in which spheres it is necessary to boost efforts to speed up the development of private businesses in Azerbaijan. All respondents answered this question. According to the conditions of the questions, the respondents assesses all variants of answers.

	<i>very important</i>	<i>important</i>	<i>not important</i>
To protect private business from groundless checks	442	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

As can be seen from the table, in order to improve the environment for small businesses, there are three most important areas: to reduce the number of taxes; to increase the fairness of the courts and to protect private businesses from groundless audits and interference.

Another question was what entrepreneurs themselves need to do to improve 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

As can be seen from the table, it is very important that entrepreneurs refuse to pay bribes to corrupt officials.

In the 2008 poll: Respondents recommended the following:

- To reduce the number of taxes – 643 respondents (64.3%);
- To improve the allocation of loans to private businesses - 531 respondents (53.1%);
- To free private businesses from groundless audits – 509 respondents (50.9%);
- To strengthen anti-monopoly control – 396 respondents (39.6%);

- To free private businesses from extortion of bribes by officials and law-enforcement agencies - 376 respondents (37.6%);
- To reduce social payments – 315 respondents (31.5%);
- To simplify customs procedures – 272 respondents (27.2%).

Asked what businessmen themselves can do to improve the business environment in the country, respondents mostly answered "to refuse to pay bribes to corrupt officials". 443 businessmen (44.3 per cent) selected this option, while 384 respondents (38.4 per cent) supported the idea of setting up an association and lobbying their interests. 255 entrepreneurs (25.5 per cent) said it was important to work more actively with the mass media. Some of the respondents said that everything was pointless.

*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.

In the 2008 poll: 16.9 per cent of respondents assesses the environment as good, 56.7 per cent – as satisfactory, 24.4 per cent - unsatisfactory. Two per cent refused to answer.

Thus, the business environment in 2011 is regarded as more favourable than in 2008.