

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

Better Research, Better Policy, Better Reform



CESD Research Group

Azerbaijan Economy Since Independence; Independent View

© Center for Economic and Social Development (CESD)

Shirin Mirzeyev 76 "a"/33,
Baku, Az1002,
AZERBAIJAN

Phone; (99412) 5970691

(99412) 4975684

Fax (99412) 4975684

Email; cesd.az@gmail.com

info@cesd.az

URL; www.cesd.az

March, 2012

Azerbaijan Economy Since Independence; Independent View

For the past 20 years of independence the Republic of Azerbaijan has been through economic crisis, stability, and rapid development. All these steps taken toward development have been remembered ever since for both their uniqueness as well as their conformity to economic realities: firstly, the recession (1992-1995) recovery (1996-1997), boom (1998-2008) and final slump (starting 2009)¹. Thus, when evaluating the past 20 years of the economy of the Republic of Azerbaijan, it is of great importance to pay close attention to its growth and prosperity and draw conclusions about the developmental process itself. However, the overall picture is that it is hydrocarbon resources and its gradually increasing income that play a profound role in helping Azerbaijan achieve economic stability. In fact, these resources are not infinite, and annual decrease of revenues from these resources puts the future of Azerbaijan's economy at risk. And this one-sided development of the country's economy relates to dependence on the oil industry. Development is good, but its sustainability and stability is important, too. From this point of view, except for the first years of independence, the Azerbaijani economy has shown positive trends from 1996 until the present. Economic growth rates have increased, the level of unemployment and inflation have decreased, and large amounts of foreign investments have flowed into the country, which have all contributed to the development of the economy. In recent years, however, one-sided development of the economy has begun to show its negative symptoms. As a result, the country's economic growth rate in 2011, for the first time, decreased

¹ "Azerbaijan's economic model and its development since independence", Gubad Ibadoglu, 2010

to its lowest level since 1996. The main cause of this was the decrease in the oil sector by 9.3%. In this respect, even the 9.4% growth in the non-oil sector could not counteract this negative impact on economic growth which has had a negative impact on the industry and a 5% decrease has already been noticed in this field.

According to State Statistics Committee² in 2011 77.9% of industry was realized in mining, 17.0% - in processing, 4.5% - in production, distribution and supply of electricity, gas and steam, 0.6% - in water supply, treatment and processing of waste. As seen from the figures mining constitutes main part the whole industry and at the same time more than 50% of processing industry consists of oil processing.

All this proves once again that oil is still the dominant factor in the economy of Azerbaijan and that in spite of the continuing efforts of the government, dependence on oil hasn't been reduced in the last few years. However, it should be noted that the government is aware of the negative consequences of over-dependence on the oil sector, and thus, the development of non-oil sector has recently become one of the highest priorities. It is being discussed in almost every government meeting. From that point of view, Azerbaijan's economy since independence, its overall success, and difficulties faced along the way have been of great interest. . This article is devoted to analysis of the economic development of the Republic of Azerbaijan for the last 20 years, including the main macroeconomic indicators and the leading role of the oil sector.

Deep problems of the county's economy for the last 20 years

After announcing its independence, Azerbaijan's economy has faced a number of challenges. The most influential factors hampering economic growth were the loss of the previous economic

² http://www.azstat.org/press_reliz.php?id=1153

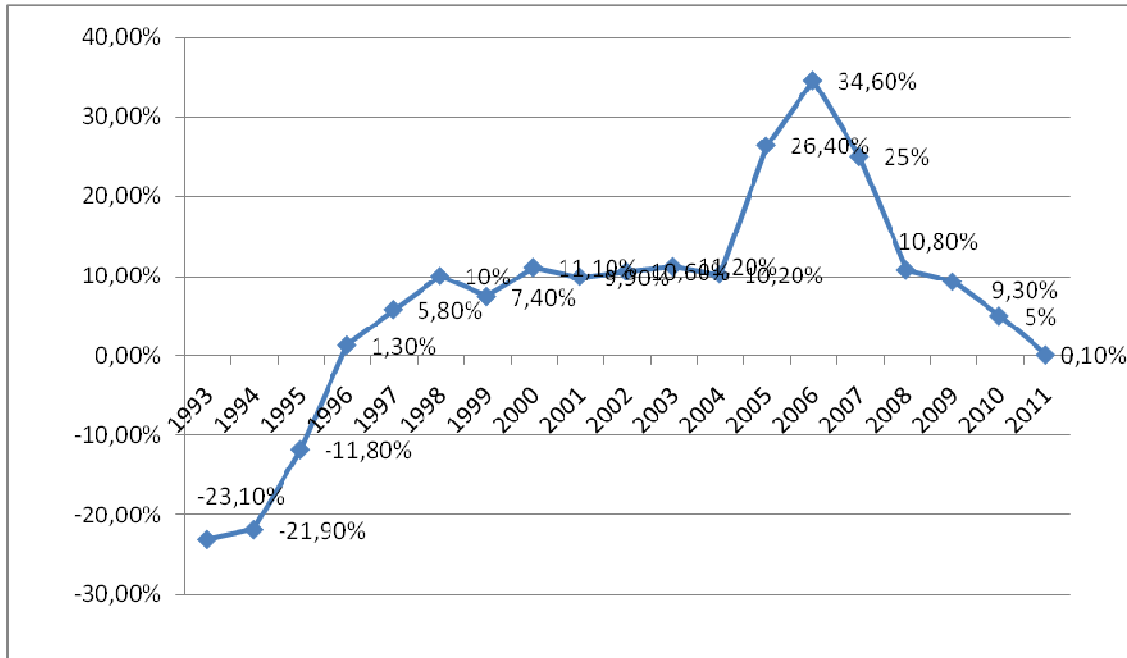
Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

