

Diagnostics of the new Economic Reforms Governance Model in Azerbaijan

Evaluation report | October, 2019

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1. EXECUTIVE SUMMARY

1.1 Background to the Economic Reforms Governance Model (new Reform Model)

Azerbaijan has accelerated economic reforms since 2016 with preparation of strategic roadmap and introduction of the new model on improving business environment, as advanced through the following stages:

In March 2016, Azerbaijan government embarked on preparation of a Strategic Roadmap for National Economy and its Key Sectors till 2020 and passed the roadmap to relevant ministries and other government bodies. In the same year, the President of Azerbaijan initiated a new Model for the governance of economic reforms with the objective to accelerate reforms and further improve the business environment. Center for Analysis of Economic Reforms and Communication of Azerbaijan Republic coordinated the works and execution of the new Reform Model. Within the scope of the Model, a Commission on Business Environment and International Rankings (the Commission) was established and mandated with the responsibility to identify and implement all necessary actions for the improvement of the business environment in the country. A secretary office was established and empowered for implementation of the Commission's strategy.

By June 2017, the Commission designed a comprehensive action plan for the further implementation of the new Reform Model that involved identification of priority areas for further development, analysis of the best case examples and practices, and monitoring of the effectiveness of carried reforms via utilization of international rankings on business environment as a measurement tool.

Finally, in September 2019, the principle diagnostics of the new Reform Model has been carried out. This document presents the results of new Reform Model evaluation as performed via systematic diagnostics approach.

1.2 Systematic diagnostics approach utilized for the evaluation of the new Reform Model

The systematic diagnostics process that was used to assess the new Reform Model is based on a 4-step feedback loop analysis including the context analysis (what necessitated the new Reform Model), overview of the new Reform Model, performance check (what was the impact behind it) and health check (is the impact sustainable) steps.

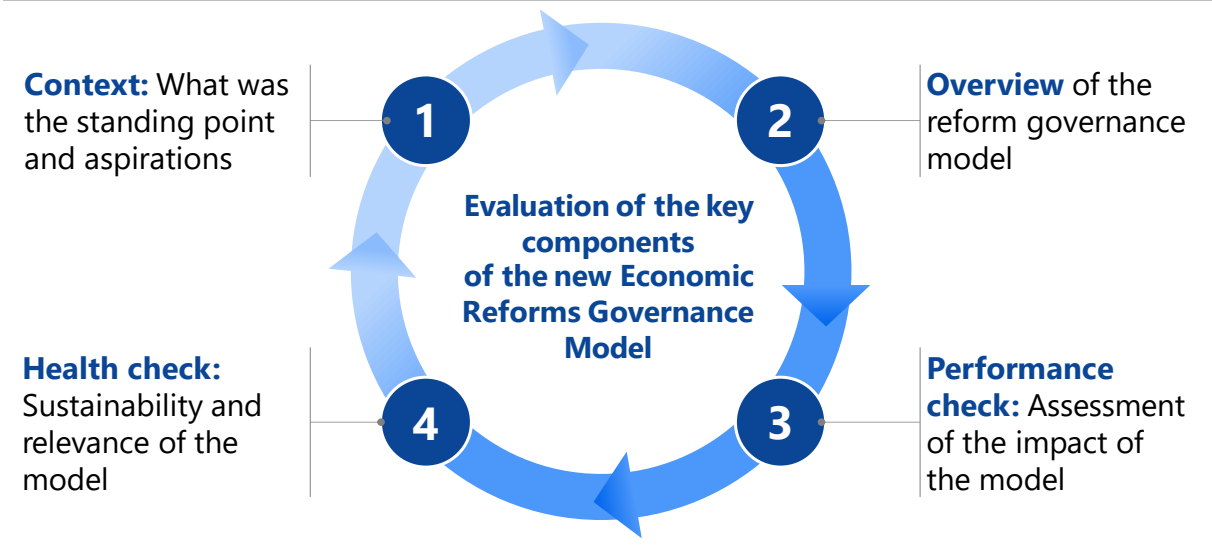
The context analysis is the first step that assesses the standing point and the need for the emergence of the new Reform Model, key themes and aspirations for further improvement in the approach to reforms and how they translate into reform governance elements.

The overview of the new Reform Model is the second step that analyzes its key components (organization, processes and tools), the contribution of each component along the key themes, and the resources used to develop the new Reform Model and associated tools.

The performance check is the third step that assesses the impact of the new Reform Model based on fact-based analysis, the reflection from global reports and the recognition from the relevant stakeholders such as international organizations and other audiences.

The health check is the last step of the loop that considers the sustainability and relevance of the new Reform Model in terms of its ability to ensure the sustainable improvement, evolve with further improvements and boost further efforts on reforms in Azerbaijan.

FIGURE 1: SYSTEMATIC DIAGNOSTICS APPROACH



1.3 Economic Reforms Governance Model and its impact in brief

Azerbaijan has been carrying out reforms to improve its business environment long before the declining oil prices that hit the economy in 2014. In 2016, instead of waiting for the oil prices to increase again, the Government of Azerbaijan decided to develop a Strategic Roadmap for the National Economy, which laid out reform priorities in overall economy and in 11 key sectors till 2020. In the same year, the President of Azerbaijan initiated the new Economic Reforms Governance Model and the Commission on Business Environment (the Commission) was established to accelerate the reforms for the improvement of the business environment in the country. The Commission enabled implementation of the new Reform Model ensuring not only effective coordination and collaboration among the government entities but also engagement of all stakeholders and more importantly of the society into the reform process. Chaired by Deputy Prime Minister, the Commission assembles six minister-level executives to drive its mission. The Commission established 19 inter-agency working groups to assemble the critical mass of stakeholders, to expedite the reform process and to make sure that voice of all stakeholders to be affected by the reforms is heard. Moreover, the Commission also established a permanent secretariat to facilitate coordination and collaboration and to drive several reform processes in parallel without losing momentum.

As the Commission moved forward, it initiated the introduction of new tools to be even more efficient, effective and inclusive. For instance, the Commission initiated establishment of an online communication platform which was developed by the Center for Analysis of Economic Reforms and Communication and which allows working group members to coordinate their efforts. Shortly after, the Commission initiated an online civic engagement platform to provide the larger society with a strong means to make suggestions or give feedback. A benchmarking tool, on the other hand, enables a quick analysis of business environment and benchmarking to other countries.

Since establishment of the new Reform Model in 2016, Azerbaijan significantly improved its business environment carrying out 136 reform initiatives in 19 areas. Economy-wise, the reforms paralleled sustainable GDP growth (from 38 billion USD in 2016 to 47 billion USD in 2018), 33% increase in non-oil exports between 2016 and 2018 and a growing number of new businesses established yearly.

On social aspect, the new Reform Model helped to provide equal services to all groups of population. For instance, easier process for starting a new business resulted in businesses established by women double between 2016 and 2019 which was crucial for progression on 2030 Sustainable Development Goal (SDG) on gender equality.

Environmentally, the new Reform Model helped to reduce paper usage despite increasing communication. Considering that the Commission involved 300+ people in working groups the coordination of reforms required heavy communication and much higher use of paper was a concern area. Introduction of communication platform by the Commission and establishment of digital journeys in most reforms (e.g. digital public procurement system, electronic court system, online access to electricity, etc.) helped to significantly reduce paper usage.

The improvements were reflected in various global reports evaluating business environment: World Bank's doing business report recognized Azerbaijan as a top 10 economy that improved in most areas in 2017 and 2018. Same report ranked Azerbaijan as a top 25 economy for doing business in 2018. Other reports such as Global Competitiveness report by World Economic Forum and Economic Freedom Index by Heritage Fund also reported improvements in the business environment of the country.

In 2019, World Intellectual Property Organization (WIPO) recognized the Center for Analysis of Economic Reforms and Communication of Azerbaijan Republic with IP Enterprise Trophy for its contribution on the implementation of "Economic Reforms Governance Model". One of the best aspects of the new Reform Model, so successfully implemented in Azerbaijan, is its replicability in other countries with minor adjustments to accelerate the business reforms.

Success of the new Reform Model is dependent not only on the achievement of positive outcomes but also, and even more importantly, on the sustainability of the impact in the long term. In this regard, 3 aspects of the new Reform Model ensure the sustainability of the impact achieved.

First, the permanent nature of the working groups allows continuous focus on reforms from all institutions, thereby ensuring institutional sustainability. The new Reform Model uses existing institutional basis and helps to make it more efficient. One of primary focus areas of the model is building people capabilities and changing mindsets via ongoing reform efforts and formal trainings.

Second, working groups are designated from existing government bodies which results in almost no incremental costs, enabling the new Reform Model to be financially sustainable.

Third, the Commission's operations are regulated by laws and decrees making the Commission independent from a particular institution or a particular official. Only the President of Azerbaijan Republic can restructure or release the Commission. This is crucial for regulatory and political sustainability of the new Reform Model.

These 3 aspects together ensure the sustainability of the new Reform Model in the long term.

2. CONTEXT: WHAT WAS THE STANDING POINT AND ASPIRATIONS

2.1 The vision of the country leadership

Reforms to improve business environment have consistently been in the agenda of Azerbaijani government. Country's leadership has conveyed the messages regarding this agenda on several occasions. Below are some examples of the messages shared by country leadership:

“2016 will be a year of deep economic reforms. We started working in this direction from the beginning of 2016. Many decrees were signed and legislations passed. A lot of decisions were taken in order to improve business environment, increase export potential, attract foreign investment and increase local production. We will continue to work on this direction.”

President, Mr. Ilham Aliyev, 2016

“We should carry deeper reforms in all areas, ensure transparency and financial control. In this case we will completely remove dependence on oil sector.”

President, Mr. Ilham Aliyev, 2016

“Market economy is developing quickly in Azerbaijan. But while implementing economic reforms we should always keep in mind social issues. Let's keep in mind that we always work for people and Azerbaijani citizen is always in the center of our policy.”

President, Mr. Ilham Aliyev, 2016

“The Davos World Economic Forum has awarded Azerbaijan 40th place in terms of economic competitiveness. We are first place in the CIS. Further improving the business and investment environment is a very important issue. But still much remains to be done. There are flaws, they are being eliminated and addressed. Year 2016 will play a decisive role in this.”

President, Mr. Ilham Aliyev, 2016

“By moving to new Economic model we will develop our economy only through reforms, technology and innovations and non-oil sector.”

President, Mr. Ilham Aliyev, 2017

2.2 Major reforms carried out in Azerbaijan (2008 – 2016) prior to the implementation of the new Reform Model

Between 2008 and 2012, Azerbaijan government carried out a set of reforms to improve business environment in the country on the key areas including tax system, enhanced access to credit, a unified registry system to simplify property operations, simplification of starting a business and foreign trade agency. Further, between 2013 and 2016, the government implemented reforms in such areas as construction, tax, property, starting business and foreign trade. Details of the reforms can be seen in Figure 2.

FIGURE 2: MAJOR REFORMS CARRIED OUT IN AZERBAIJAN BETWEEN 2008 – 2016 ACCORDING TO WORLD BANK’S DOING BUSINESS REFORM DATABASE

	2008 - 2012	2013 - 2016
Starting a business	<ul style="list-style-type: none"> ■ Abolished the requirements to approve company seal design with the Ministry of Justice ■ Established a one-stop shop for completing registration requirements to start business 	<ul style="list-style-type: none"> ■ Introduced online company registration service ■ Reduced the time to obtain an electronic signature for online tax registration ■ Abolished requirement to use a corporate seal to simplify starting business
Property	<ul style="list-style-type: none"> ■ Introduced a unified property registry to simplify the process of registration 	<ul style="list-style-type: none"> ■ Introduced an online procedure for obtaining the non-encumbrance certificate
Foreign trade	<ul style="list-style-type: none"> ■ Streamlined and regrouped agencies behind a single customs service window - hence reduced clearance and border crossing time for goods 	<ul style="list-style-type: none"> ■ Streamlined internal customs procedures
Construction		<ul style="list-style-type: none"> ■ Streamlined procedures on issuance of building permits and set official time limits for procedures ■ Established one stop shop for issuing preapprovals for project documentation on construction projects
Taxes	<ul style="list-style-type: none"> ■ Introduced an online filing and payment system to simplify tax payments process ■ Lowered several tax rates, including the profit tax rate ■ Simplified the process of paying CIT and VAT 	<ul style="list-style-type: none"> ■ Introduced an electronic system for filing and paying social insurance contributions
Access to credit	<ul style="list-style-type: none"> ■ Eliminated the minimum threshold for loans reported to the public credit registry ■ Provided banks with online access to central database Increased the data available on borrowers ■ Established an online platform for data exchange between financial institutions and credit registry 	
Protecting Minority Investors	<ul style="list-style-type: none"> ■ Introduced requirements on the approval of related-party transactions and expanding remedies available against liable directors 	<ul style="list-style-type: none"> ■ Introduced requirements for related-party transactions undergo external review and be voted on by disinterested shareholders.
Employing Workers	<ul style="list-style-type: none"> ■ Allowed fixed-term contracts for permanent tasks ■ Repealed a retraining or reassignment obligation before making a worker redundant 	
Enforcing Contracts	<ul style="list-style-type: none"> ■ Created a second commercial court in Baku and increased the number of specialized judges from 5 to 9 	

2.3 International recognition of reform outcomes

Many independent international institutions have recognized the favorable outcome of these reforms on improved business environment. World Bank’s Doing Business Report and WIPO’s Global

Innovation Index, both of which indicated significant improvements in key fields between the years of 2012 and 2015, are two such examples. According to World Bank's Doing Business Report, considerable progress was achieved in such areas of business environment as construction, taxes, starting a business and access to electricity. Most of the achieved progress is related to either simplification of the process or decrease in time needed for different processes. For example number of procedures in getting construction permits decreased from 28 in 2012 to 19 in 2015.

