

Mon, September 16, 2019

Economic reforms in Azerbaijan: new platform for public-private dialogue

Economic development and new strategic era

After gaining independence, successful development works have been carried out in all spheres of economy in Azerbaijan and development strategy was implemented. Ensuring macroeconomic stability in the country, foundational reforms and completion of transition to a market economy, and creation of a financial and resource base to ensure the country's medium and long-term development through the implementation of an effective Oil Strategy have been key elements of the development strategy. As a result, in just a decade, Azerbaijan has become one of 55 upper-middle-income countries. Poverty has also declined tenfold to a low one-digit level, social welfare of the population has significantly improved, and a transition to new quality life standards have taken place. Moreover, GDP per capita increased nine fold compared to 1995 (was USD 4780 in 2018) and obtaining extensive financial resources allowed the country to fully modernize its socio-economic infrastructure. Thus, the convergence^[1] of the Azerbaijan's national economy was ensured and the objectives of the new economic development and modernization strategy were fully realized.

This new cycle, entered in global commodity markets in 2015, necessitated a new model of economic growth and development in the country to constitute the basis for sustainable, high and inclusive growth. For this reason, taking into account the expectations of the leading international financial institutions in the global economy and the oil market, the nature of the economic dynamics in the country, the Strategic Roadmap for the Perspectives of the National Economy of the Republic of Azerbaijan was adopted in 2016^[2]. The main strategic goal of the Strategic Roadmap was to restore the growth line based on diversification and new driving forces in the medium-term and increase competitiveness by greater integration into the global economy.

Thus, transition to a new economic growth model has created a need to establish a reform agenda for adequate responses to strategic challenges in the medium and long-term. Planned reforms provide a fertile ground for further improvement of the business climate and transition to productivity-based growth in the long-term by forming more quality, efficient and inclusive institutions. The new model is based on competitive export and sustainable and inclusive economic growth. Globally, the model is establishing a creative environment for the realization of all development potentials in the national economy.

Macroeconomic stability policies have played an essential role in maintaining and strengthening a more favorable business and investment climate. Government measures and policies aimed at stabilizing political and economic environment for strong businesses have laid the groundwork for macroeconomic stability in the country. It is no coincidence that inflation has lowered from 12.9% in 2017 to 2.3% in 2018, stability of balance of payments and dynamics of reducing the country's external debt, as well as the formation^[3] of strategic currency reserves equal to the country's gross domestic product was achieved.

It should be noted that quality indicators of the business environment of advanced countries suggest that richer and higher-income countries have a more stable and dynamically developing business climate. Countries taking steps to improve business environment have made significant progress in attracting foreign direct investment (FDI) and improving their economic situations.

Taking into consideration the aforementioned, special attention has been paid in Azerbaijan to the formation of attractive business and investment climate consistent with best international practices and further efforts were made toward increasing attractiveness, improvement of state regulation in this regard, and advancing the regulation and legal framework. Enormous political support exists for reforms in this direction. As an indication of strong will and continuous support of the President of the Republic of Azerbaijan Mr. Ilham Aliyev has made to the reforms, 45 legal documents were signed in 2018, comprising of 20 laws and 25 decrees and orders. At the same time, in 2017 and in the first 4 months of 2018, about 30 normative legal acts came into force and more than 70 reform measures have been implemented. Economic reforms covered all areas of the business sector, especially start-up businesses, dealing with construction permits, getting electricity, getting credit, paying taxes, registering property, and navigating foreign trade.

Comprehensive measures have been implemented by the State in the field of development of state-business relations, elimination of illegal and artificial barriers to entrepreneurial activity, expansion of competitiveness and export opportunities, formation of state support and incentive mechanisms for entrepreneurs, and provision of electronic state services in accordance with international standards in order to achieve long-term goals in the country. As a result, the country's international ratings and the business environment have improved significantly. According to the World Bank's Doing Business-2019 report, Azerbaijan's position has improved by 32 points over the past two years and is ranked 25th among 190 countries. At the same time, the country was included in the list of 10 top reformers. According to Doing Business reform level, Azerbaijan was the first CIS country to surpass all BRICS countries, 3 out of every 4 G20 countries^[4].