relations with other former Soviet Union countries, structural problems with the Azerbaijani economy, and lack of financial resources. In addition, the Nagorno-Karabakh war with Armenia and subsequent occupation in the initial years of independence shattered Azerbaijan's economy. The loss of 20% of Azerbaijan's territory and 1 million citizens becoming refugees severely affected a number of economic sectors, including the agricultural, lighting and power, and food industries. Moreover, the then-existing political crisis worsened the situation. Back then, attracting foreign investors and moving toward a new economic system were almost impossible. Foreign investors were even hesitant to invest in the oil industry. On the other hand, the state didn't have enough resources to invest either. At that time, overcoming the regress of the economy seemed to be an impossible task. During this period, production rates had seriously declined and, at the same time, inflation and unemployment levels were high. As a result of all of these negative factors, Azerbaijan was to remain in the crisis until 1995. However, in 1994, development of Azerbaijan's sector of the Caspian Sea began when Azeri, Chirag and deep-water Gunashli (ACG)-International Contract No. 1-was signed by Azerbaijan and the participating international companies on September 20, 1994, ratified in Parliament on December 2, and went into effect on December 12¹. Because of its potential reserves estimated at 6 billion barrels (950,000,000 m³) of oil, this project is often referred to as the "Contract of the Century". The projected investment for this project is \$13 billion. A few months later in 1995, a consortium known as the Azerbaijan International Operating Company (AIOC) was organized. Originally, AIOC was composed of eleven major international companies: BP (UK), Amoco (U.S.), LUKoil (Russia), Pennzoil, (now Devon of U.S.), UNOCAL (U.S.), Statoil (Norway), McDermott (U.S.), Ramco (Scotland), TPAO (Turkey), Delta Nimir (now Amerada Hess of U.S.), and SOCAR (Azerbaijan). Azerbaijan's share of the oil produced is 80 percent; the

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

remaining 20 percent is shared among the other investors. Right after the "Contract of the Century" and AIOC was established, it started to work on the approved program along with SOCAR. The result of this cooperation was successful and paved the way for about 30 agreements with 41 oil companies from 19 countries around the world. "The Contract of the Century" was important both for the volume of hydrocarbon resources and for the volume of investments from all around the world making it one of the largest contracts in the history of mankind. According to the signed agreements, investment totalled 64 billion U.S. dollars, of which 57.6 billion USD was spent on exploration and development of offshore deposits. After the signing of the "Contract of the Century," which was the birth of a new era in Azerbaijan's oil industry, a dynamic pace of prosperity began for the whole economy in general. According to the contract, 100 million USD and 600 million USD were invested in the Azerbaijani economy in 1995 and 1996, respectively. By successfully executing "The Contract of the Century," Azerbaijan managed to involve a number of EU countries and the US. Even with the Baku-Supsa and Baku-Novorossiysk pipelines, Azerbaijan was not able to meet growing demand for the export of its oil, so the Baku-Tbilisi-Ceyhan oil pipeline was built. Billions of dollars from foreign investors were invested in Azerbaijan to realize the project. Substantial investments by foreign oil companies in the oil sector revived the economy in a short time. As a result, since 1996, Azerbaijan's economy has shown high growth rates until recent years. According to official data from the State Statistics Committee, the highest growth rate recorded was in 2006, when real GDP growth was 34.5%.

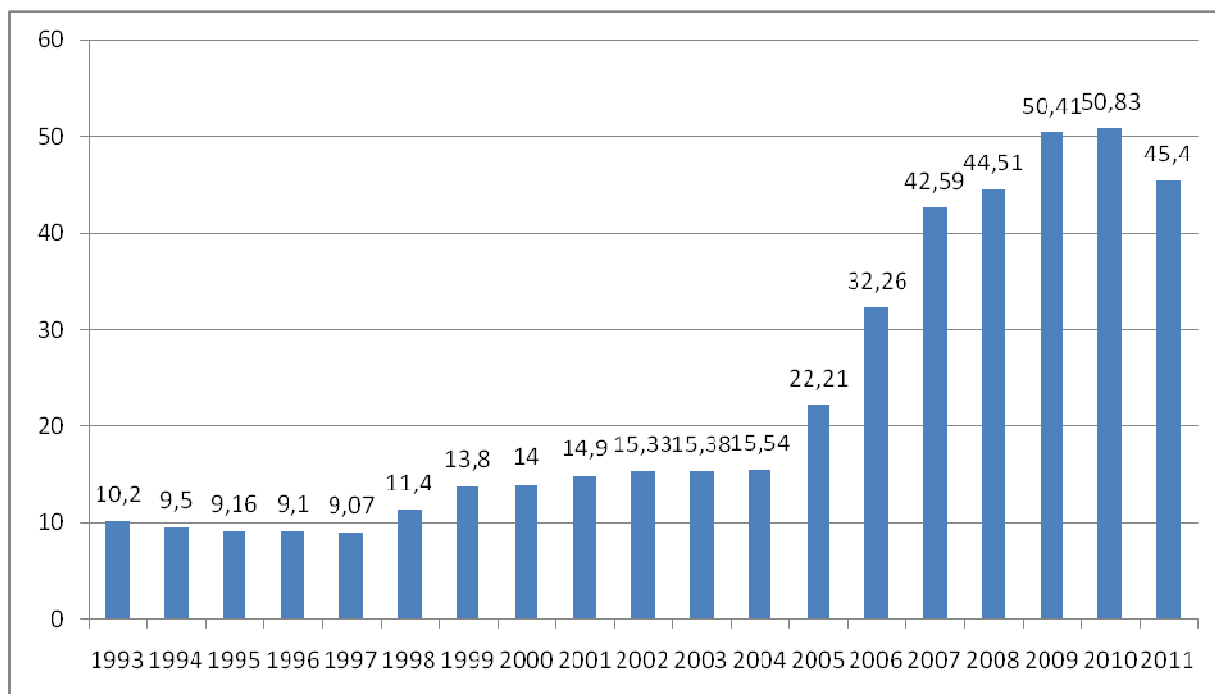
Figure 1 1993-2011 growth rates in the economy of Azerbaijan³



As shown in Figure 1, the highest growth rate of the economy of Azerbaijan was in 2006, which is attributed to the increase in oil exploration and production. According to the State Statistics Committee, 45% of the increase was due to oil production totaling 32.2million tons, which was 10 million tons more than that of the previous year.