According to WIPO's Global Innovation Index, Azerbaijan reached a score of 95.5 out of maximum score of 100 on ease of starting a business and 83.3 out of 100 maximum score on ease of paying taxes in 2015. Other major improvements in both reports are provided in FIGURE 3.

FIGURE 3: THE IMPACT OF REFORMS

Key improvements identified in World Bank's doing business report			
		2012 ¹	2015 ²
Construction	# of procedures	28	19
Taxes	Payments (number per year)	18	7
Starting a business	# of procedures	6	3
	Time (days)	8	3.5
	Cost (% of income per capita)	2.3	1.7
Access to electricity	# of procedures	9	7
	Time (days)	241	77
	Cost (% of income per capita)	591	103.6

Key improvements identified in World Intellectual Property Organization's Global Innovation index			
		2012 ³	2015 ⁴
Institutions	Ease of starting a business ⁵ (0-lowest, 100-best)	89	95.5
	Ease of paying taxes (0-lowest, 100-best)	46	83.3
	Ease of resolving insolvency (0-lowest, 100-best)	40.2	43
Human capital & research	School life expectancy, years ⁶	11.7	11.9
Market sophistication	Microfinance gross loans ⁷ , % GDP	2.3	3
	Domestic credit to private sector, % GDP	18	25.5
Knowledge & technology outputs	Scientific & technical articles (per billion PPP\$ GDP)	1.8	2.7

1 Based on Doing Business 2013 report published in October, 2012

2 Based on adjusted score for doing business 2016 report (that reflects data for 2015)

3 Based on Global Innovation Index 2012 published in July, 2012

4 Based on Global Innovation Index 2015 published in August, 2015

5 Takes into account complexity and number of procedures an entrepreneur is required to complete in order to start a business

6 Total number of years of schooling (primary to tertiary education) that a child of a certain age can expect to receive in the future

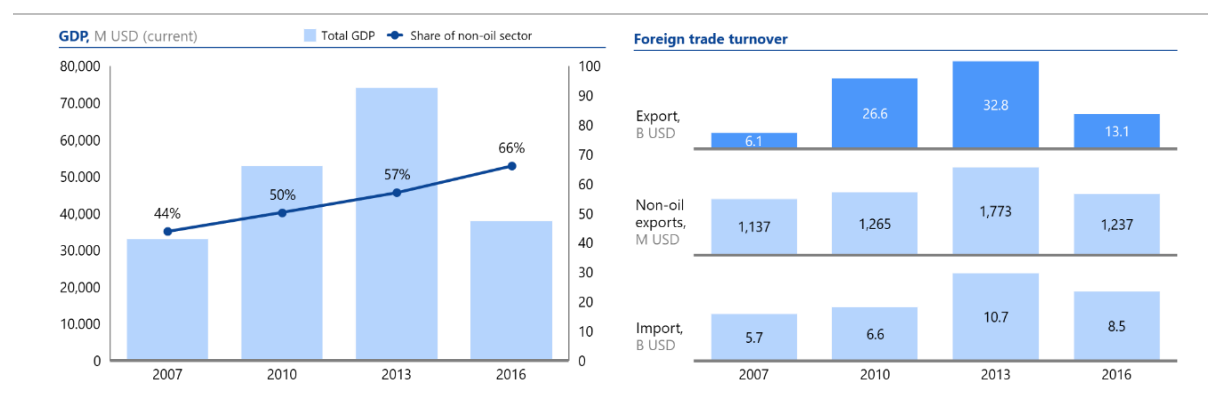
7 Measures legislative features that facilitate lending (e.g. coverage, scope and accessibility of credit information in credit registry)

Key improvements identified in World Intellectual Property Organization’s Global Innovation index		2012 ³	2015 ⁴
Business sophistication	Firms offering formal training, % firms	10.5	20.3

2.4 Oil crisis and the aspiration for acceleration of reforms

In the 10 year period before the introduction of the new Reform Model, Azerbaijan kept general growth trend with a focus on non-oil economy growth that resulted in increasing share of non-oil sector in economy. Share of non-oil sector within the total GDP has increased from 44% in 2007 to 57% in 2013 and then to 66% in 2016. However, as a result of the decline in global oil prices in 2014-2015, economic indicators in Azerbaijan have shown unfavorable decline in parallel to the oil prices. Decline in the country’s economy as well as decrease in entrepreneurs’ incomes affected social welfare of population, especially the people in need of care. This led to further increase in the government’s ambitions to strengthen the non-oil sector via accelerating the reforms carried out for the improvement of business environment. Improving the mechanism for design and delivery of public services was crucial for government in order to reach its aim to create social and economic opportunities for citizens.

FIGURE 4: GDP and FOREIGN TRADE PROGRESSION BETWEEN 2007-2016 IN AZERBAIJAN

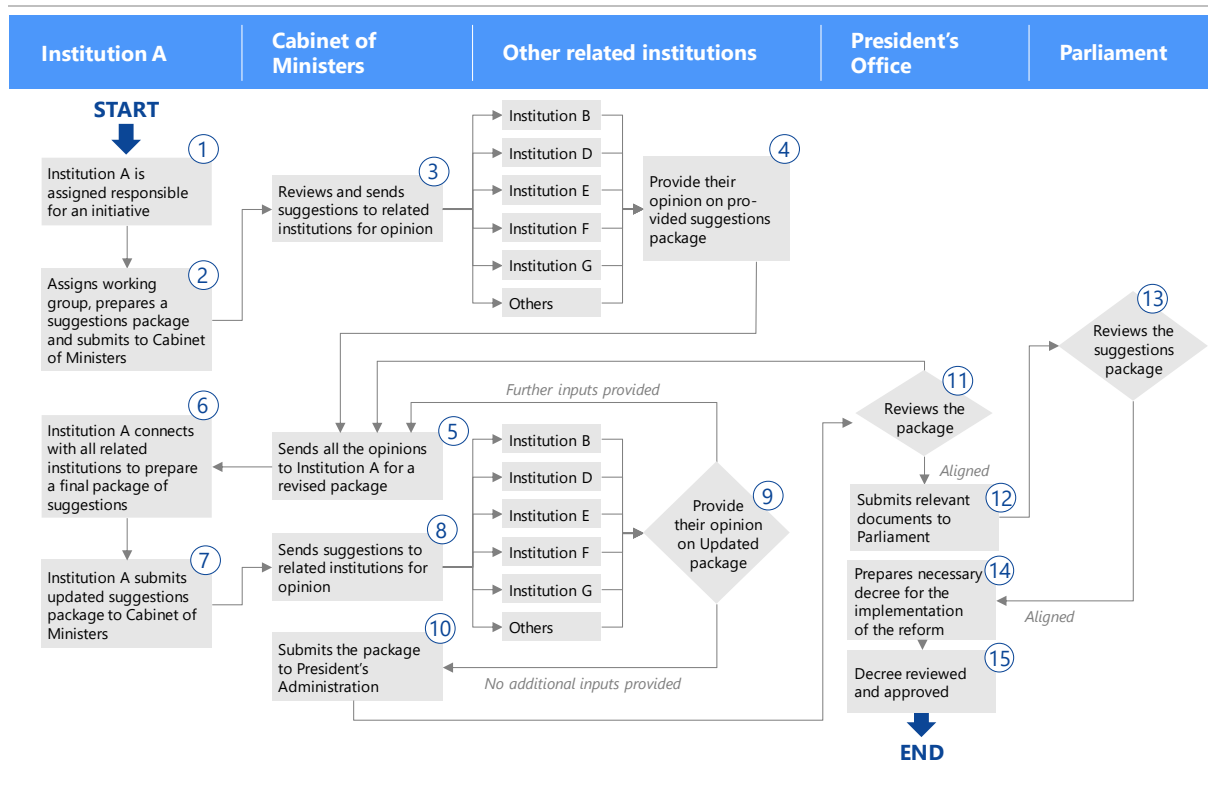


2.5 Need for a new approach in reforms governance process for accelerating economic reforms

The aspirations for accelerating economic reforms required the a new approach in the reform governance process to enable much faster process desired by the government to improve the business environment and to attract investments into non-oil sector. According to the general approach, when an institution was assigned an initiative, a new working group was formed by that institution. Same happened in all other major related institutions. The working groups were assigned case by case and new reforms on the same area required new working groups. People who obtained experience in earlier reform did not get a systematic chance to use their experience.

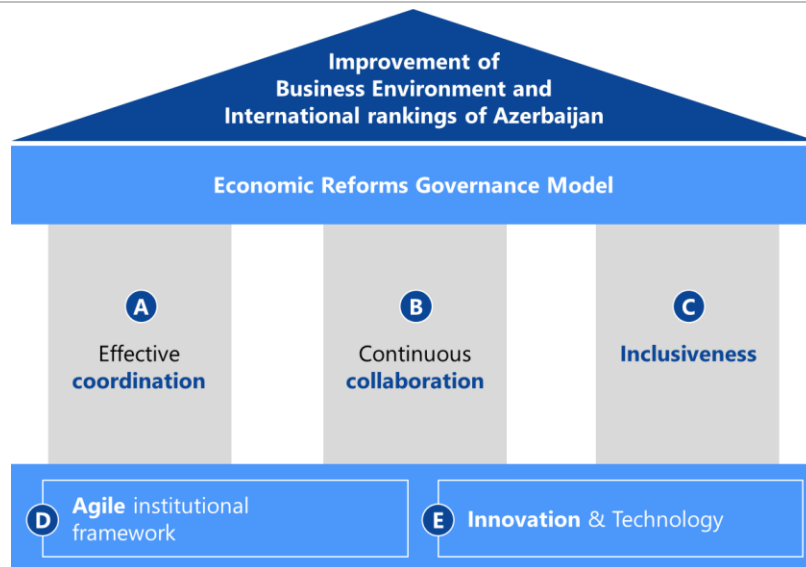
In order to provide a sustainable system, the government desired to establish permanent reform teams to develop expertise in working groups. Two important modifications in the governance in this regard included the optimization of coordination of efforts and maintenance of high-level collaboration between institutions and working groups via permanent topic-based working groups.

FIGURE 5: GENERAL REFORM PROCESS AND STEPS



Accordingly, the new Reform Model addressed this need along with a new approach. With the new approach, the Commission aimed to address 3 key pillars via 2 fundamental enablers to realize Government's aspirations to further improve business environment.

FIGURE 6: NEW ECONOMIC REFORMS GOVERNANCE MODEL FRAMEWORK



- *Effective coordination* – to ensure that the efforts are coordinated in a more sustainable way and previous experiences can be utilized to guide new reforms process by establishment of a responsible institution in charge of coordination of reform efforts
- *Continuous collaboration* – to efficiently bring reform teams from relevant institutions together, set a process enabling their continuous mutual and collaborative work, drive innovation mindset in institutions through working group members and help develop their expertise

- *Inclusiveness* – to increase engagement of citizens, civil society organizations and businesses in the reform process
- *Agile institutional framework* – a key enabler to address above via providing the agility in the design and implementation of government reforms to improve business environment
- *Innovation and technology* – another major enabler providing crucial tools for the new Reform Model in achieving its objectives

3. OVERVIEW OF THE NEW ECONOMIC REFORMS GOVERNANCE MODEL

3.1 Targets, key pillars and elements of the new Reform Model

Economic Reforms Governance Model intended to achieve 5 key targets: 1) improving business and investment environment; 2) building digital public services in line with international standards; 3) eliminating barriers to civil society and entrepreneurial activity; 4) expanding competitiveness and export capacities; 5) forming state support and incentives for entrepreneurs.

The Model was comprised of 7 key elements under the 3 pillars (organization, processes and tools). A new central commission on business environment and 19 working groups from related institutions are elements of *organization pillar*. The new Reform Model has engaged more than 300 people, and out of these 63% are representatives from private sector and civil society, including public unions, business associations and academia.

Improvement in reform process (communication and collaboration) and coordination among institutions by the utilization of a platform enabling effective coordination are elements of *processes pillar*. Finally, *tools pillar* has the key elements of analytical benchmarking tool which increase the agility in regular analysis of the international reports, innovative communication platform for coordination of the reform efforts within and among working groups, and innovative engagement platform that aims to further increase the inclusion of citizens, civil society organizations and business organizations.

The below chart (Figure 7) illustrates how each element serves towards the realization of governments key aspirations.

