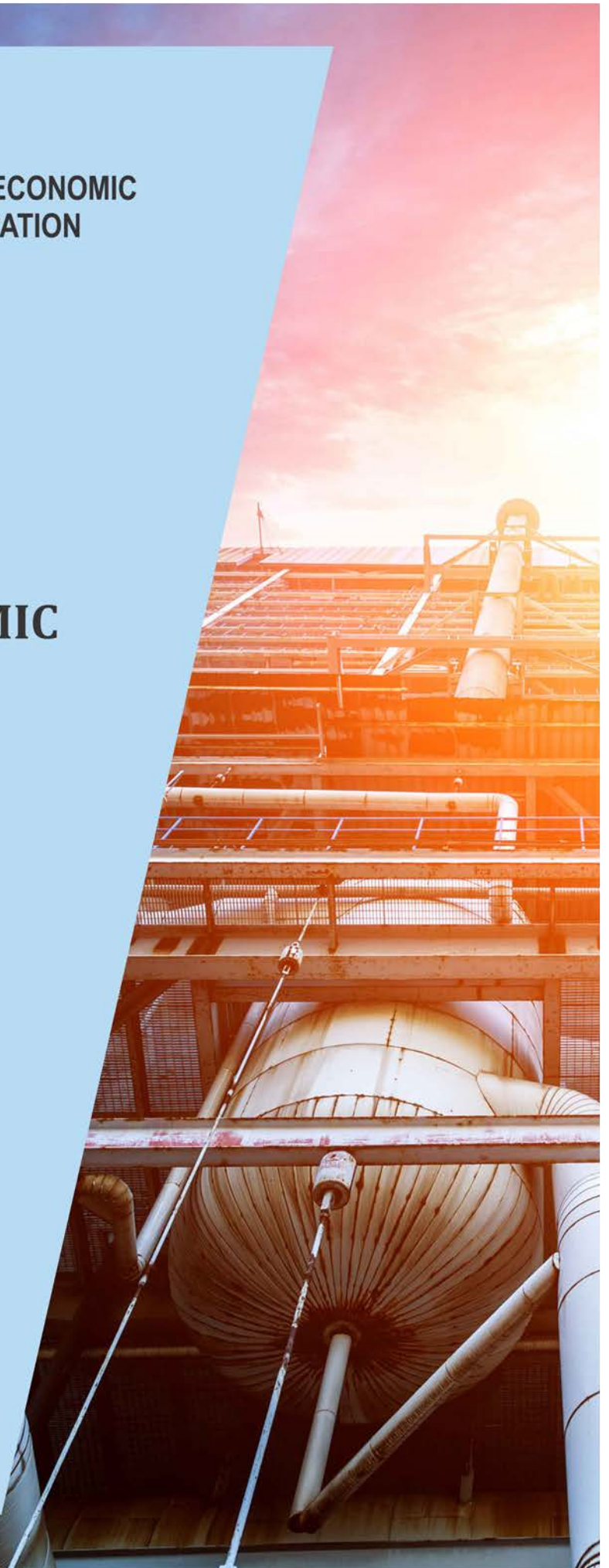




**CENTER FOR ANALYSIS OF ECONOMIC  
REFORMS AND COMMUNICATION**

# **AZERBAIJAN ECONOMIC REFORMS REVIEW**

January - 2018





**“2017 WILL GO DOWN IN HISTORY AS A YEAR OF DEEP,  
PROFOUND AND EFFECTIVE ECONOMIC REFORMS”**

***ILHAM ALIYEV***  
*The President of the Republic of Azerbaijan*

# CONTENT



## INTRODUCTION

6



## IMPROVE BUSINES ENABLING ENVIRONMENT

- 1.1. Small and Medium-sized Entrepreneurship Development Agency
- 1.2.OJSC “Mortgage and Credit Guarantee Fund”

6



## STRENGTHEN SOCIAL PROTECTION

- 2.1. Law on insurance against unemployment
- 2.2. Social care
- 2.3. Labor pensions

15



## IMPROVE INSTITUTIONALIZATION

- 3.1. Energy Issues Regulation Agency

26



## CONCLUSION

29

*Transition to a new model of economic growth in the Republic of Azerbaijan continued in 2017 and sustainable and inclusive growth of the Azerbaijani economy has been restored as a result of the complex economic reforms successfully implemented under the leadership of Mr. President Ilham Aliyev.*

First of all, as a result of substantial and stabilizing measures implemented within the framework of the Financial Stability Council established last year, **Azerbaijani manat has been stabilized and 4% strengthening, compared to the US dollar, should be noted.** At the same time, close coordination of the macroeconomic institutes has strengthened macroeconomic stability of the country by ensuring flexible balance of the economy and balance of payments.