³ State Statistics Committee, 2011 http://www.azstat.org/statinfo/system_nat_accounts/en/index.shtml

Figure 2 1993-2011-in oil production (million tons)⁴



As Figure 2 shows, in 2006, the sudden increase of 10 million tons of oil production contributed to the 34.5% growth in GDP. However, in spite of the growing level of oil production in the following years, the GDP growth rate kept decreasing. The main reason for this decrease was the "low base effect" concept, in which every next year GDP increased by a larger base and thus was disproportionally reflected in real GDP growth. In other words, GDP has been growing on a higher base each year. As a result, in spite of the highest growth of oil production recorded in 2010, GDP real growth was merely 5%. Thus, in 2011 the decrease of 5 million tons in oil extraction had a substantial negative impact on the GDP growth rate. For the first time since 1996, the real growth rate declined to 0.1%. At the moment, the government, non-governmental organizations, as well as the general opinion of independent experts is that certain measures

⁴ State Statistics Committee, 2011 http://www.azstat.org/statinfo/balance_fuel/en/index.shtml

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

should be taken in order to reduce dependence on the oil industry as an economic driver and to improve diversification of the economy of Azerbaijan. If we take a close look at the official data of the State Statistics Committee, it is clear that oil sector constitutes up to 94% of total exports, more than 60% of the local industry, and 60% of the state budget revenues. It should also be noted that 60% of the funds transferred directly to the state budget are received by the State Oil Fund. Moreover, if we include the amount of funds received through SOCAR and other oil-based sources, then we can deduce that the oil sector actually constitutes 70% of budget revenues. There is no alternative that can replace the oil sector. Indeed, leading industries in the non-oil sector are actually indirectly funded by the oil sector, including construction, tourism, and finance. . Most of the aforementioned fields are not able to contribute revenue to the state and some even incur losses. According to the International Monetary Fund's report on Azerbaijan⁵ issued on January 18 (for 2012)² , one of the main concerns is the dominant role of public expenditure on non-oil growth. In order to achieve sustainable economic development, the existence of a diversified private sector is important. It is also noted that monopoly, administrative barriers, and excessive bureaucracy are the main factors that impede the development of the non-oil sector. As a result, foreign trade - especially the share of the non oil sector - declines. Thus, the future development of the economy of Azerbaijan, given weakening growth in the oil sector, will depend on the speed of the reforms. These reforms include WTO membership, the fight against monopoly and corruption, faster diversification of the economy, the development of small and medium enterprises, and the elimination of existing barriers to foreign trade. Although there is the State Anti-Monopoly Policy and Consumer Rights Protection Service under the Ministry of Economic Development, their operational capacity is poor.(weak)

⁵ Republic of Azerbaijan:Selected Issues, January 2012, IMF country report No.12/6
<http://www.imf.org/external/pubs/ft/scr/2012/cr1206.pdf>

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

The Service is mainly engaged in fighting against minor violations of law. Within the framework of the fight against corruption, certain laws, including procurement laws, have been adopted; however, serious improvements in this direction have not been observed. Most procurements are still based on direct orders without tenders. Although the Government declared war on corruption in the beginning of 2011, this fight weakened subsequently. Except for minor bribe cases, the fight against corruption is not serious. The fight against corruption should not only be carried out by administrative means but also as part of a broader strategy. It should include measures from the determination (selection) of bids for infrastructure projects through tender offers [to the implementation of educational procedures. However, the number of organized tenders is decreasing. Moreover, the tenders lack transparency and are subject to doubt. Also, costs of large-scale projects carried out at the expense of the state budget, and especially by the State Oil fund, (for example, the Oguz-Gabala-Baku water pipeline, the Baku-Tbilisi-Kars railway project, etc.) are periodically being changed. And this is the main factor which allows corruption to occur. Lack of control over the spending by the government, lack of transparency in the implementation of projects, and problems relating to state procurement create a significant risk that state funds will be the subject of corruption.

Unfortunately, corruption places severe constraints on a country's capacity to undertake economic reforms. This is because reforms require greater transparency, accountability, free and fair competition, deregulation, and reliance on market forces and private initiative, as well as limiting discretionary powers, special privileges, and price distortions – all of which will reduce opportunities for economic rent on which corruption thrives. The rich and the powerful, the main beneficiaries of a corrupt system, will therefore oppose reforms.

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

At the same time, e-government, which is a key tool for fighting corruption in terms of minimizing opportunities for civil-officials to engage in corruption, is still missing. The biggest success in the direction of e-government that Azerbaijan has achieved so far, as stated in the World Bank report, is the reduction of the duration of the business registration process.

Mainly due to aforementioned, in 2012, Azerbaijan was ranked 66th among 183 countries on World Bank's Doing Business annual report⁶. According to the same report, the most important problems in business that still exist relate to the functional side of business. (registration is simple and fast, but enterprises face huge challenges and delays.).

In the same report, Azerbaijan was ranked 170th for transboundary trade, and 172nd for building permit acquisition. All of these negative factors are indicators of sizable problems that impede the development of small and mid-sized entrepreneurs.

For example, entrepreneurs' access to additional financial resources is weak. They don't have access to alternative financial resources other than high-interest bank credit. This has a number of reasons. First, entrepreneurial activity is weak and most entities don't apply international accounting standards, corporate governance standards, and other standards. Thus, they are not able to attract additional financing by issuing bonds, shares, or other securities.