FIGURE 7: KEY PILLARS AND ELEMENTS OF THE NEW REFORM MODEL AND HOW THEY ADDRESS KEY THEMES

Key pillars	Key elements	Key themes to address / government’s aspirations				
		Effective coordination	Continuous Collaboration	Inclusiveness	Agile Institutional Framework	Innovation and Technology
Organization	Central commission	☑	☑	☑	☑	☑
	Working groups		☑	☑	☑	☑
Processes	Improvement in reform process	☑		☑	☑	☑
	Coordination among institutions	☑	☑		☑	
Tools	Analytical benchmarking tool				☑	☑
	Innovative communication platform	☑	☑		☑	☑
	Innovative engagement platform		☑	☑	☑	☑

3.2 Central commission, secretariat and working groups

A Commission on Business Environment and International Rankings (the Commission) was established for the implementation of the new Reform Model. All functional works of the commission are coordinated and supported by the Center for Analysis of Economic Reforms and Communication of Azerbaijan Republic. The Commission established a secretariat office and 19 working groups as key organizational governance elements. Working groups were established for each major area of the business environment. Commission involved all institutions relevant for a specific area of the working group. The chart below summarizes the institutions and their members that constitute the Commission, its secretariat and working groups. Key responsibilities of the Commission are provision of suggestions on overall improvement of business environment and legislative actions required to achieve it, and arrangement of the coordination of the efforts of various institutions. Commission secretariat suggests the structure of working groups, ensures effective operation of working groups by providing necessary tools and monitoring the activity of groups and their members, prepares annual action plans of working groups, organizes and coordinates the work of working groups and ensures the implementation of the Commission's decisions. The working groups carry out all necessary actions for the improvement of business environment in their respective area starting from the analysis of their field, suggesting necessary initiatives for improvement, providing inputs, etc.

FIGURE 8: COMMISSION ON BUSINESS ENVIRONMENT AND MEMBER INSTITUTIONS

Commission on Business Environment and international Rankings				
a. Commission	b. Commission secretariat		c. Working Groups	
Commission chairman – First Deputy Prime Minister	Executive – representative of Presidential Administration		Each of below 19 working groups are comprised of members from 20+ institutions	
Members of the commission	Members of the secretariat (<i>members from each of below institutions</i>)		Financial markets development and accessibility of loans	Issuance of construction permits
<ul style="list-style-type: none"> ■ Minister of Economy ■ Minister of Finance ■ Chairman of State Statistical Committee ■ Chairman of the State Agency for Public Service and Social innovations ■ Executive Director of the Centre for Analysis of Economic Reforms and Communication ■ President of the National Confederation of Entrepreneurs (Employers) 	Financial Market Supervisory Authority	Ministry of Education	Starting Business, Tax and Accountability	Effective management and macroeconomic indicators
	Ministry of Economy	Ministry of Taxes	Property registration	Costs related with fighting crime
	Ministry of Internal Affairs	ASAN Service ⁸	Connection to electricity supply	Corruption and Transparency
	Ministry of Energy	State Customs Committee	Labor Market	Efficiency and competition of the commodity market
	Ministry of Justice	The State Statistical Committee	Physical Infrastructure	Execution of contracts, dispute resolution, bankruptcy, judicial system and the rule of law
	Ministry of Labor and Social Protection	State Committee for City Building and Architecture	Foreign trade and trade tariffs	Corporate Governance, Investments, Investor Relations, Business Ethics and Corporate Social Responsibility
	Ministry of Emergency Situations	Committee on Property Issues	Human Capital	Special Working Group on International Agreements
	Ministry of Finance	Prosecutor General's Office	Technologies and Innovations	
	Ministry of Transport, Communication and High Technologies	Central Bank	Health system	
	Ministry of Health	Center for Economic Reforms ⁹	Trade across borders	

The chart below (Figure 9) provides details on working group member organization, as elaborated over a sample working group, namely group for “Financial markets development and accessibility of loans”. A high ranking official in Financial Market Supervisory Authority is the head of the group and another representative of the same institution is the secretary of the group. The working group includes 23 organizations of 4 types; 8 consulting businesses, 3 Public Unions, 3 Business Associations, and 9 Government Institutions. 25 people from these 23 organizations are members of the working group.

8 State Agency for Public Service and Social Innovations under the President of the Republic of Azerbaijan

9 Center for Analysis of Economic Reforms and Communication

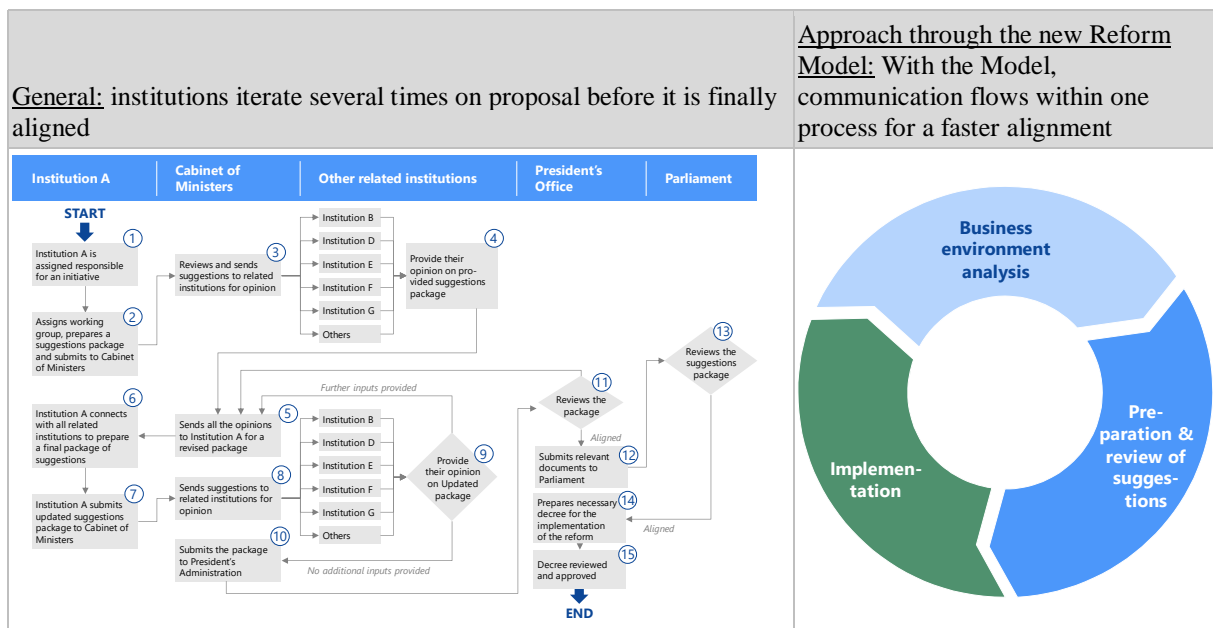
FIGURE 9: EXAMPLE WORKING GROUP STRUCTURE

Working group name: Financial markets development and accessibility of loans Working group head: High ranking official in Financial Market Supervisory Authority Working group secretary: Representative of Financial Market Supervisory Authority			
Working group members organization			
Consulting businesses "BM Morrison Partners" "Dentons Azerbaijan" "Ekvita" "Ensis" Law Company LLC "Ernst & Young Azerbaijan" "KPMG Azerbaijan Ltd" "MGB Law Offices" "Azfinance Investment Company"	Public Unions "American Chamber of Commerce in Azerbaijan" Public Union Azerbaijan Insurers Association Public Union Swiss State Secretariat for Economic Affairs	Business Associations Azerbaijan Banks Association Azerbaijan Microfinance Association Azerbaijan Stock Market Participants Association	Government Institutions Ministry of Economy Ministry of Finance Ministry of Justice Ministry of Transport, Communications and High Technologies Central Bank of Azerbaijan Deposit Insurance Fund Small and Medium Business Development agency State Oil Fund

3.3 A new approach in reforms governance process

In parallel to the establishment of the Commission and working groups, a new approach was designed to take the agility of reforms to the next stage via improving reform coordination. While the previous process remained, communication among institutions was designed to flow within the same process to reach a faster alignment. The process flow consists of 3 iterative steps: business environment analysis, preparation and review of suggestions and implementation of reforms.

FIGURE 10: THE NEW REFORM PROCESS ENSURING FLOW OF REFORM STAGES



In the first step working groups regularly analyze business environment also using international reports as a measurement tool. Working groups review what are the dimensions of business environment where most progress is needed and also find out the countries that could be used as a benchmark. Once the benchmark countries are identified, working groups research their experience for potential reapplication.

Once working groups have identified priority areas for development and collected experience of benchmark countries, they brainstorm potential solutions and prepare their initial suggestion. As they form the suggestion working group members push for getting inputs and alignment from the institutions that they represent.

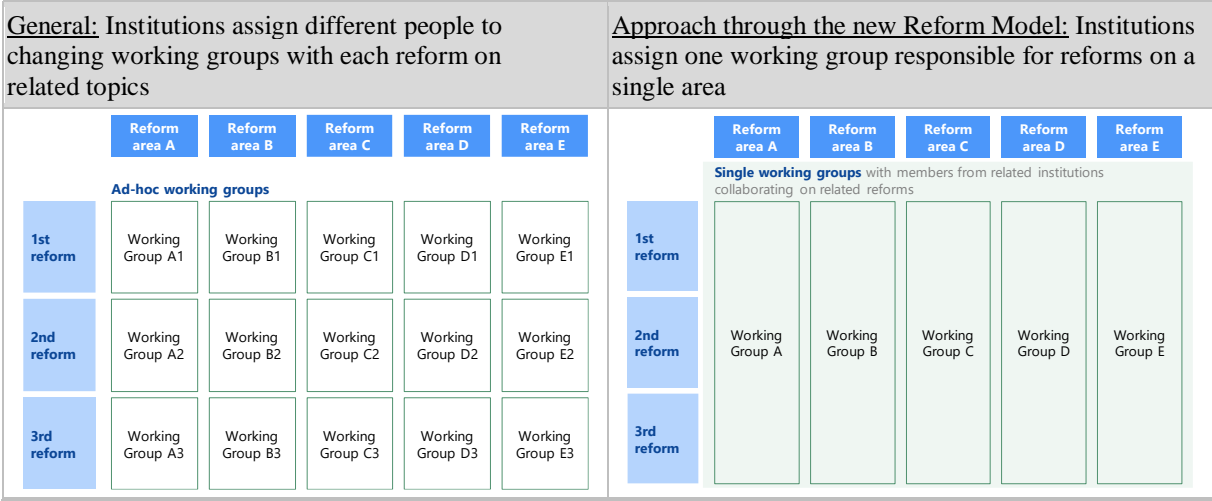
In case of legislative changes, the approach uses elements of Regulatory Impact Analysis (RIA) in getting feedback on legislation from working group members. This process enables early feedback from all working group members using special forms and ensures early inputs from Civil Society Organizations as they are a major part of working groups. After getting on board all feedbacks, the secretary, together with members of working group, prepares “Final Feedback Document” in order to present to the Government. The aim of this document is to provide a detailed and systematic appraisal of the potential impacts of a new regulation (initiative) in order to assess whether the regulation is likely to achieve the desired objectives. This document also aims to ensure that regulation will be citizen-centric in enhancing the welfare of people and business-centric in improving the business environment. This approach prevents the implementation of reforms with potential negative effects to welfare of population or to business environment and eliminates barriers to civil society and entrepreneurial activity in advance. In the end of the second step, updated suggestions get approved and necessary legislations are passed for the implementation stage.

Once legislative and regulatory basis allows the implementation of the initiative, one institution is assigned responsible for the execution while the relevant working group remains involved in the implementation and monitoring of the reform. It is worth to highlight that the previous general legislative scheme for implementing reforms did not change but the approach via new Reform Model enabled institutions to align much faster and coordinate their efforts more efficiently.

3.4 Coordination among institutions

By replacing frequently changing working groups with permanent working groups, the new Reform Model ensured closer collaboration among the parties involved in reforms and easier coordination of the reform efforts. Prior to the new Reform Model, different people were assigned by the institutions to changing working groups with each reform on related topics. The frequent changes in working groups with assignment of different experts to each reform presented challenge for taking collaboration to next level and building expertise and capabilities of involved in reforms within institutions.

FIGURE 11: NEW REFORM MODEL ENSURING CONTINUITY IN WORKING GROUPS ON EACH REFORM AREA



In the new Reform Model, however, institutions assign people to the working groups on permanent basis. Working groups collaborate within the institutions and across institutions and build knowledge, mutual working habits, and relationships together which they leverage on further reforms. This new approach not only helps people in developing collaborative mindset but also enables capability building for those involved in the process. Moreover, the new approach cultivates innovation mindset for all members of working groups as different members continuously brainstorm on innovation reforms. This also helps to drive collaboration and innovation mindset within institutions with the aid of working group members who play the role of change agents.

3.5 Tools of the new Reform Model

As the Commission moved forward, it **introduced new tools to drive efficiency, effectiveness and inclusiveness**. The key tools developed by the Center for Analysis of Economic Reforms and Communication include analytical benchmarking tool, innovative communication platform and innovative engagement platform / digital calendar. More detailed information about these tools are presented in sections 3.6-3.8 of this document.

3.6 Analytical benchmarking tool

Key function of the analytical benchmarking tool is to enable convenient comparison of different countries in order to understand the countries with best practices in each dimension and sub-dimension to further investigate their practices/reforms for potential reapplication.

The tool has two subsections as ranking and benchmarking. The ranking section contains several key pieces of information about 3 global ranking reports (Doing Business Report, Global Competitiveness Report and Economic Freedom Report). Two types of information is presented within the section including Azerbaijan specific data (Azerbaijan’s score and ranking dynamics in the respective report in past years) and general information (the report and reporting organization, publishing periodicity, methodology, indicators and other details). More information on this can be obtained in the Commission’s website via following link: <https://azranking.az/en/ratings/dinamika-72>

The Benchmarking section (<https://azranking.az/en/benchmarking>) gives users opportunity to analyze all countries in all dimensions and sub-dimensions of Doing Business Report. The user can easily select: criteria among overall, by dimension and by sub-dimension; countries to be included in benchmarking; years (2015-2019 for scores results and 2019 for ranking); and reporting formats as 3 different types of graphs and excel report.