In the first 11 months of 2017, **the foreign trade turnover increased by 12 percent to \$ 21.8 billion** compared to the same period last year, while commodity exports increased by 19 percent and exceeded \$ 14 billion. 24% increase in the non-oil exports should be mentioned in particular as a pleasing factor. As a whole, a trade surplus of more than \$ 6 billion has been generated. It should be noted that Azerbaijan, along with the growth of exports, is also the most successful country in import substitution in the CIS area. As a result, compared to the beginning of the year, the country's **international currency reserves increased by \$ 4.5 billion or 13.3 percent.**

Achieved macroeconomic stability created favorable conditions for the

rapid and successful development of our country, and the Azerbaijani people benefited from this opportunity. Thus, the GDP shows a tendency of re-growth and the transition to a new economic model announced by the President in 2015 already boosts its results, especially with the **2.5% increase in the non-oil sector.** Our non-oil sector has grown by 3.6% and agriculture by 4.1%. Results achieved in the services sector, in particular, in the field of tourism, is considered satisfactory. Last year, **the number of visitors to Azerbaijan increased by 20%, to 2.7 million people.** This, of course, has contributed positively to the strengthening of the balance of payments.

In 2017, the country's economic potential, its international reputation and image have continued to grow. Thus, in the "2017-2018 Global Competitiveness Report", published by the World Economic Forum, Azerbaijan has moved two stages up and **ranked 35th among 137 countries.** This increase does not show a residual character and this is also reflected in the Doing Business 2018 report prepared by the World Bank. Azerbaijan improved its position by 8 places in the report. Furthermore, Azerbaijan **has been named one of the three most reforming countries in the most competitive region, Europe and Central Asia.** The progress made by Azerbaijan in this two most prestigious economically-oriented reports is a high recognition given to the success of the ongoing and systematic reforms undertaken in our country.

The aforementioned achievements

were transmitted through **221,000 new job vacancies in the country and \$14.6 billion investment in the country's economy**. Increased investment indicates the country's attractiveness for both domestic and foreign investors. The extension of the term of the



*"Azeri-Chirag-Gunashli" contract should be emphasized especially, as foreign investors will invest tens of billions of dollars and \$3.6 billion bonus will be provided.*

Implementation of other infrastructure projects is carried out in accordance with the adopted plan. Construction of the Southern Gas Corridor has already been completed, and 60% of the TAP project has been carried out. Investment in the infrastructure is not only carried out in the oil field, Azerbaijan has fulfilled its commitments in the successful projects in non-oil sector, as well. Baku-Tbilisi-Kars railroad has been opened and important measures have been taken to carry out the North-South transport corridor project. As of 2017, export of electricity has been started.

A number of goals have been accomplished in improving social infrastructure and strengthening social protection. Thus, regarding social care and support to people in the framework of social infrastructure projects, the construction of hundreds of new rural

roads, solution of drinking water problems in many cities, gasification of most of the country, construction of new schools, as well as building settlements in the newly liberated Cocuq Marcanli village and Shikhar settlements have been carried out. Additionally, the number of families receiving targeted social assistance has significantly increased and self-employment programs have been expanded, and a significant number of new jobs have been created in purpose of ensuring that unemployment rate is low.

In accordance with the Decree No.1138 of the President of the Republic of Azerbaijan dated December 6, 2016 "On Approval of Strategic Road Map on National Economy and Major Sectors of the Economy" as a result of implementation of business environment, institutional and social reform measures in the country, the economic forecasts of the Azerbaijani economy made by international economic institutes have been increased.



*In 2018 the International Monetary Fund predicts that Azerbaijan will achieve a 4% increase in the non-oil economy.*

The medium-term growth rate of the country's total economy is expected to be between 3.5-4%. Also, the World Bank predicts the faster growth of the Azerbaijani economy.

## REVIEW OF REFORMS

Major economic reforms have been undertaken by President Ilham Aliyev to enhance competitiveness, inclusiveness of the country's economy, increase social welfare, ensure sustainable and dynamic growth of the

financial system, and further strengthen the position in the world economy. Thus, the mentioned economic reforms are divided into incentive, social and institutional reforms.