Reform platform for business environment and international ranking

The Commission on Business Environment and International Ratings and Secretariat of the Commission, established by the decree of the President of the Republic of Azerbaijan in 2016, plays an important role to maintain sustainability of the achievements made in recent years, as well as to strengthen competitiveness and improve the position of Azerbaijan in international ratings^[5]. The purpose of the Commission is to improve the business environment based on principles of competition, increase investment attractiveness of the country, enhance legislative, infrastructure and administrative measures, and take necessary steps in this direction to boost further Azerbaijan's position at international rankings.

The main tasks of the Commission are to develop programs and projects to address issues that will improve business environment and Azerbaijan's position at international rankings, attract

local and foreign experts for their development and implementation, and coordinate the activities of government bodies and agencies in this field.

The Commission is headed by the First Deputy Prime Minister of the Republic of Azerbaijan. At the same time, heads of leading economic entities and the advanced business environment are represented in the Commission. When establishing the Commission, 18 working groups were established to carry out more functional tasks. These working groups cover all areas, including starting business, healthcare, human capital, physical infrastructure, and other important areas for the country. The Commission has more than 250 staff.

The current model of economic reform management is based on best international practices and country specifics, incorporating irreplaceable cornerstones of economic development such as efficiency and transparency. Thus, the new strategic management framework provides a high level of political ownership and broad participation of society in the formation of sustainable development strategies. A comprehensive and in-depth analysis of the current situation and prospects is conducted in the management process and proper integration of social and economic targets is achieved through mutually coordinated policies. Moreover, implementation of reforms is evaluated not based on the work done but on the basis of measured outcomes and on the principles of steady development of strategic management skills of the state and society.

The presence of such a management and regulatory feature in the business environment increases the efficiency of the factors creating economic growth. Recent growth of the country's economy, especially of the non-oil sector by 3%^[6], as well as growing dynamics of non-oil sector exports (an increase^[7] of 17% over 7 months of 2019), once again proves this. The legal framework of business environment is aligned with international standards within the activity of the Commission, as well as transparency and stability of laws and regulatory acts, government decisions are ensured. The Commission provides dialogue of state bodies with the business sector, which is useful for economic development and a healthy society. Existing reform management practices, in general, show that the presence of such a management function in the country significantly contributes to the well-being of the community and acts to provide mutual benefit. Good management can be considered as an important background for the current markets operating regularly and, therefore, for sustainability of an attractive investment climate.

In addition, the Commission carries out examination of the existing legislative framework and administration. It also submits proposals and action plan drafts to the President of the Republic of Azerbaijan for necessary measures to enhance the country's investment attractiveness and further improve Azerbaijan's position in international rankings. The Commission may involve local and foreign experts, specialists, international organizations, and scientific institutions to implement proposed measures. In addition, working groups can be created in different areas, including representatives of various government agencies and stakeholders. Azerbaijan's experience suggests that the existing approach for managing economic reforms is of particular importance in the development of public-private relations and the non-oil sector in the country, as well as the formation of a business and investment climate consistent with best international practice.

As a result of the Commission's work, effective coordination and efficient organization of business environment reforms in the country are ensured. Thus, the decisions made are more inclusive and flexible. In general, the business and investment climate in Azerbaijan is more attractive to foreign and local investors and entrepreneurs.

Platform of state-business dialogue

The Commission on Business Environment and International Rankings functions as a platform for state-business dialogue. An e-portal azranking.az was set up to provide communication between members of the state-business partnership dialogue. Through the portal, transmission of information to the public, as well as to the media regarding the issues discussed and decisions made at the Commission's meetings is provided in a transparent and accessible manner. The Portal, available in Azerbaijani and English languages, contains general information about the Commission, legislative base, activities, ratings, comparison, online application and contact sections[8].

Unlike the experience of most countries, the azranking.az portal in Azerbaijan has been an innovation. Thus, the Portal provides institutionalization and digitization about the process of development, coordination, and implementation of business reforms. It should be noted that business representatives, international and local experts are all involved in the process of developing and communicating business reforms as permanent and equal members within the state-business dialogue. The areas to be reformed are determined via comparative analysis. The Portal has platforms such as the Information Panel (Commission activities, international rankings, etc.), Innovative Comparison System (Benchmarking system), State-Business Dialogue Platform, Management and Coordination Panel (Electronic Clerical System of the Commission).

