

# Azerbaijan

In BEEPS V, the top three business environment obstacles identified by Azerbaijani firms were competitors' practices in the informal sector; access to finance; and access to land (Chart 1). Access to finance was the main constraint for young firms and firms in the service sector. In BEEPS IV, corruption replaced access to finance as one of the top obstacles.

## Very limited access to finance, but some success in tackling corruption

The share of firms that compete against unregistered or informal firms decreased significantly from 40.7% to 18.4%, possibly due to measures introduced in 2009 aimed at making it easier to start a business.

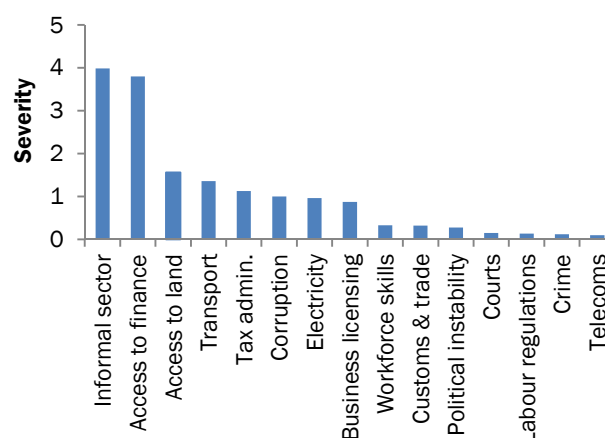
Nonetheless, **competitors' practices in the informal sector** emerged as the top obstacle in BEEPS V.

**Access to finance** was one of the biggest problems in Azerbaijan. Very few Azerbaijani firms relied on loans to finance their operational activities. Only 14.6% of firms had a loan or a line of credit, down from 19.9% in BEEPS IV, representing the lowest share among BEEPS countries (Chart 2). Working capital was predominantly financed through internal funds (92.8%, highest among BEEPS countries), while bank financing accounted for only 4.7%. Of all firms surveyed, 18.6% reported that their owner used outstanding personal loans to finance their business activities, which is above the eastern Europe and the Caucasus (EEC) average of 14.1%. Almost 77% of firms that needed a loan were either discouraged from applying for a loan or rejected when they did, which is above the EEC average of 57.4%.

**Access to land** remained in third place, despite a significant reduction in the waiting time for a construction-related permit (from 46.5 to 13.7 days) and a sharp drop in the share of firms reporting that an informal payment was expected or requested in relation to that permit – from 54.7% in BEEPS IV to 8.2% in BEEPS V. However, it is proximity to the capital and land quality that matter. The demolition of old buildings in Baku to clear paths for luxury real estate projects may have reduced the availability of land and driven up prices for many firms.

Azerbaijan turned out to be quite successful in tackling **corruption**. The government was recently praised by the Organisation for Economic Co-operation and Development for its anti-corruption measures, including the adoption of new legislation and the success of the Prosecutor General's Anti-Corruption Department. This is also reflected in BEEPS, as fewer firms reported that an informal payment was expected or requested when meeting with tax officials and when applying for electrical connections and construction-related permits.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Firms with a loan or a credit line

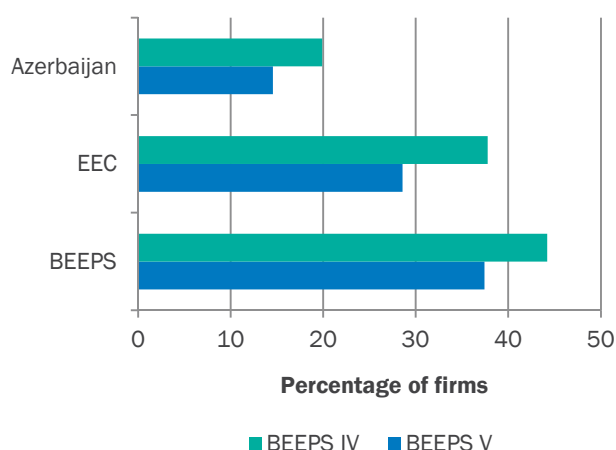


Chart 3. Sources of financing of working capital