### 1. INCENTIVE REFORMS

Complex economic reforms have been undertaken by the President of the Republic of Azerbaijan in recent years to ensure sustainable and growing development of the non-oil sector, the formation of a diversified, stable and competitive national economic system for entrepreneurship development, strengthening financial sustainability and business environment. As one of these measures, the Decree of December 6, 2016, approved the Strategic Road Map for the national economy perspective and key sectors of the economy.

- ◆ *Enhancing the inclusive growth;*
- ◆ *Improving access to financial services;*
- ◆ *Providing more opportunities for small and medium entrepreneurs to reach to the financial services.*

A number of factors that emphasize the need for fundamental economic reform in the field of SME activities can be mentioned. In Azerbaijan, the low level of banks' credit applications, the need to increase economic development in the SME sector, the risk issue of SME being a risky area, lack of sufficient data base to assess this field and the difficulty for SMEs in obtaining credit resources due to high interest rates are some of the determinant factors. It is also important to emphasize the need for SMEs, to increase access to information sources, improve their knowledge of business and existing legislation, ensure awareness of the sector, and provide such centralized services. In order to address these issues and to implement the intended priorities the President of the Republic of Azerbaijan has signed relevant decrees for the establishment of special agencies, such as "The Credit Guarantee Fund" and "The Small and Medium-sized Entrepreneurship Development Agency".

## 1.1. SMALL AND MEDIUM ENTREPRENEURSHIP DEVELOPMENT AGENCY

President of the Republic of Azerbaijan Ilham Aliyev signed Decree on December 28, 2017 on further improvement of the management of small and medium-sized businesses. Under the jurisdiction of the Ministry of Economic Affairs as a legal entity, this agency will play a significant role in the development of small and medium enterprises (hereinafter - SME) in Azerbaijan in terms of diversifying the economy, raising competitiveness, ensuring employment, repaying demand for consumer goods through local resources and economic development.

In the Republic of Azerbaijan, a number of state agencies currently provide a range of services to SME subjects in accordance with their authority. However, it should be noted that, as defined in international practice, it is more appropriate to provide these services from one center. In other words, shortcomings in the use of business consulting services by the SMEs, their stability and competitiveness as a result of possible business risks, the lack of knowledge of the relevant legislative and regulatory requirements, the general situation in the sector should be mentioned as key factors.

The SME Development Agency will support

*the development of small and medium-sized businesses in the country in order to improve the management of small and medium-sized businesses, will provide a range of services to SME subjects, coordinate and regulate the services of public authorities in this area.*

Thus, when considering the share of SMEs in the developed countries' GDP and employment level, it can be concluded that transformation of the SME to the main driving factor in sustainable economic development in Azerbaijan is one of the main challenges ahead.

In order to ensure the targetedness of the reforms that directly affect the development of the SMEs, the following table of criteria for the SME subjects has been defined by the Resolution of the Cabinet of Ministers of the Republic of Azerbaijan "On Approval of Large, Medium and Small Business Criteria" dated June 5.

## LARGE, MEDIUM AND SMALL BUSINESS CRITERIA

Category of enterprises by size	The average number of employees	Annual income
Small Business	Up to 25 people	Up to 200,000 azn
Medium Business	From 25 to 125 people	From 200,000 to 1,250,000 azn
Large Business	125 people and more	1,250,000 azn and more

In the majority of the world's developed countries, SMEs have a leading position in providing economic growth and employment. According to the World Bank, the share of SMEs in the developed countries in GDP and employment is more than 50 and 60 percent, respectively.

Developing countries also take systematic measures in the direction of SME growth to improve the economic sustainability, increase competitiveness and ensure economic activity. As a result, competitive market relations are formed, which in turn creates a demand and supply balance in the market, stabilization of prices, increased competitiveness of products and services, effective use of economic instruments, robust economy and rapid absorption of external influences. For these reasons, in the current global context, both developed and developing countries seek to achieve a quick adaptation of their economies to crisis through the SMEs.

### 1.1.1 Duties of SME Agencies

The agency's board will oversee the implementation of the Strategic Roadmap on the "Production of Consumer Goods at the Small and Medium Entrepreneurship Level" together with relevant government agencies. For this purpose, the program, initiatives, key performance indicators and priorities will be set for the working groups, the mechanism for financing the working groups will be developed and the allocation of necessary resources will be considered. The agency will make proposals to the ministries and will ensure transparency of performance, as well as coordination between the working groups and the security departments.