FIGURE 12: BENCHMARKING TOOL ALLOWS QUICK AND CONVENIENT ANALYSIS OF BUSINESS ENVIRONMENT BASED ON SEVERAL DIMENSIONS



The tool has high capacity of visualization of results, enabling viewing scores in various formats such as bar charts, line charts and column charts as well as exporting data as excel file.

FIGURE 13: OPTIONS FOR VISUALIZATION AND REPORTING OF THE ANALYSIS

Functionality enables to view scores in various formats, including bar charts, line charts, and column charts as well as export data as excel file



The key benefits of the analytical tool are agility, accountability and inclusiveness. Agility is provided by enabling working groups to quickly analyze the current state of business environment in their respective field without a need to refer to different reports and save time on such analysis.

The tool and the targets of working groups are publicly available in the platform. Hence, anyone can review the reports and judge the success of specific working group against their objectives, which brings accountability. The tool is also designed to provide inclusiveness, so that everyone can use the report to analyze the current state, strengths and development areas of the country and using this tool in combination with engagement platform, citizens can analyze particular areas and submit their ideas accordingly.

3.7 Innovative communication platform

The innovative communication platform, which is another tool introduced by the Center for Analysis of Economic Reforms and Communication, aims for faster coordination between the Commission and working groups, faster coordination of the working groups' efforts and driving inclusiveness with participation of external parties. The platform helps to replace many communication channels with only one channel and significantly reduces the efforts in coordination process. Commission secretariat and heads of working groups can easily share information, make requests, organize meetings, assign tasks, prepare documentation and obtain approvals. The main benefit tool is a significant reduction in paper usage in the communication process among the many involved institutions. The system enables access to all members of the working groups including the members from private sector.

In order to drive the usage of the platform, user guidance is placed in both website home screen and the home page of communication platform. Users can access detailed guide for using the panel in both Azerbaijani and English languages from the main menu bar in the website. Once they log in, users automatically reach the user guide on how to use the platform.

Communication platform has different tools enabling better coordination of working groups' and the Commission's efforts. The platform has 4 key functionalities that help in facilitating the coordination among all relevant stakeholders: overview of documents, creating executive documents, creating invitation documents and history of work done sections.

Overview of documents section helps users to visualize the inbox content, information vs. action items, critical deadlines and related alerts. Creating Execution documents section has several important features for creating work requests including indicating deadline for the task to highlight close/missed deadlines in the future, indicating approvers before the document / request is sent to the recipients and attaching necessary files to fill/read/etc. Creating Invitation documents section serves as a calendar for all users and has important features for organizing meetings of the Commission and its working groups. History of work done section facilitates the users in tracking and coordinating their work with other members by overviewing all the documents / requests /events they shared and reviewing the status of the requests.

FIGURE 14: KEY FUNCTIONALITIES OF COMMUNICATION PLATFORM

Overview of documents

Document type	Document number	Document name	Incoming date	Sent by	Status	Operation
Execution document	191028 9441	About sending suggestions	02.10.2019 14:32	Abbas Abbasov	Sent to execution	Select operation
Execution document	191028 9438	Actions necessary for Project A	02.10.2019 14:30	Abbas Abbasov	Sent to execution	Select operation
Execution document	191028 9438	Actions necessary for Project B	02.10.2019 14:30	Abbas Abbasov	Sent to execution	Select operation
Information document	190927 9391	2.2 section of execution plan	01.10.2019 11:42	Abbas Abbasov	Sent for information	Select operation
Information document	190927 9389	2.2 section of execution plan	01.10.2019 11:36	Abbas Abbasov	Sent for information	Select operation

- Tasks with close deadlines are highlighted in orange to get priority
- Once deadline is missed it shows in red highlight
- Operation shows whether the document is for information or for action?

Creating Execution documents

Document name: _____ Deadline: 03.10.2019 00:00

Recipients: _____

Text: _____

Event name and date: _____

Notes: Upload the document and continue Choose file Upload

Select signators: _____ Select approvers: _____ Select executors: _____ Select recipients: _____

- **Approvers are selected** – this helps the coordination of tasks within the Commission and working groups and **helps avoid more time-consuming paper approvals**
- Members are **automatically informed** of the meeting as it gets approved. It significantly facilitates the coordination for working groups since each group involves **20+ members** from **15+ different organizations**
- Necessary **files can be attached** to guide recipients on the task or give extra details
- **Deadline** is selected – this stimulates **faster execution of requests** and affects the agility of reforms

Creating Invitation documents

Document name: _____

Recipients: _____

Text: _____ 02.10.2019 00:00

Event name and date: _____

Notes: Upload the document and continue Choose file Upload

Select signators: _____ Select approvers: _____ Select executors: _____ Select recipients: _____

- **Approvers of the meeting are selected**
- **The date and time** of the meeting is selected

History of work done

Document type	Document number	Document name	Incoming Date	Recipients	Status	Active?
Information document	1909279267	Test document	23.09.2019 16:37	Abbas Abbasov	Sent for approval	Active
Execution document	1909289270	Test document	23.09.2019 16:49	Abbas Abbasov	Sent to executor	Executed

- **The list of all documents** / requests / invitations shared
- **Date** when it was shared
- **Recipients**
- **The status of requests** – whether completed or still active

3.8 Innovative engagement platform / digital calendar

The Digital Calendar (<https://azranking.az/en/protocols-announcements>) brings transparency to the operations of the working groups and enables and facilitates public participation and inclusiveness in the decision-making process. As an engagement platform, the calendar aims to foster social inclusiveness in reforms by stimulating public-private dialogue via 3 functionalities:

Online agenda of working groups: Besides showing the general description of meetings, the date and time, the tool is accessible to public and aids interested people in getting information on timing of all working groups meetings, reviewing the agenda of every meeting and sending suggestions and getting a right to participate in the meetings.


Details of the meetings and Provide feedback / suggestions and/or request participation: The process of submitting ideas or application for participation in the meetings is very quick and convenient. Anyone can make a submission within 2-3 minutes by only providing the required information (name/surname, e-mail/phone, attachment for ideas and message). Working group reviews the suggestions/applications within one day and gives answer.

FIGURE 15: INNOVATIVE ENGAGEMENT PLATFORM


Online agenda of working groups in the platform

24 October 2019		Thursday
3:00pm - 4:30pm	<input checked="" type="checkbox"/>	Meeting of the Working Group on "Financial Markets Development and Accessibility of Loans"
28 October 2019		Monday
3:00pm - 5:00pm	<input checked="" type="checkbox"/>	Meeting of the Working Group on "Power Supply"
29 October 2019		Tuesday
11:00am - 1:00pm	<input checked="" type="checkbox"/>	Meeting of the Working Group on "Trading across Borders"
30 October 2019		Wednesday
10:00am - 12:30pm	<input checked="" type="checkbox"/>	Meeting of the Working Group on "Health System"


Details of the meetings in the platform




15.10.2019 11:03

 Send suggestion

Meeting of the Working Group on "Financial Markets Development and Accessibility of Loans"



Start date: 24.10.2019 15:00



End date: 24.10.2019 16:30

The next meeting of the Working Group on Financial Markets Development and Accessibility of Loans of the Commission on Business Environment and International Rankings will be held on October 24, 2019 in the administrative unit of the Financial Markets Supervisory Authority. Topics on the government support to Initial Public Offering (IPO) of securities and support mechanisms of the Mortgage and Credit Guarantee Fund to the publicly offered bonds, as well as facilitating requirements for institutional investors and "Implementation and Communication Plan for 2020" of the Working Group will be discussed in the meeting.

VENUE: Administrative unit of Financial Market Supervisory Authority, 27 Bulbul avenue, Baku, the Republic of Azerbaijan.

AGENDA - 24.10.2019- Meeting of the Working Group on "Financial Markets Development and Accessibility of Loans"

Providing feedback / suggestions and/or requesting participation in the meetings via platform

Name *	Surname *
Email *	Phone
Select the appropriate field* <input type="checkbox"/>	<input type="button" value="Choose file"/> No file chosen
Submit your offer electronically. Supported file types .doc, docx, .pdf	
Message here	
<input type="button" value="SEND"/>	

Meeting of the Working Group on "Financial Markets Development and Accessibility of Loans"

Start date: 24.10.2019 15:00

End date: 24.10.2019 16:30

4. PERFORMANCE CHECK: ASSESSMENT OF THE IMPACT OF THE NEW REFORM MODEL

4.1 Overview of the involved efforts

Overall, 19 working groups were in action from the start of the Commission’s work. Only in 2019, 22 implementation, communication and action plans were prepared and aligned. During 2017-2019, 136 initiatives were designed, 627 meetings were held by working groups, 789 K man-hours were spent in initiatives within the context of the new Reform Model and as the result of these efforts 55 legislative documents were passed by the government.

As a result of abovementioned efforts, in 2018 Azerbaijan carried reforms in 8 out of 10 core dimensions; the highest number among all countries according to World Bank’s doing business report which recognized Azerbaijan as a global top 10 reformist country with 42 reforms carried out during 2007-2018 period.

During this period Azerbaijan significantly increased the number of reforms carried per year as noted by World Bank in its Doing Business reforms database.

FIGURE 16: REFORMS AZERBAIJAN IMPLEMENTED IN 2017-2019 ACCORDING TO REFORM DATABASE OF DOING BUSINESS BY WORLD BANK

Reform areas	2017 – 2019 key reforms
Property	<ul style="list-style-type: none"> ■ Increased transparency of land administration system to simplify property registration process
Foreign trade	<ul style="list-style-type: none"> ■ Streamlined electronic customs procedures and implemented the “green corridor” gating system ■ Introduced an electronic system for submitting export and import declarations
Construction	<ul style="list-style-type: none"> ■ Streamlined construction permitting process by applying single-window approach
Taxes	<ul style="list-style-type: none"> ■ Introduced e-invoicing and a unified tax return for social security contributions ■ Enhanced online platform for filing CIT ■ Made paying taxes easier by abolishing vehicle tax for residents
Access to Credit	<ul style="list-style-type: none"> ■ Established credit bureau, thereby improving access to credit information ■ Introduced a new secured transactions law and insolvency law to strengthen access to credit ■ Set up a unified, modern and notice-based collateral registry
Electricity	<ul style="list-style-type: none"> ■ Improved power supply reliability ■ Established a single window for getting electricity fast and cheap ■ Allowed customers to choose private contractors to carry out external connection works ■ Streamlined the process of obtaining a new electricity connection
Judicial system	<ul style="list-style-type: none"> ■ Introduced a system that allows users to pay court fees electronically
Minority investors	<ul style="list-style-type: none"> ■ Strengthened minority investor protections via increasing shareholders’ rights and role in major corporate decisions, clarifying ownership and control structures and requiring greater corporate transparency
Insolvency	<ul style="list-style-type: none"> ■ Made resolving insolvency easier by providing for the avoidance of preferential transactions

Reform areas	2017 – 2019 key reforms
	<ul style="list-style-type: none"> ■ Made insolvency proceedings more accessible for creditors and granted them greater participation in the proceedings, improved provisions on the treatment of contracts during insolvency and introduced the possibility to obtain post-commencement financing.
Employing workers	<ul style="list-style-type: none"> ■ Changed regulations pertaining to the notice period for redundancy dismissals and severance payments

4.2 Key improvements achieved behind the implementation of the new Reform Model

The most noteworthy reforms implemented during 2017-2019 period include reforms in construction, electricity, property, access to credit, taxes, foreign trade and judicial system. The reforms in all these areas improved the business environment in the country.