Poor development of the securities market of the country can be added to its list of problems. Types of financial intermediation such as venture funds, hedge funds, and mutual funds are still not available.

Despite the adoption of a law on investment funds in 1999, there is still not a single fund operating in Azerbaijan.

⁶ Ease of Doing Business in Azerbaijan, <http://www.doingbusiness.org/data/exploreconomies/azerbaijan/>

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

The second reason is that the shareholders are not paid dividends. This, in turn, reduces the interest of potential investors.

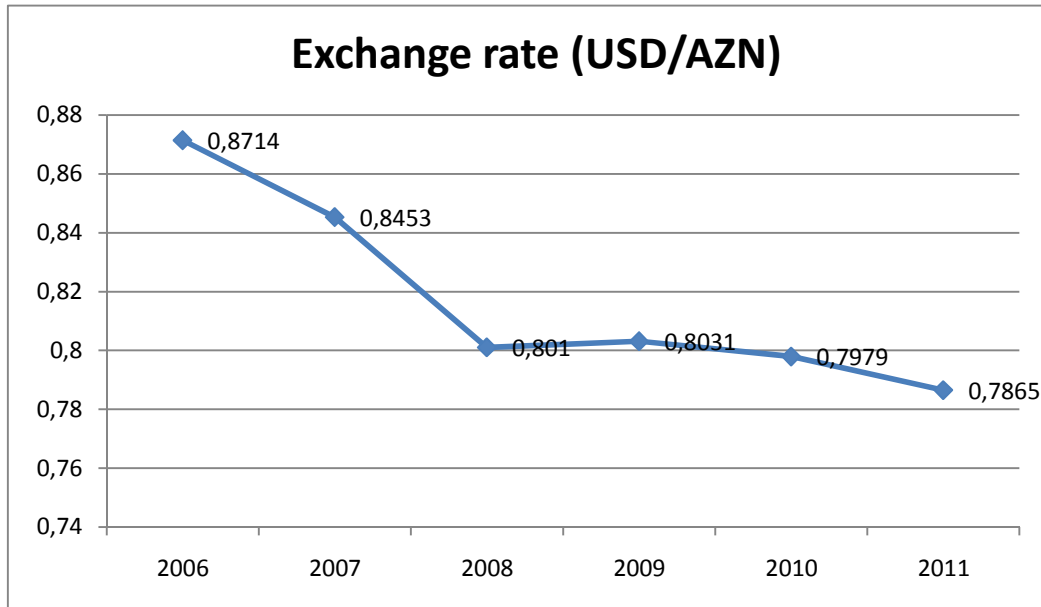
Another problem is related to the high value of manat.

In February 7, 2005 a decree “On changing (denominating) nominal face value of money units and scale of the prices” was signed by the President of Azerbaijan Republic.

According to the provisions of this legislative decree, on January 1, 2006 due to transition to the new manat 1 new manat equaled to 5000 manats. As a result of denomination Manat's exchange rate increases and this negatively affects export of Azerbaijan. Currently Azeri Manat is the most expensive currency in the region. According to the Central Bank's official exchange rate reports 1 russian ruble is equivalent to 0.0268 manat, 1 turkish lira 0.4437 manat, 1 ukrainian grivna to 0.0978 manat, 1 Georgian lari 0.473.

1 US dollar is equivalent to 0.7861 manat. As you can see from the aforementioned information Manat's high value impedes export and weakens Azerbaijan's position in foreign trade.

Figure 3. 2006-2011 exchange rate (USD/AZN)⁷



As seen from the graph Manat's exchange rate rose in 2006 compared to that of USD by 10 per cent and in the end of February of 2012 1 dollar has been equivalent to 0.7861 manat. From this it can be concluded that, the value of manat continues to grow and this negatively affects export potential of the country.

Economic success since independence

The volume of the Azerbaijani economy in 2011, in comparison with 1991 when it earned its independence, has increased 18.5 times. If nominal GDP in 1991 was AZN 2.7 billion, or approximately 3.4 billion U.S.dollars with the current exchange rate, in 2011 this figure was

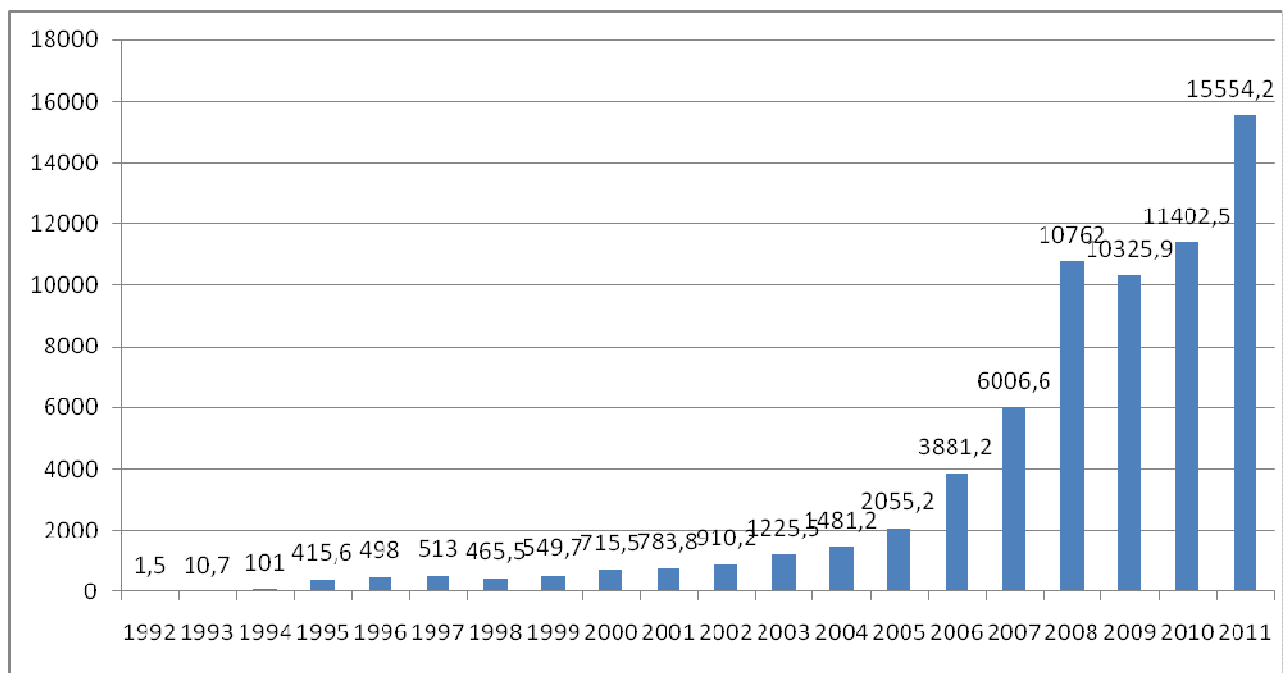
⁷ Source: Central Bank's official exchange rate