The establishment of a SME home under SME agency will be considered as a proper tool in order to get better access to information on various business services and entrepreneurship activities for SMEs. In SME, entrepreneurs will be provided with various business services and access to information required for them. In other words, business plans



for SME subjects, market research, legal advice, accounting and other services will be provided. In SME home, availability of Center for entrepreneurship, employment services, training center, representation of Azerbaijan Export and Investment Promotion Foundation (AZPROMO), international organizations departments, representation of Azerbaijan Investment Company (AIC), loan guarantee fund and other related organizations, based on "one window" principle, can be considered possible. The online portal will operate in the Agency to provide all services, including applications, trainings and information technology capabilities.

### 1.1.2 Expected result and result indicators

Established SME agency will play a leading role to succeed in promoting the development of SME activities in Azerbaijan. The purpose of the new agency will be to increase the number of SMEs operating in Azerbaijan, as well as to increase the share of these entrepreneurship entities in GDP in line with the targets set for 2020.

*With the establishment of the SME Agency mentioned in the Strategic Road Map, it is predicted that the real GDP of Azerbaijan will increase directly by 140 million manat in 2020, indirectly \$ 60 million manat, in total 200 million manat. Based on the Strategic Road Map calculations, it is expected that by 2020, the share of SME will increase to 15 per cent in GDP, 20 per cent in employment and 10 per cent in non-oil export. It is planned to create 240 new jobs.*

Establishment of the SME agency in the field of small and medium-sized businesses is not the first initiative, but works are still being done in a number of areas. Thus, it is planned to create a unified online information portal to increase the access of SME subjects to various sources of information. This portal will contain a variety of information that is important for the SMEs, so entrepreneurs will be able to access the legislative base, business knowledge, specialist bank and other information in the country. At the same time, this portal will include distance learning programs, interviews with successful business representatives and other useful information.

Along with the above mentioned, "ABAD" public legal entity run by the State Agency for Public Service and Social Innovations was established by the Decree of the President of the Republic of Azerbaijan Ilham Aliyev dated 23 September 2016. With this measure, additional support is given for active participation of citizens in the socio-economic development of the country, development of small and medium-sized businesses, increasing the employment level of the population and the formation of competitive households. Also, the Mortgage and Credit Guarantee Fund was established to develop small and medium-sized businesses and increase their access to financial resources. Through this fund, non-oil business entities in Azerbaijan will be provided with guarantees and subsidies for the loans provided in manat.

## 1.2. "CREDIT GUARENTEE FUND" OPEN JOINT STOCK COMPANY

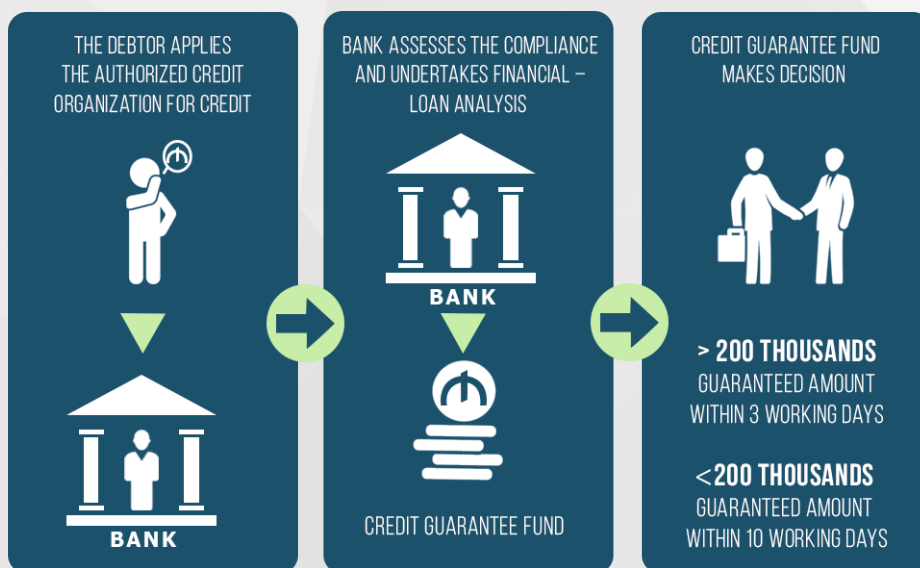
The Credit Guarantee Fund of the Republic of Azerbaijan (hereinafter referred to as the Fund) was established pursuant to the Decree No 1599 of the President of the Republic of Azerbaijan dated September 15, 2017 "On a number of measures of state support to entrepreneurs for expansion of access to financial resources in the Republic of Azerbaijan".

"Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan" (hereinafter referred to as the Fund) through reorganization of "Azerbaijan Mortgage Fund" Open Joint Stock Company and "Credit Guarantee Fund of the Republic of Azerbaijan" Open Joint Stock Company was formed based on a decree dated December 25, 2017. This economic reform measure is another important element of successful economic policy pursued

by Mr. President Ilham Aliyev. Taking advantage of international practice these measures, are important for the development of the economy.

Thus, the rules of issuing guarantees on manats received by entrepreneurs and granting subsidized interest rates has been approved. In order to use this stimulant mechanism, the borrower applies to the authorized bank with a loan request. The authorized bank conducts both compatibility and credit analysis and makes appropriate decisions on them. If the authorized bank's decision is positive, the Bank applies to the Fund for a guarantee by submitting relevant documents. The Fund makes a decision within 3 working days on the issuance of a guarantee if the amount is up to 200 azn, and within 10 working days if the amount exceeds 200 azn.

### PROCESS OF OBTAINING GUARANTEE AND SUBSIDY



It is worth noting here that a framework agreement between the Fund and the authorized banks is made to obtain a guarantee. Guarantee is issued on the obligations of an entrepreneur operating in the non-oil sector and applying with an authorized bank loan order to finance entrepreneurial activity in the territory of the Republic

of Azerbaijan. Additionally, one of the main requirements for Guaranteed Loans is that the total amount of loans guaranteed by a borrower or a group of related borrowers under all authorized banks does not exceed 3,000,000 (three million).



It is important to note that the guarantee is issued on the principal amount of the loan, and the guarantee-to-credit ratio should not be less than 15% and 75%. Also, the minimum

limit of a guarantee on a loan is 15,000 (fifteen thousand) manats, and the maximum limit of all guarantees should be 500,000 (five hundred thousand) manats.

## ATTRIBUTES OF GUARANTEE

ISSUED ONLY FOR **THE MAIN DEBT**

▲ **15%**



**75%** ▼

LOWER LIMIT OF  
A GUARANTEE

**15** THOUSANDS



UPPER LIMIT OF  
A GUARANTEE

**500** THOUSANDS

IN ORDER TO ISSUE GUARANTEE FOR LOANS OF **NEW BUSINESSES**:

- IT SHOULD PAY THE AMOUNT EQUAL TO MINIMUM **25%** OF THE TOTAL VALUE OF PROJECTS TO BE FINANCED TO THE ACCOUNT OF AUTHORIZED CREDIT ORGANIZATION OF DEBTOR;
- OR THE TOTAL PROJECT EXPENSES OF THE DEBTOR SHOULD BE MINIMUM **25%** OF THE TOTAL AMOUNT (IF APPROVED BY PAYMENT DOCUMENTS).



THE GUARANTEED LOANS SHOULD BE USED FOR ITS  
**DESIGNATED PURPOSE AND WITHOUT CASH TRANSFER.**



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Loans of entrepreneurs, who start a new business, will be financed if at least 25% of the total value of the project to be financed by the borrower, at the