The Portal provides conditions such as management and coordination, which play an important role in formation of a dynamically developing business and investment climate. These conditions are defined by factors such as good governance, transparency, and economic transparency that are consistent with a healthy and stable political, economic, regulatory, and legal environment. The Portal includes a set of minimum regulatory norms that address the issues of competition, privatization, taxation, customs regime, labor resources, education, financial system, and physical infrastructure[9]. It mainly focuses on legislative and regulatory issues that ensure attracting foreign investment and revitalizing entrepreneurial activity. It considers the issues such as property rights, corporate governance, transfer of foreign investors' profits to their home countries, and insolvency.

The Portal includes a policy regulation framework regarding with funding, market accessibility opportunities, technology, knowledge, and entrepreneurial support services that are directly related to the development of small and medium-sized businesses. Finally, the Portal focuses on the importance of sustainable development, and we can note that social and legislative aspects are crucial for achieving long-term balanced development of the pursued policy.

Analyses show that the azranking.az platform as a whole makes a significant contribution to the development and coordination of business reforms in the country[10]. Close acquaintance of the development partners with the reforms implemented in the country serves as a background for strengthening coordination of technical support, capacity building, financing, and other issues. Thus, the effectiveness of cooperation between international organizations and Azerbaijan allows for achieving improved results. It is no coincidence that in May 2019, the Government of Azerbaijan and the International Finance Corporation (IFC) signed three cooperation agreements and three memorandums of understanding on the implementation of the Azerbaijan Investment Climate and Agribusiness Competitiveness Project[11]. At the same time, cooperation between government agencies and development partners is also important to apply the best international practices in the design, implementation, monitoring, evaluation, and communication of reforms. The azranking.az portal, created by the Commission on Business Environment and International Rankings, plays an important role in further intensifying the dialogue between the state and international organizations.

All of this suggests that azranking.az is a unique platform in terms of forming a strategic framework for managing economic reforms. The azranking.az contains all the information on international ratings, methodology, evaluation, and comparative analysis system of all ranked countries with Azerbaijan for year, and other features. The Portal has created an innovative benchmarking tool of the country's business climate for potential foreign investors[12]. This tool provides data comparing 190 countries on 10 indicators, which is important in terms of identifying potential investment areas. In addition, Portal administration is carried out electronically. Coordination of activities of the Commission's working groups, organization of meetings and gatherings, exchange of internal information, and relevant documents are managed through this internet platform. This is to say that the Portal is a unique source of information for policy makers and business circle.

Thus, the main mission of the socio-economic policy in the country was to ensure the well-being of society in a sustainable and reliable manner. The transition to a new economic model and the continuous high growth of the country's economy are based on the creation of new growth drivers, deep and comprehensive structural and institutional reforms. Effective implementation of the socio-economic reforms is ensured by the use of modern strategic management mechanisms. The new management framework serves investors and policy-makers to identify areas of reform in the country. In this context, the formation of public-private dialogue and its implementation on the modern digital platform further increases the mutual confidence in the reforms in public-private partnerships. In addition, the existing reforms allow turning public-private partnerships into a cornerstone principle of future economic development.

Shaig Adigozalov, PhD

Head of the Working Group,

Commission on Business Environment and International Rankings of the Republic of Azerbaijan.

<https://www.ia-forum.org/Content/ViewInternalDocument.cfm?ContentID=8931>

[1] Reducing the“lacking gap” with the world’s leading economies

[2] <https://president.az/articles/21993>

[3] <https://www.cbar.az/page-41/macroeconomic-indicators>

[4] https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

[5] <https://president.az/articles/20592/print>

[6] <https://www.stat.gov.az/news/macroeconomy.php?page=1>

[7] https://customs.gov.az/modules/pdf/pdffolder/84/FILE_AC4FD8-02016A-29A07D-BD660D-68B66A-BE449C.pdf

[8] <https://azranking.az/az>

[9] <https://azranking.az/az/laws>

[10] <https://azranking.az/az/ratings/aparilan-islaxatlar-49>

[11] <https://azranking.az/az/article/biznes-muhiti-ve-beynelxalq-reytingler-uzre-komissiya-ile-ifc-arasinda-emekdasliq-memorandumu-ve-anlasma-sazisleri-imzalandi>

[12] <https://azranking.az/benchmarking>