AZN 50.1 billion or approximately 63.4 billion U.S. dollars. During this period, the volume of nominal GDP per capita increased 39 times and reached 7003.4 U.S. dollars

For the first time since its independence, Azerbaijan achieved macro-economic stability and economic growth from 1996 to 2011. During this period the average economic growth rate was 11.8%.

Compared to 1992, the state budget revenues of Azerbaijan have increased more than 10 times. In this same period, the ratio of budget revenues to GDP increased from 30% to 38%.

Figure 4. State budget revenues of Azerbaijan in 1992 – 2011 years (in mln manats).⁸



As seen from the chart, except for the decrease in the budget revenues in 2009, which is considered a post-crisis period, Azerbaijan has been able to keep a steady growth rate of budget revenues in the remaining years.

⁸ National budget group 2011 www.budget.az

These enabled Azerbaijan to implement large-scale projects such as Baku-Tbilisi-Kars railway project, the Oguz-Gabala-Baku water pipeline and other infrastructure projects. However, this rapid annual growth in budget revenues was the result of money transfers from SOFAZ. . Accordingly, it is not possible to assess distinctly the growth of budget revenues.

Table 1 . SOFAZ's transfers to the state budget⁹

Year	Transfers from SOFAZ to the state budget (million AZN)	Growth rate	Share in budget	Share of transfers in SOFAZ's expenditure
2003	100	--	8.2%	41%
2004	130	30.0%	8.6%	77%
2005	150	15.4%	7.2%	70%
2006	585	290.0%	15.6%	59.6%
2007	585	0.0%	9.7%	55.1%
2008	1100	88.0%	35.3%	88.5%
2009	4915	346.8%	40.4%	92.8%
2010	5915	20.3%	51.4%	90.5%

⁹ <http://www.oilfund.az>

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

2011	6480	9.6%	53.7%	94.9%
------	------	------	-------	-------

As can be seen from the table, the State Oil Fund's budget share in 2011 increased by 64,8 times in comparison with 2003, which contradicts the principle of conserving oil money for future generations.

On the other hand, dependence on oil revenues may create risks for the future sustainability of the state budget. According to independent experts' calculations, the share of non-oil revenues in the budget totals 5.7 billion U.S. dollars, which constitutes 51% of current budget spending of \$11 billion.

Considering that current expenses are important in terms of the state's economic functioning, barriers to this function as well as fiscal risks and social dissatisfaction may occur in the future.

However, in terms of the global economic crisis, the current state of Azerbaijan's economy can be considered positive.

According to official data, the growth of Azerbaijan's economy in 2011 was a result of growth in non-oil sectors.

The State Statistics Committee claims that the non-oil sector increased by 9.4% in 2011. Last year, the nominal volume of GDP was AZN 50.1 billion or approximately 63 billion U.S. dollars and this constituted 47% of total GDP. Although non-oil GDP has not exceeded oil GDP, for the first time since the independence of Azerbaijan, equilibrium was reached between them.

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

Azerbaijan managed to preserve macroeconomic stability during the crisis. In such conditions, steady enhancement of the manat's exchange rate relative to other currencies, preservation of the inflation rate up to an optimum level by the Central Bank during high volatility in the world market, and stabilization of the financial sector have been achieved..

Except for some unstable banks, growth in the banking system has been observed. The total capital of banks in the 10 th month of 2011 has increased compared to the 1st month of 2011 . The number of new branches and divisions of banks has dramatically increased. Moreover, the volume of credit investments by banks in the first 9 months of 2011 increased by 5.1%. Besides, growth in foreign trade turnover and strategic currency reserves and other related factors lead us to conclude that the world's economic crisis had little or no effect on Azerbaijan's economy.

Despite the crisis period, Azerbaijan's strategic currency reserves increased, too. According to official data, on November 1, 2011, strategic currency reserves reached 41.5 billion U.S. dollars, of which approximately 7 billion U.S. dollars, or 17%, is the Central Bank's foreign currency reserves. Compared to 2010, the Central Bank's currency reserves have increased by 10% .It should also be noted that the growth of strategic currency reserves is very important in terms of Azerbaijan's economic reputation. It is also beneficial in terms of the flow of investments into the country because investors are always inclined to invest in countries with stable economies. The increase of Azerbaijan's currency reserves of signals to investors that it has an ability to pay and is capable of fulfilling its financial obligations in a timely manner.