FIGURE 17: KEY ACHIEVEMENTS BY WORKING GROUPS

FIGURE 17.1: FINANCIAL MARKETS DEVELOPMENT AND ACCESSIBILITY OF LOANS

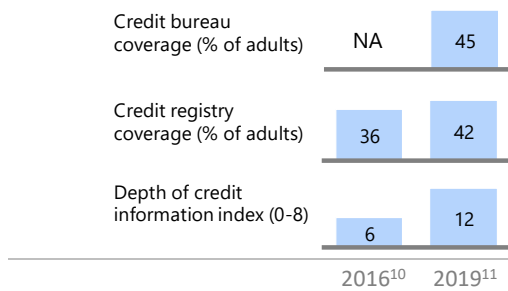


FIGURE 17.2: ISSUANCE OF CONSTRUCTION PERMITS

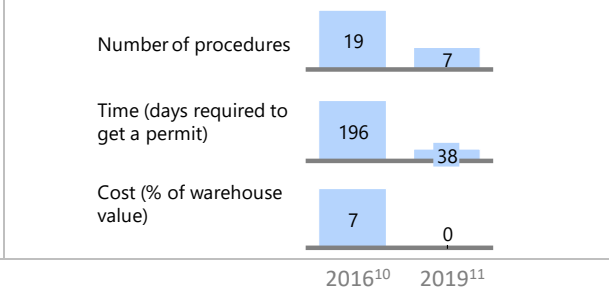


FIGURE 17.3: CONNECTION TO ELECTRICITY SUPPLY NETWORKS

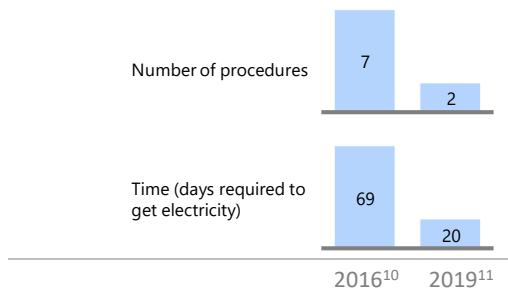


FIGURE 17.4: PUBLIC PROCUREMENT

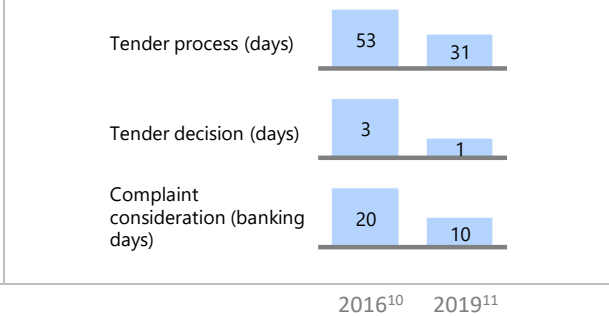


FIGURE 17.5: STARTING BUSINESS, TAX AND ACCOUNTABILITY

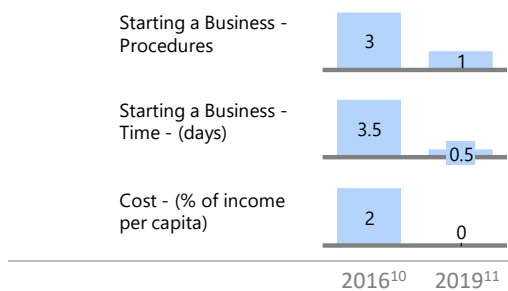


FIGURE 17.6: FOREIGN TRADE AND TRADE TARIFFS

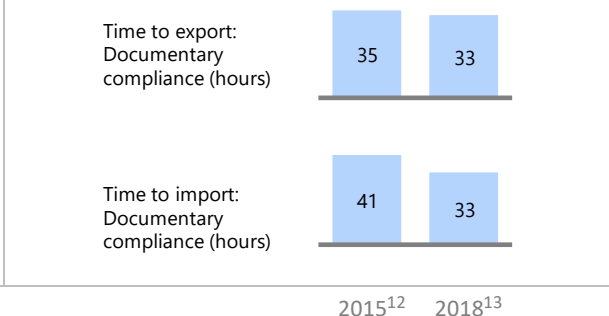


FIGURE 17.7: PROPERTY REGISTRATION

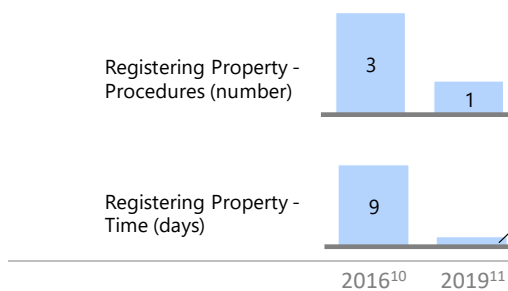


FIGURE 17.8: EXECUTION OF CONTRACTS, DISPUTE RESOLUTION, BANKRUPTCY, JUDICIAL SYSTEM AND RULE OF LAW



4.3 Reform case examples

Reform example 1: Establishment of credit bureau has positively affected financial inclusiveness and risk management of lending banks in Azerbaijan

10 Based on Doing Business report 2017, published in late 2016

11 Based on the estimation of Center for Analysis of Economic Reforms and Communication of Azerbaijan in 2019;

12 Based on Doing Business report 2016, published in late 2015

13 Based on Doing Business report 2019 published in late 2018

The Bureau was established in March of 2018 in line with the Commission’s action plan, in order to minimize banks’ credit risks by carrying credit information exchange with lending institutions, to encourage financial discipline among borrowers, to enhance financial inclusiveness and to support the financial stability.

The credit bureau consolidates registry about credit history of all borrowers in the country. The credit history includes such information as loan payments, utility payments, insurance payments, mobile usage, etc. and the database is continuously expanding. It provides online access to its data for all banks and financial institutions in the lending process and to other information providers. The credit bureau also provides Value Added Services such as customer risk scoring.

FIGURE 18.1: IMPACT OF ESTABLISHING A CREDIT BUREAU

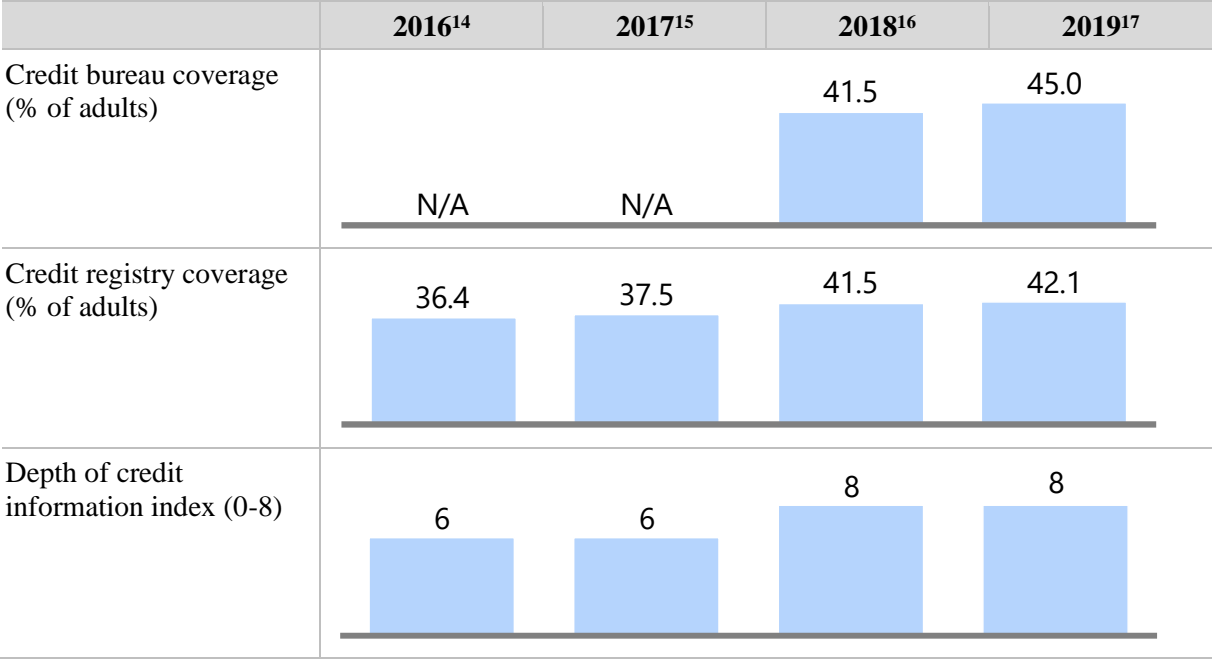


FIGURE 18.2: BENEFITS OF CREDIT BUREAU TO USERS AND INSTITUTIONS

Benefits for users	Benefits for institutions
<ul style="list-style-type: none"> ■ Access to data on customers ■ Better risk assessment ■ Ability to extend loan to more people ■ Convenience in accessing data (online) ■ Access to value added services 	<ul style="list-style-type: none"> ■ Better financial discipline among borrowers ■ Increased financial stability ■ Inclusiveness in getting credit ■ Convenience in managing the process

Reform example 2: Introduction of ‘digital single window’ system and simplifying permissions helped to reduce number of procedures, time and cost required to get construction permission

The key reform was the Introduction of “One window” system in getting permissions in order to both simplify number of procedures (from 19 in 2016 to 7 in 2019) and decrease time required to get

14 Based on World Bank’s Doing Business 2017 report published in 2016
 15 Based on World Bank’s Doing Business 2018 report published in 2017
 16 Based on World Bank’s Doing Business 2019 report published in 2018
 17 Based on the estimation of Center for Analysis of Economic Reforms and Communication of Azerbaijan; 5 Action plan approved via president’s decree: <http://www.e-qanun.az/framework/35658>

permissions for construction (from 196 days in 2016 to 38 days in 2019). Working group introduced digital single window system for construction permissions for low-risk buildings as of January, 2019. To enable this system’s work working group carried out technical integration among 6 institutions involved in granting permissions for easier and faster information exchange. Working group also introduced functionality enabling applicants to track their requests in real time. As of 2019 the system received 45 requests for construction permissions. Obtaining permission is carried out free of charge. The detailed results of the reform are provided in Figure 19.

FIGURE 19.1: IMPACT OF SIMPLIFYING ACCESS TO ELECTRICITY

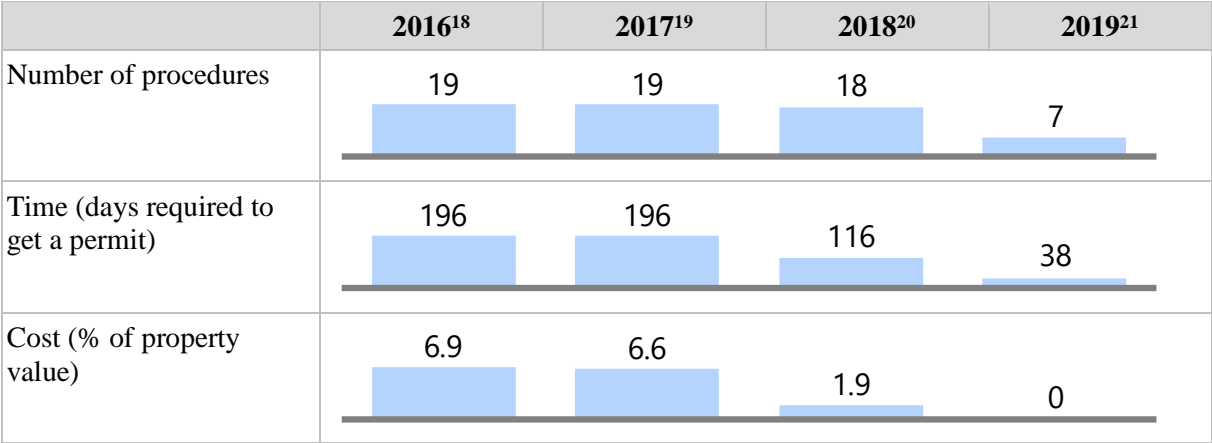


FIGURE 19.2: BENEFITS OF ‘DIGITAL SINGLE WINDOW’ SYSTEM TO USERS AND INSTITUTIONS

Benefits for applicants for permission	Benefits for institutions
<ul style="list-style-type: none"> ■ Less time required to get permission ■ Convenient digital process of obtaining construction permission ■ Only 1 institution (vs earlier 7 institutions) as a single point of contact ■ No cost in getting permission 	<ul style="list-style-type: none"> ■ Less resource spent in new process ■ Agility in coordination among institutions behind digital nature of process management ■ Easy tracking of the process

Reform example 3: Introduction of online connection to electricity simplified the process by reducing number of procedures, required time and providing convenience in getting electricity

Before the introduction of online connection system legal entities were required to contact 6 different institutions for getting electricity. Documentation was carried in paper through the process. Aspiration of the working group was to simplify the process by digitalizing it to take out the need for a physical visit to any institution and further reducing the number of procedures and time required to get access to electricity, as well as reducing the number of institutions that entities contacted to only 1 institution as a point of contact.

With this reform related working group established online management of electronic applications for getting electricity, carried out technical data integration among 4 related government institutions for online data exchange (Ministry of Justice, Ministry of Taxes, State Committee on property issues, Ministry of Internal Affairs), established data exchange among 7 related institutions to provide opinion online and set-up electron map management system that enabled automatic online selection of the

18 Based on World Bank’s Doing Business 2017 report published in 2016
 19 Based on World Bank’s Doing Business 2018 report published in 2017
 20 Based on World Bank’s Doing Business
 21 Based on the estimation of Center for analysis of Economic Reforms and Communication of Azerbaijan

closest electricity hub. Getting electricity was also made faster and less costly by establishing a single window.