However, Azerbaijan lacks active policies in its management of strategic reserves. In other words, these funds played a positive role in terms of the international image of the country's

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

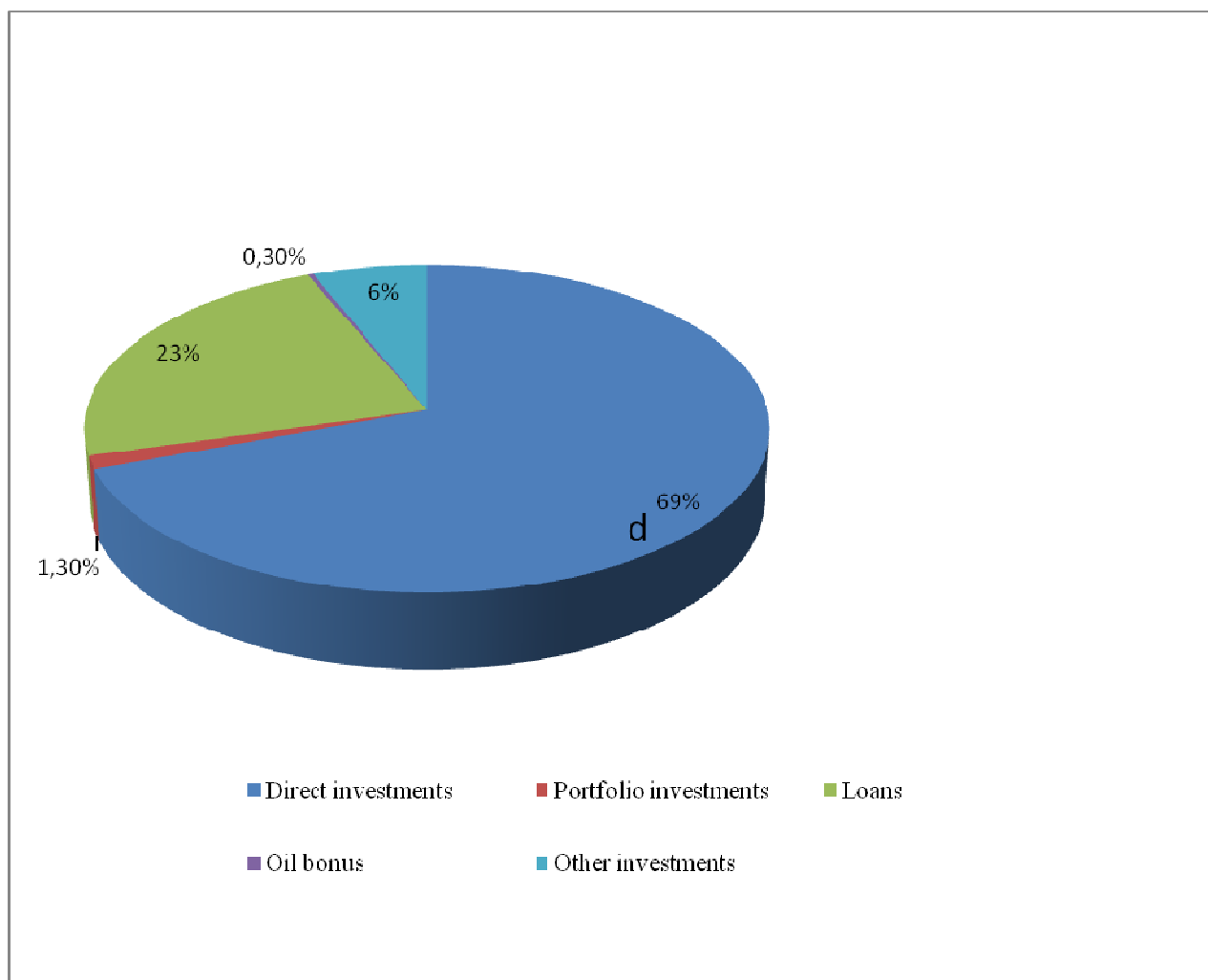
economy but didn't make a serious impact on the country's economy. At least some part of these funds could be directed to the country's economy. As a result, weakened economic growth due to increase in the oil sector can achieve favorable conditions to develop certain areas of the economy.

The volume of investments in Azerbaijan's economy continues to grow as well . According to official data, since 1994 the volume of investments in the country's economy exceeded 100 billion U.S. dollars.

A growth trend was observed until 2009. However,for the first time, the volume of investment has decreased by AZN 3 billion, or 3.8 billion of U.S. \$ in 2009. This was attributable to the end of numerous investment projects by foreign oil companies.

According to the Ministry of Economic Development, from 1995 to 2010 foreign investment in the country's economy totaled 54.2 billion U.S. dollars, which consisted of 23% in loans, 69% in direct foreign investment, 0.3% in the oil bonus, 1.3% in portfolio investments, and 6% in other investments.

Figure 5. Structure of the foreign investments into the Azerbaijani economy in 1995-2010.¹⁰



The major reason for the small volume of portfolio investments is the poor development of the securities market.

According to the results of 2011, the volume of transactions in the Securities Market totaled AZN 6 billion 717 million or 13.4% of GDP.

¹⁰ Ministry of Economic Development, 2011

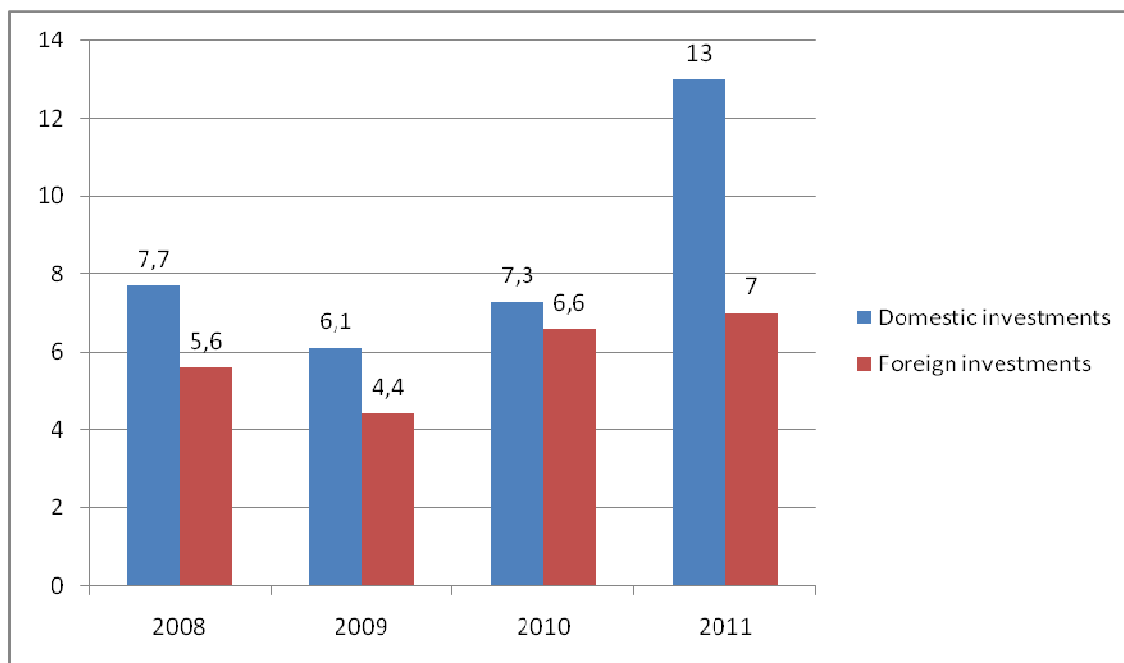
If we consider that it is 4.4 times more than that of 2010, then we can see how small the volume of securities market was in previous years.

At the same time, loans are one of the fastest growing types of foreign investment.

These investments mainly include loans from international financial institutions at a low interest rate with the state's guarantee.

61% of total foreign direct investment or 33.1 billion U.S. dollars were invested in the oil sector throughout 1995-2010. Since 2008, the volume of domestic investment exceeded that of foreign investment.

Figure 6 2008-2011-directed investments in the structure of the economy of Azerbaijan (in billions of manats)¹¹



¹¹ Ministry of Economic Development, 2011

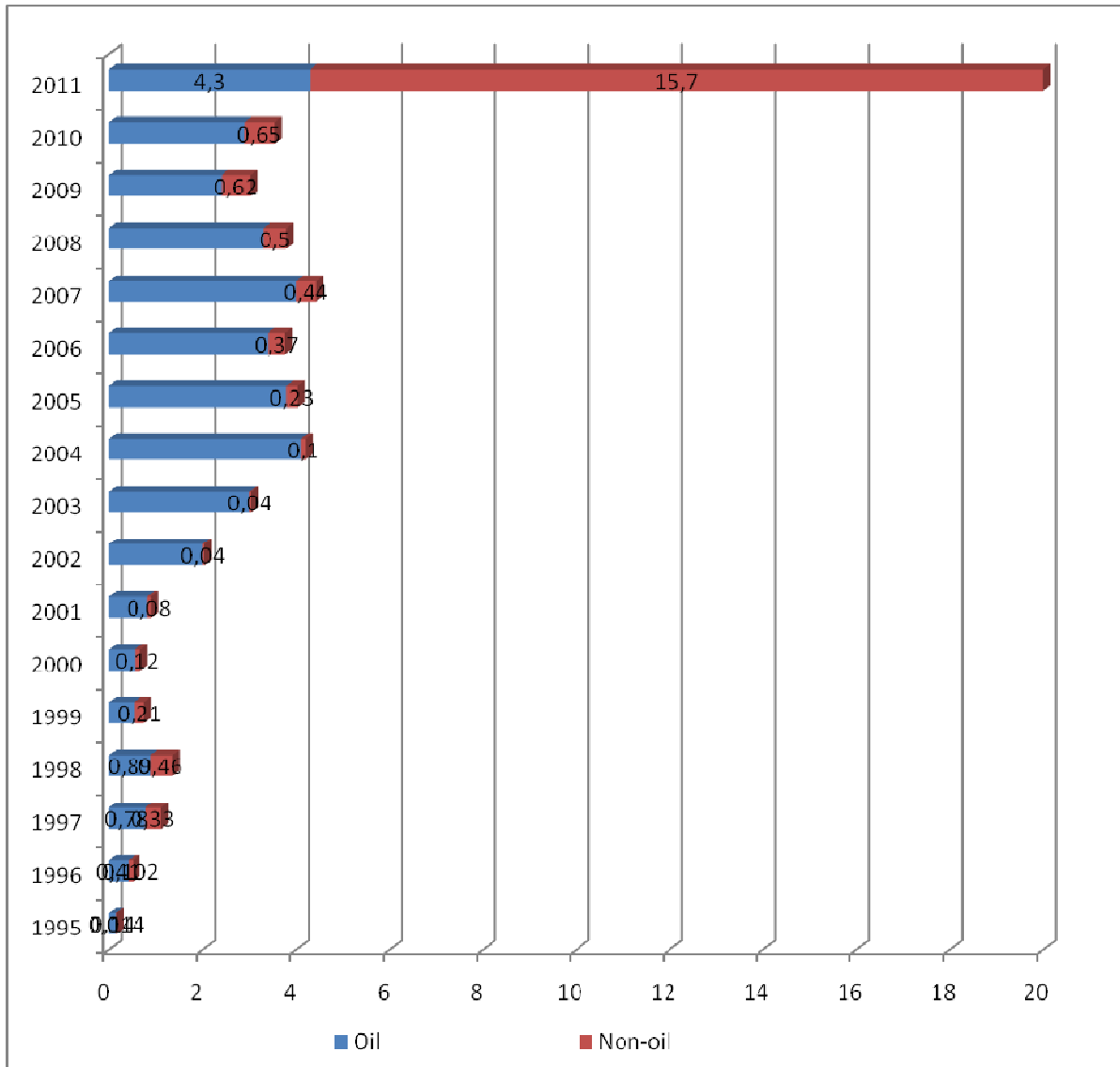
http://economy.gov.az/index.php?option=com_content&view=article&id=1710&Itemid=155