FIGURE 20.1: IMPACT OF THE REFORM ON ONLINE CONNECTION TO ELECTRICITY

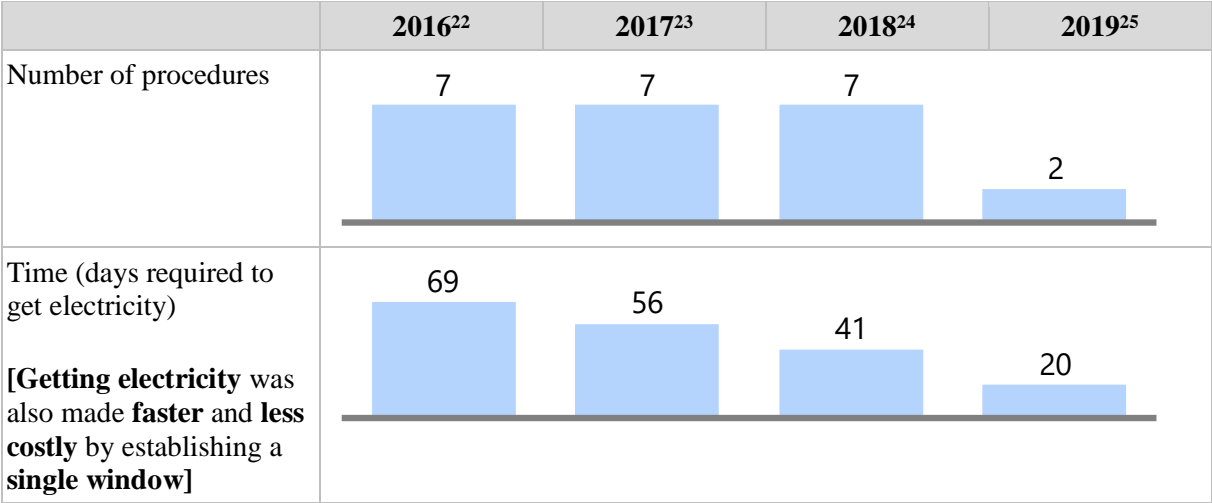


FIGURE 20.2: BENEFITS OF THE REFORM TO LEGAL ENTITIES AND INSTITUTIONS

Benefits for legal entities	Benefits for institutions
<ul style="list-style-type: none"> ■ Convenience in getting electricity & no need to visit physically ■ Less time spent in the process ■ Customer satisfaction 	<ul style="list-style-type: none"> ■ Easier coordination among multiple entities ■ Less resources (human and time) spent in the new process ■ Convenience (electron map management)

Reform example 4: Establishment of e-system for public procurement enabled the transparency of the system and accountability of government bodies

E-tender processes were established by the decree of the President Mr. Ilham Aliyev in December 2018. As part of this reform working group launched etender.gov.az website as the single online access point for all government procurement activity and aimed to drive inclusiveness by providing all members of the society with an access to the information on the government’s procurement plans. The ultimate goal of the reform was to support SMEs by enabling their participation in public tenders and to enable simplification of tender process via introduction of a single web portal. Regulatory basis for the provision of tenders fully online was passed in December of 2018 with huge support of the Commission and the working group. A single web portal was established and activated in early 2019 for all public procurement tenders below 3 million AZN (~1.7\$M). A legislation requiring 100% of public procurement to be managed online was passed in December, 2018. Massive media campaign was carried out to stimulate the participation of SMEs in public tenders.

22 Based on World Bank's Doing Business 2017 report published in 2016
 23 Based on World Bank's Doing Business 2018 report published in 2017
 24 Based on World Bank's Doing Business 2019 report published in 2018
 25 Based on the estimation of Center for analysis of Economic Reforms and Communication of Azerbaijan

FIGURE 21.1: IMPACT OF PUBLIC PROCUREMENT REFORM

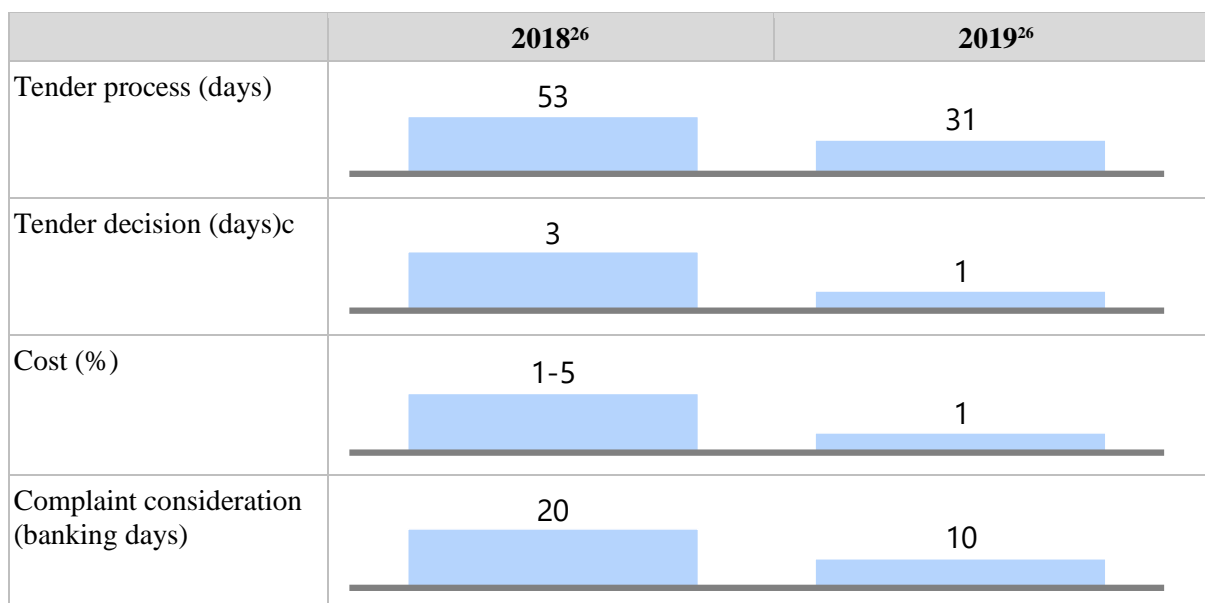


FIGURE 21.2: BENEFITS OF PUBLIC PROCUREMENT REFORM TO PARTICIPANTS AND INSTITUTIONS

Benefits for tender participants	Benefits for public institutions
<ul style="list-style-type: none"> ■ Easier access to market ■ Opportunity for SME growth ■ Convenience in tender participation ■ Transparency ■ Less time spent in the process ■ Less cost to participate in tenders 	<ul style="list-style-type: none"> ■ Easier document exchange ■ Less time and human resources spent in tender processes ■ Easier to track past tenders' data

Reform example 5: Establishment of “AZEMIS” e-court platform enabled the transparency of the judicial system and accountability of courts

E-court information system was established by the decree of the President, Ilham Aliyev in February 2014. The system was adopted widely after further regulatory support of the Commission in 2018. To ensure accessibility of the judicial system to every citizen, the working group pursued electronic court proceedings and simplified procedures for the handling of small claims. Working group, together with relevant institutions, implemented several important steps to ensure the success of the platform: connected 60% of all courts to the e-court information system; integrated the information systems of Ministry of Taxes, Ministry of Transport, Communications and High Technologies and State Committee on Property Issues with the e-court information system; enabled application to courts using personal cabinets; launched functionality to pay state duty through government payment portal; started distributing cases in the court automatically and randomly among the judges; enabled functionality to send meeting information, notices and letters through the system; reduced time spent by judges on routine operations.

²⁶ Based on the report published by Centre For Analysis of Economic Reforms and Communication of Azerbaijan Republic in 2019

FIGURE 22.1: IMPACT OF E-COURT PLATFORM

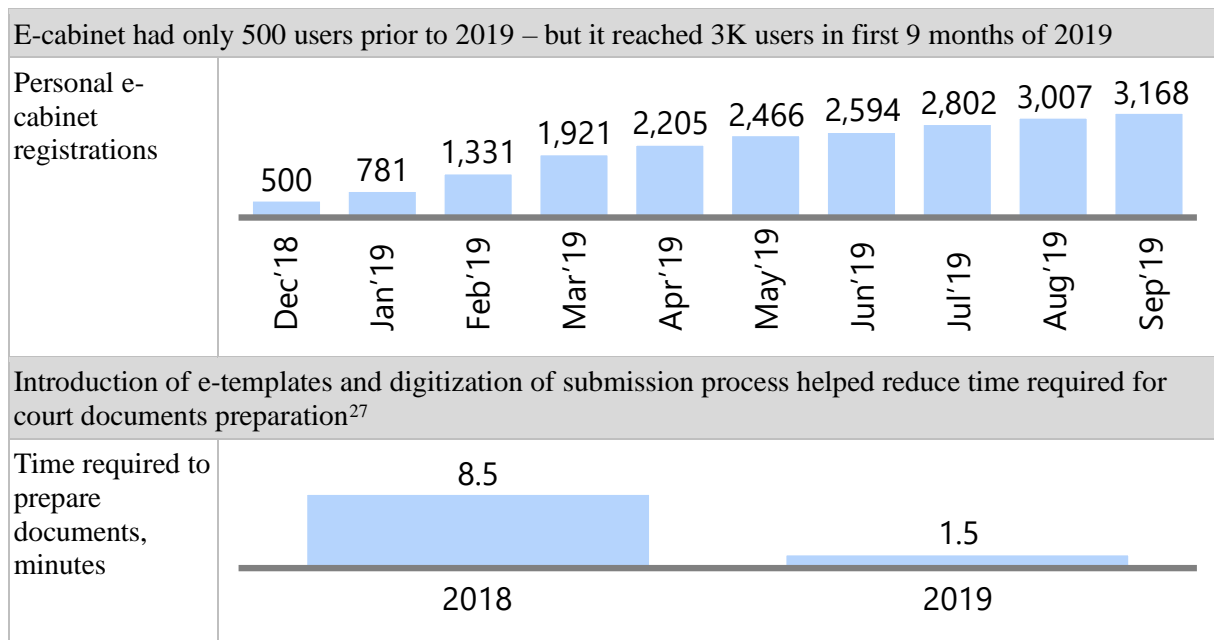


FIGURE 22.2: BENEFITS OF E-COURT TO LEGAL ENTITIES AND INSTITUTIONS

Benefits for legal entities	Benefits for institutions
<ul style="list-style-type: none"> ■ Less time spent in the process ■ Much more convenient process with no need to physically visit courts ■ Accessible for all groups of population, especially the ones that have difficulty in visiting courts (e.g. people with disabilities) 	<ul style="list-style-type: none"> ■ Easier coordination among government entities ■ Less resources spent on documentation related work (judges earlier spent majority of their time on documentation)

4.4 The recognition of the outcome of the reforms

The results of all these reforms have been noted by international institutions inside and outside Azerbaijan. Below are some examples of these recognitions.

“The country’s recent success is one of the most successful and greatest achievements in the history of the World Bank’s Doing Business rating ... The importance of the structural and economic reforms carried out by President Ilham Aliyev is increasing against a background of the global economic slowdown in recent years” - Kristalina Georgieva, Chief Executive Officer for the World Bank, 22.01.2019

“In the current stage of ongoing reforms, we are witnessing that the development of the private sector is a key priority for Azerbaijan and takes advantage of the full support by the country’s leadership. Switzerland is ready to support further efforts of the Azerbaijani government to create a new economic model” – Simon Haberle, Deputy Regional Director of the Swiss Cooperation Office in the South Caucasus, 08.05.2019

“When we were conducting annual CEO survey in 2016, the mood and outlook of both the global and local CEOs were rather grim. It is very encouraging to notice that within

²⁷ Based on the information provided by working group "Execution of contracts, dispute resolution, bankruptcy, judicial system and rule of law"

the short period of two years, Azerbaijan has been able to overcome many challenges it faced in the economy. The 2018 report shows that 66% of CEOs are confident about their companies' growth prospects" – Movlan Pashayev, PWC Azerbaijan, Country Managing Partner, 15.03.2018

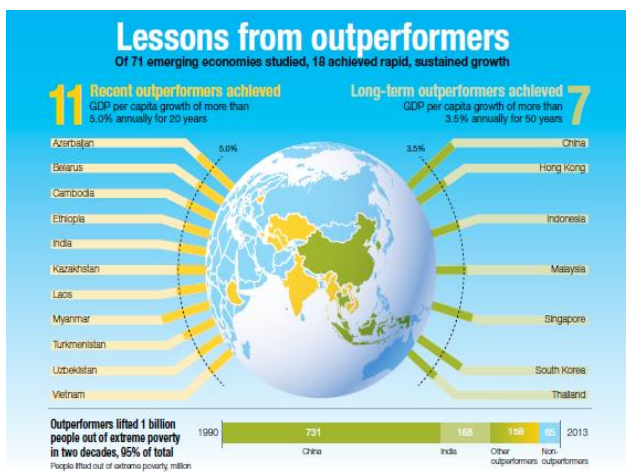
"To build a sustainable and steady economy, the country must benefit from new sources of growth. We are delighted with the Government's steps in this direction. Our consultancy program focuses on supporting local businesses in growth and attracting foreign investment, making regulatory norms more convenient for local and private companies. These measures help entrepreneurs to expand their activities and create more jobs" – Jan van Bilsen, IFC Senior Regional Manager for the Caucasus and the Russian Federation, 08.05.2019

"The economy of Azerbaijan is gradually recovering from the experienced shocks; in recent months, a large number of social measures have also been implemented. Therefore, we believe that the non-oil economy of Azerbaijan in 2019-2020 will grow by an average of 2.7% per year" – Natalia Tamirisa, International Monetary Fund, Head of the Mission in Azerbaijan, 27.06.2019

"The reforms helped Azerbaijan get into the list of 10 economies showing the biggest improvement in performance in the last World Bank Group Doing Business Report, released in October 2018, which looks at the business climate in 190 economies around the world. The country had carried out eight reforms, the highest number by an individual country. We believe Azerbaijan has tremendous economic potential. Strategic reforms can create conditions that go a long way towards helping the country realize its promise and, hopefully, usher in a new era of prosperity" – Wiebke Schloemer, Regional Director, Europe and Central Asia, IFC, 25.09.2019

During 2019 World Economic Forum in Davos, Loic Tassel, Procter&Gamble's President for Europe Operations, hailed the positive results of economic reforms carried out in Azerbaijan in recent years. He noted that the business environment and conditions created for investors in Azerbaijan encourage Procter & Gamble to expand its activities in the country. He also noted that the current business environment in Azerbaijan has led the company to choose Baku as a regional center – Loic Tassel, President of Europe Selling & Market Operations, Procter & Gamble, 23.01.2019

Besides, several international publications also recognized the recent reforms and overall growth of Azerbaijani economy.