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

As seen from the diagram, the volume of domestic investments in the country's economy in 2008 was 37% more than the volume of foreign investments. In 2011, domestic investments exceeded foreign investments by approximately 85% . It should be noted that domestic investments mainly consist of investments that are funded by the state budget. The proportion of domestic investments in the composition of total investments in the Azerbaijani economy has been increasing in recent years. The reduction of foreign investment, in particular the reduction in the volume of investments directed to the oil sector, is a result of the global economic crisis. Domestic investment growth is itself a positive factor, however, in our case these investments mainly consist of funds from oil revenues that are directed through the state budget. This dependence on oil revenues may create a risk of in-sustainability.

Figure 7. The structure of investments to oil and non-oil sectors of Azerbaijan in 2008-2011

(In **billions** of **U.S.dollars**)¹²



As seen from the chart, although the investments in the oil sector dominated the economy in the previous years, it is a positive sign that in 2011, the volume of non-oil investments exceeded the volume of oil investments by a factor of more than 3.6. This year, for the first time, more funds

¹² Ministry of Economic Development, 2011

were invested in non-oil sectors. However, it bears reiterating that these investments mainly came from the state budget fund.

Conclusion

Researches show that the main problem of the Azerbaijan economy is a high degree of dependence on the oil industry. Thus, the economic growth rate predominantly depends on oil as well. If we take into account that oil production will decrease in the coming years, the Azerbaijani economy may face macroeconomic and fiscal risks.

It is true that in recent years the government has initiated efforts to develop the non-oil sectors of the economy. In this regard, some measurable results have already been achieved: the share of non-oil sector in GDP reached 47% in 2011. This was the first time that the volume of investment in non-oil sectors was 3.6 times more than that of investments in the oil sector.

In spite of the foregoing, Azerbaijan has been prodigal with its funds. In other words the necessities and priorities of public investments are not seriously analyzed and properly selected.

This, in turn, reduces the effectiveness of investments. In fact, it is not the amount of money spent, but the result that is important. In some cases, investments are directed to the implementation of the same projects several times. As a result, the share of investments in the budget continues to grow instead of lessening each year. It also shows that, there is lack of strong entrepreneurship in Azerbaijan. Thus, the burden on the state increases instead of decreasing each year. Moreover, a great amount of oil money in the state budget does not have a positive impact on the economy because the budget funds are either not executed properly or are not executed at all.

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

The oil industry's influence on the economy of the country is so prominent that a lot of effort and power is required to reduce overdependence on it. However, if the government had taken certain steps, it would have been able to free the economy gradually from substantial dependence on oil.

The country's economic growth rate had begun to decrease since 2007, and in this regard, we have already lost more than 4 years. During those years, an alternative sector could have been developed. In this regard, more free economic zone experience of other oil rich countries could be used.

For the development of non-oil sectors in the coming years the government must continue reforms in the following areas:

- In order to attract an increasing volume of investments in non-oil sectors, the results and efficiency of the investments should be monitored closely, bureaucratic barriers should be removed, and independence of the courts should be increased.
- GDP growth rates' dependence on oil production and oil prices should be reduced. Small and medium-sized enterprises should be developed, and the economy should be diversified.
- An alternative industry or service area with the capacity of producing a product or service that can compete in foreign markets and bring export revenue into the country must be identified and developed. These areas should be given state support in at least the first year of their operation.
- The fight against monopoly and unfair competition should be strengthened and prioritized by adopting the competition code and increasing the authority of the anti-corruption department.

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

- Access to additional funds for small and medium-sized enterprises should be increased
- Activities of venture companies and investment funds should be supported, and banks should be motivated to offer different services in addition to the traditional ones such as credit and deposit services) by providing tax benefits.
- In the country, especially in the regions, business incubators, centers providing free legal and economic advice to entrepreneurs to improve business management skills, should be created and involve foreign experts who can participate in each center's trainings and seminars
- The number of illegal inspections by the tax authorities of business owners' operations must be reduced. A center monitoring these inspections should be created, and the number and quality of electronic services provided by the Ministry of Taxes should be increased
- The volume of funds transferred from the Oil Fund to the state budget should be reduced to an optimal level, and certain limits should be applied to the level of those transfers.
- The share of tax revenues in the budget should be increased
- Artificial barriers to foreign trade must be eliminated, and the transparency of customs must be improved, for example by, by broadening the use of electronic services in this system. The process of accession to the WTO should be accelerated.
- Control over the spending of budget funds should be strengthened by increasing civil society's involvement and the Chamber of Accounts' authority in this process.
- The fight against corruption and bribery should be accelerated and carried out systematically with special attention to the formation of anti-corruption institutions.

Center for Economic and Social Development (CESD), Azerbaijan, www.cesd.az

- The process of establishing electronic government and abolishing or combining inefficient government agencies should be accelerated. Furthermore, increased wages and social protection for employees in state bodies should be guaranteed
- State monopolization of some large agencies should be privatized to achieve more effective management and to reduce the burden on the state budget
- In order to increase the share of the agricultural sector in the economy, decrease the costs of production, and increase market competitiveness, modern technology and practices should be introduced.
- Socio-economic development of the regions must be accelerated by improving the existing state program in this field.
- Insurance markets and insurance companies should be developed. In particular, medical insurance and high-quality medical care should be developed to reduce the burden on the state budget.
- -The quality of education and healthcare systems must be increased by providing teachers and medical staff with training at foreign universities. Subsequently, the capacity of the secondary schools and universities should be strengthened, including expanded use of the internet and integrated teaching methodology.