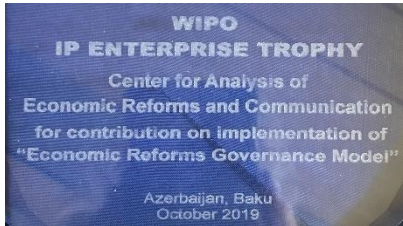


Among them, McKinsey Global Institute listed Azerbaijan as one of 11 recent outperformer economies globally who achieved more than 5% annual GDP growth for last 20 years (based on World Bank data AZE GDP growth for last 20 years was on average 12% per annum) in its 2018 report "Outperformers: High Growth Emerging Economies and the companies that propel them".

In addition, World Bank highlighted Azerbaijan as one of top 10 reformist countries among 190 countries in its report ‘Doing Business 2019’ published in late 2018. The other economies with the most notable improvement in Doing Business 2019 are Afghanistan, Djibouti, China, India, Togo, Kenya, Côte d’Ivoire, Turkey and Rwanda.



World Bank also published the list of top 20 improvers in its doing business 2020 report prior to publishing the full report. Azerbaijan was included amongst the top 20 with key improvements observed in 4 areas: registering property, getting credit, protecting minority investors, enforcing contracts.

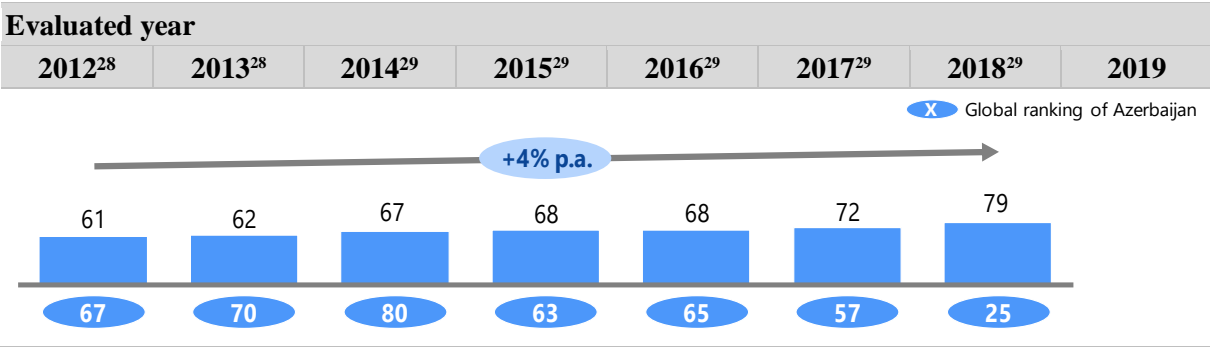


In 2019, World Intellectual Property Organization (WIPO) recognized the Center for Analysis of Economic Reforms and Communication of Azerbaijan Republic with IP Enterprise Trophy for its contribution on the implementation of “Economic Reforms Governance Model”. One of the objectives of IP Enterprise Trophy is to recognize successful activities undertaken to build public respect for IP. The trophy is given to organization that have shown

outstanding use of the IP system, for example, encouraging creative and inventive activity among staff, in the case of the new Reform Model.

Improvements have also been reflected in the evaluation of business environment of Azerbaijan by different global benchmarking reports like Doing Business (Azerbaijan increased its score from 68 to 79 in 2 years also improving global rank to 25th place), Global Competitiveness (Azerbaijan’s global competitiveness score improved consistently between 2012 and 2017. However, as of 2017 the scoring methodology changed – with new methodology Azerbaijan improved its score from 60 to 63 and its ranking from 69th to 58th most competitive country globally in 1 year) and Economic Freedom Index (Azerbaijan’s score in economic freedom report grew gradually but consistently reaching 65,4 in 2019) reports. The details of Azerbaijan’s improvement in these reports are provided in Figure 23.1-23.3.

FIGURE 23.1: GLOBAL REPORTS – DOING BUSINESS BY WORLD BANK (score over 100)



28 Overall scores were not published before Doing Business 2014 report (published in 2013). But Doing Business 2014 report which was published in 2013 provided also score for an earlier year

29 Scores adjusted by doing business after the original report is published

FIGURE 23.2: GLOBAL REPORTS – GLOBAL COMPETITIVENESS³⁰ BY WORLD ECONOMIC FORUM (score over 8 till 2018 and over 100 as of 2018)

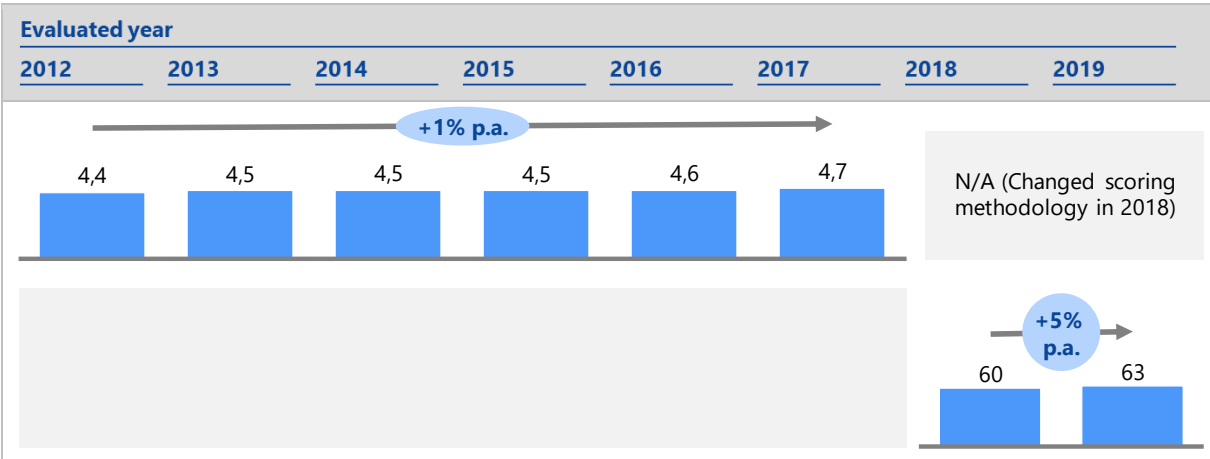
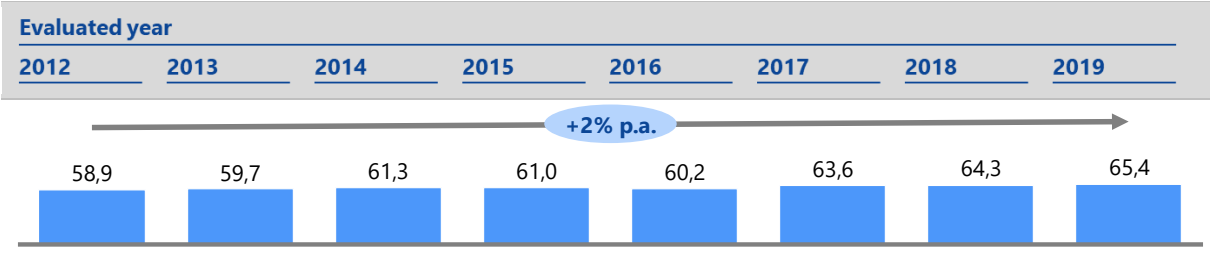


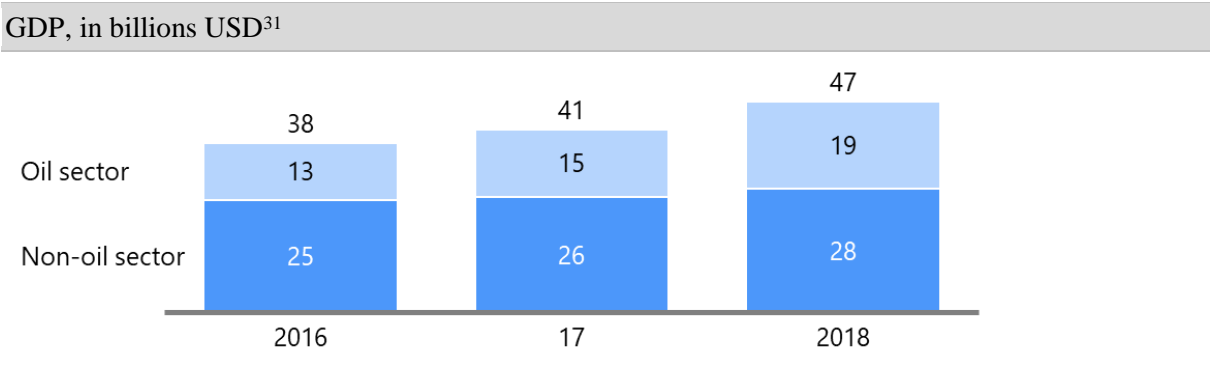
FIGURE 23.3: GLOBAL REPORTS – ECONOMIC FREEDOM INDEX BY HERITAGE FUND (score over 100)



4.5 A new stage of sustainable growth

Azerbaijan economy entered a new stage of sustainable growth during this period. In 2016 - 2018 period Azerbaijan experienced balanced and steady growth in overall economy and in non-oil sector as can be observed in Figure 25. The value of total exports and non-oil exports also increased steadily over 2016-2018 period (Figure 26). Number of new legal entities , and especially the ones established by women doubled over the last 4 years – a crucial fact for progression on 2030 Sustainable Development Goal (SDG) on gender equality. Number of Small and Medium Enterprises (SMEs) in the country reached 1 million in 2019 helping to foster employment and economic growth in the country – another important 2030 Sustainable Development Goal.

FIGURE 24: IN 2016 - 2018 PERIOD AZERBAIJAN EXPERIENCED BALANCED AND STEADY GROWTH IN OVERALL ECONOMY AND IN NON-OIL SECTOR



30 Changed rating methodology in 2018
 31 Based on the data provided in Azerbaijan State Statistical Committee website

FIGURE 25: IMPORT/EXPORT STATISTICS

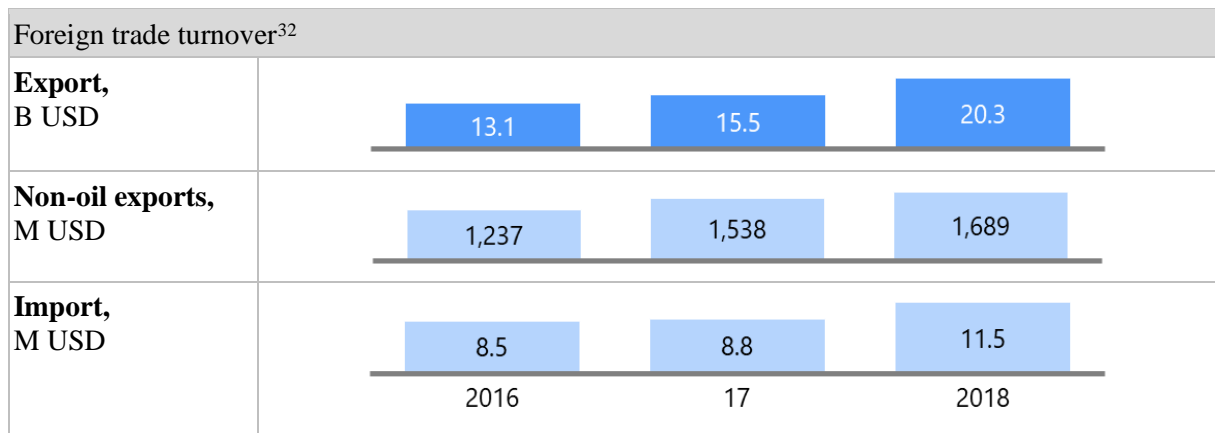


FIGURE 26: LEGAL ENTITIES³³

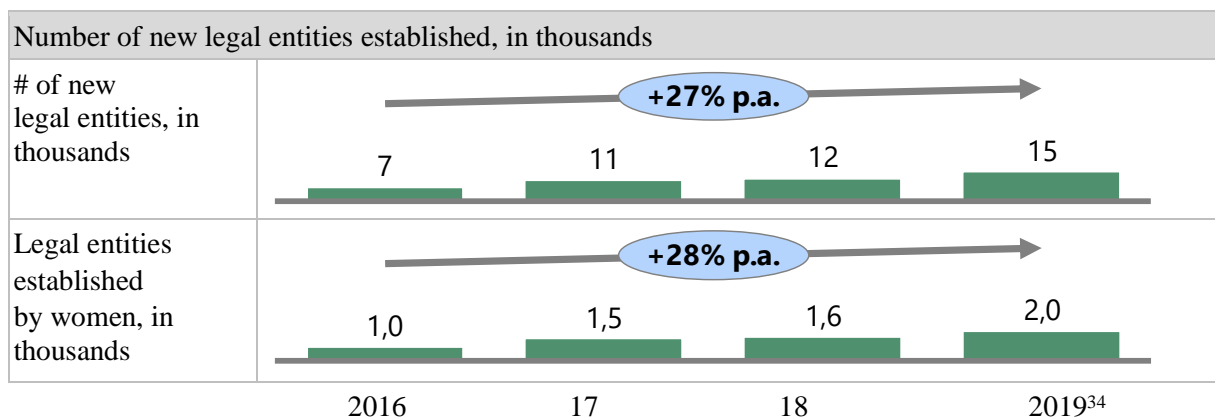
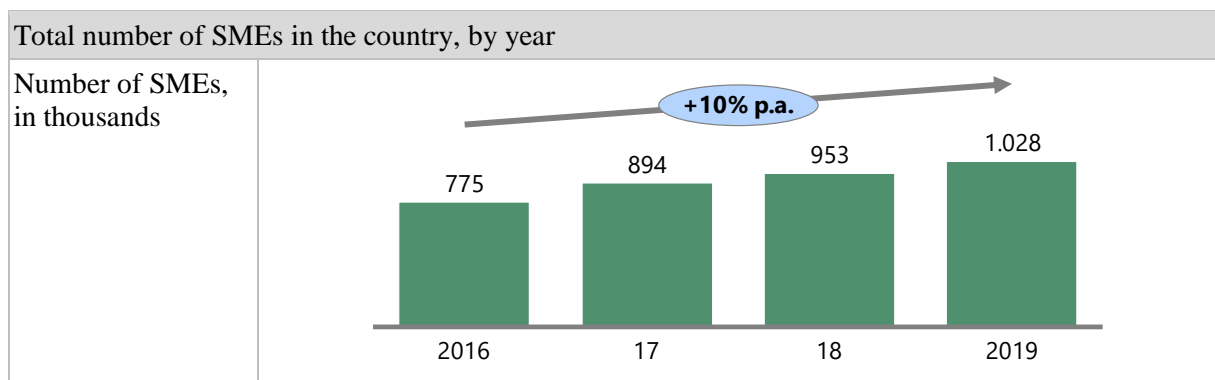


FIGURE 27: NEW BUSINESS ESTABLISHMENTS³⁵



32 Based on the data provided in Azerbaijan State Statistical Committee website

33 Based on the data provided by Ministry of Taxes of Azerbaijan Republic

34 Based on the data provided by Ministry of Taxes of Azerbaijan Republic

35 Based on the data provided by Ministry of Taxes of Azerbaijan Republic

5. HEALTH CHECK: SUSTAINABILITY AND RELEVANCE OF THE NEW REFORM MODEL

5.1 Developmental phases of the new Reform Model

During the last three years the new Reform Model passed through three phases including establishment (2016-2017), progression (2017-2018) and innovation (2018-2019) phases.

The first phase, establishment, started with the approval of the President of the Republic of Azerbaijan Mr. Ilham Aliyev in July of 2016. In this stage the core of the new Reform Model was designed and implementation started. More importantly, the secretariat and working groups were formed in this phase.

During the progression phase, the Commission passed legislations regarding how secretariat and working groups will work together, defined focus areas and designed a comprehensive action plan for all working groups. The action plan was detailed by working group and was approved by another decree by the President of the Republic of Azerbaijan Mr. Ilham Aliyev in June of 2017. The Commission used a number of international assessment reports on business environment of different countries globally during preparation of the action plans as a measure to evaluate the effectiveness of working groups. 5 main reports used as major tools for performance tracking included Doing Business Report by The World Bank, Global Competitiveness Report by The World Economic Forum, Economic Freedom Index by Heritage Foundation, Global Opportunity Index by Milken Institute, and Global Innovations Index by World Intellectual Property Organization (WIPO). In this phase the Commission started implementation of operational plans and all the parties worked closely and intensely on implementation of reforms.

In the innovation phase, several digital tools, helping to further improve the coordination process among the institutions involved in working groups, were launched.

Firstly, the Commission launched its website that played central role for all other upcoming tools. Next, analytics tool was launched to enable a fast and convenient analysis of the business environment by working groups. However, this tool was made public in order to drive transparency and accountability of the working groups as well as drive inclusiveness with public. The analytics tool, as discussed earlier in this document, intended to aid working groups not only in quick analysis of business environment, but also in benchmarking Azerbaijan to other countries and in finding the best practice countries in each dimension and sub-dimension so that working groups could further explore the practices those countries implemented.

In this phase the Commission introduced another digital tool, communication platform, in order to increase the efficiency in coordination between the Commission and working groups and within working groups. One major benefit of this tool was significant reduction of paper use which otherwise would be unavoidable with so many different parties involved in the process. The communication platform resulted in significant decrease in paper use in the communication between the Commission and working groups. Similarly, the digital transformation of the journeys in different reform areas directly affected the paper use in those specific reform areas (e.g. digital public procurement system, electronic court system, online access to electricity, etc.).

Finally, the most recent innovative tool of the new Reform Model is the engagement platform / digital calendar launched with the objective to increase public participation and feedback in the reform process. This tool was introduced in the beginning of 2019 and was improved throughout the year. Its introduction was advertised in number of media channels in order to drive public awareness of the tool.

Innovation phase proved to be important in ensuring the sustainability and continuous development of the new Reform Model itself. While the objective of the new Reform Model is to drive reforms by

working groups continuously, the Commission is also focused on reforming the new Reform Model itself ongoingly.

5.2 Sustainability components

Continuous innovation and improvement of the new Reform Model helps to ensure sustainability of impact. The sustainability of the Model is ensured via 3 elements that operate in parallel: institutional, financial and regulatory elements. Without these elements in place, keeping and continuously improving the new Reform Model would be challenging.

Institutional sustainability: Institutionally, the new Reform Model is sustainable in several ways.

First, the members involve in working groups on permanent basis. The same working groups continuously work on reforms on their area. This helps the working groups to develop expertise with each reform implementation.

Second, collaborative work of representatives of different institutions within the working groups also helps to achieve mindset shift for working group members to further drive collaboration and innovation in institutions.

Third, the new Reform Model leverages existing institutional base via participation of ministries, other government institutions, businesses, etc. but makes it more efficient through effective coordination.

Fourth, the Commission leverages evaluations by international reports such as Doing Business by World Bank a performance indicator to ensure working groups are result-oriented and accountable.

Finally, the institutional framework helps to build people's capabilities both via ongoing reform efforts and also by formal trainings and knowledge sharing.

The new Reform Model relies on several levers that enable institutional sustainability.

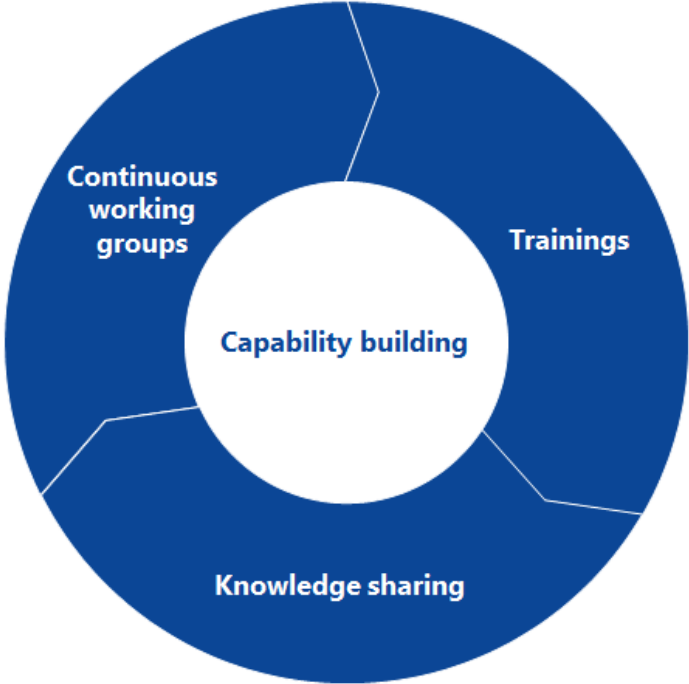
The first such lever is clear leadership/ownership within the Commission and within each reform area. On the Commission level a secretariat office and Center for Analysis of Economic Reforms and Communication led the overall coordination of the new Reform Model under overall guidance of Presidential Administration. Having the ownership of the process proved effective for coordination of the working groups. However, ownership is important on working group levels as well. To ensure ownership in this level the Commission assigned a head and secretary to each working group from the key institutions represented in respective working groups.

The second lever enabling institutional sustainability is the promotion of collaboration and innovation mindset. Involvement of all relevant government institutions into relevant working groups and forming working groups as a continuous process rather than a one-time effort allowed working group members to develop mutual working relationships within the group and also to develop collaboration and innovation mindset that they further drive in their respective institutions.

The third lever or enabler of the institutional sustainability is capability building. In order to build the expertise of people in working groups, the Commission designed a capability building model that assumes building people capabilities via on job experience, formal trainings and knowledge sharing. Permanent nature of working groups helps people to accumulate knowledge and experiences on the job.

Simultaneously, the Commission provides working group members with trainings on their related reform areas (e.g. methodologies of evaluating improvement in a specific reform area, examples of best reform practices across the globe on specific dimensions, etc.) and with access to all knowledge materials through its web portal. This web portal gives working group members access to all educational materials as well as to the details of reforms conducted in the past.

FIGURE 28: CAPABILITY BUILDING MODEL



The fourth lever / enabler of institutional sustainability is the continuous innovation. The innovation enables sustainability in two dimensions. On general level, the Commission constantly improves the new Reform Model via addition of various digital tools like communication platform to facilitate coordination of working groups’ efforts, engagement platform / digital calendar to engage civil society and analytics tool to facilitate the analysis of business environment. On working group level, new Reform Model encourages innovation, especially technological innovation, in all working groups. Once a working group delivers an innovative solution, their results are widely praised and recognized by the Commission which results in higher expectations on all groups and a healthy competition among working groups to drive innovation further. Innovation in reforms is mainly focused at the simplification of existing processes to improve business environment and the digitalization of the journeys for convenience of key users and institutions.

Financial sustainability: An important factor enabling the sustainability of the new Reform Model is its no-cost nature. Basically, the new Reform Model functions with no incremental costs as members of the working groups are designated from existing government bodies on voluntary basis. Considering that 300 people are involved in the working groups, paying salary to all these people would make the new Reform Model very expensive. However, the working groups operate at no extra cost to institutions, since the working groups – albeit not as effective and agile as today – have already been established by each institution prior to the new Reform Model. To sum up, there is no incremental cost behind the operation of working groups in the new Reform Model. The use of existing resources are maximized at all levels.

Regulatory sustainability: On the regulatory side, sustainability of the new Reform Model is ensured via legislative measures. In fact, the functioning of the Model is strictly regulated by laws and decrees. A separate decree regulates the work of the Commission, a separate decree regulates the work of secretariat, and separate decisions by the Commission regulate the operation of working groups. A general action plan for all working groups is confirmed by the Decree of the President Ilham Aliyev and action plans updated semiannually are confirmed with respective decisions of the committee and signed by first Deputy Prime Minister of the country. The most important factor, however, is that the new Reform Model is not dependent on one specific institution or one specific government official. If the Commission was under a specific institution, a significant change in its leadership could affect the continuance of the new Reform Model. However, the Commission involves high-ranked officials from

multiple institutions in its governance none of which have authority to restructure or release the Commission. This power resides only with the President.

5.3 Potential steps to further improve the new Reform Model

Although, the Commission continuously improves the new Reform Model there are 2 important ways to better leverage its impact: scale-up activities and scope-up activities.

Scaling up refers to increasing the scale of the new Reform Model without changing its mechanics. To scale up, the Commission can take number of different actions.

First, it can expand the number of reform areas covered in the new Reform Model. For instance, today only 19 working groups are included in the new Reform Model. As the new Reform Model proves successful more areas can be added here.

Second, the Commission can increase the number of international reports within the digital analytics tool (benchmarking tool) in order to equip its working groups with more data in analyzing business environment. Currently, only Doing Business report is part of the analytics tool. The next step could be the addition of Global Competitiveness report to the tool.

Third, the analytics tool could leverage advanced analytics / artificial intelligence to automatically identify the improvement areas in business environment. Though the current tool is already convenient for the use by working groups, automatic analysis could increase the accuracy of targets and speed of analysis.

Fourth, the Commission can work on integrating its communication platform with the platforms used in different institutions.

Fifth, the Commission can work on engaging citizens and civil society organizations more in the reform process. The key objective of this engagement would be to drive social inclusiveness further and to get the feedback of external parties early in the process.

Finally, the Commission can conduct benchmarking with reform models used in other countries for further improvement ideas. Since similar efforts have been implemented in other countries, their experience could help to implement specific ideas in taking the new Reform Model to the next stage.

Scoping up refers to implementing the new Reform Model in different scopes with potential change in its mechanics. Most important aspect of scoping up would be focusing on reapplication of the new Reform Model on local and global levels. On local level, the new Reform Model can be reapplied within all government institutions for a faster reform design and implementation. For example, many reforms are still implemented outside the scope of the new Reform Model. Moreover, some institutions are not part of the working groups today. However, those institutions can still apply the main principles of the new Reform Model to increase the agility in their reform process (e.g. by establishing permanent reform teams).

On global level, the Commission can focus on sharing its experience with other countries with the aim to expand the impact of the new Reform Model internationally. For instance, as a start, the Commission can conduct separate knowledge sharing with respective institutions of neighboring countries, where it can share its learnings and also brainstorm about the ways of implementing the new Reform Model in those countries.

Finally, another scope-up activity could be adding extra languages (e.g. Russian, French, Turkish, Spanish, etc.) within digital analytics tool (benchmarking tool) in order to encourage its global use. Though this scope up activity would not bring much local impact, it can significantly affect the agility in analysis benchmarking of business environment in other countries.

LIST OF ABBREVIATIONS

- The Commission: Commission on Business Environment and International Rankings of the Republic of Azerbaijan
- Doing Business: Ease of Doing Business Index published by World Bank annually
- New Reform Model: New Economic Reforms Governance Model
- SDG: 2030 Sustainable Development Goals set in 2015 by the United Nations General Assembly and intended to be achieved by the year 2030
- SME: Small and Medium Enterprise
- WIPO: World Intellectual Property Organization