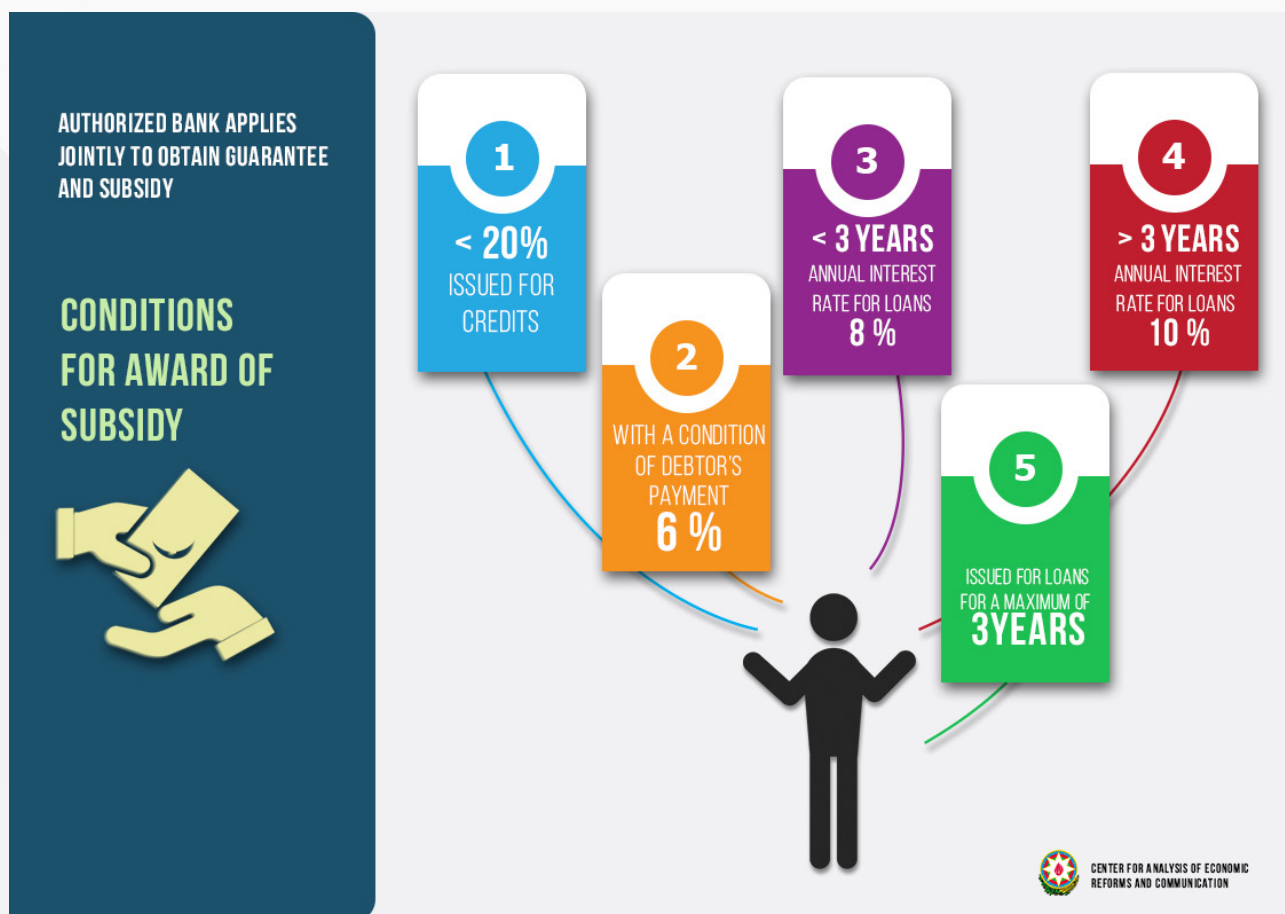
authorized bank or the borrower's minimum projected cost of 25% of the project (if approved by payment documents) is given. At the same time,

the borrower must use the guaranteed credit funds only in accordance with its designation and use it in cash.

In addition, the Fund also provides subsidies for interest accrued on loans received by entrepreneurs in manat. The Fund issues a decision on granting the interest subsidy to the borrower

and, accordingly, the guarantee to the authorized bank at the same time.

This interest rate subsidy is granted for loans not exceeding 20% per annum, and the interest rate subsidy is given at the following rates provided that the borrower has paid at least 6% interest rate:



We would also like to note that the interest rate subsidy for loans over three years is only given for three years. It should be noted that the Fund pays the subsidy at the expense of the state budget.

In addition to using a range of risk management tools, the Fund is forming a monitoring system for monitoring business entities in order to ensure

effective and efficient management. The entrepreneur and the authorized bank is informed at least 3 (three) business days prior to the commencement of the monitoring.

Funding is an important step towards restoring the economic balance between the real sector and the financial sector, fiscal risk division, strengthening the banks' sustainability

and financial flows to the real sector, stimulating counter-dollarization and expanding digital payments in Azerbaijan. It will serve to increase financial inclusiveness, enhance entrepreneurship access to financial sources and improve financial services. Achieving financial inclusiveness in the country will provide additional support to economic activity, development of entrepreneurship and the improvement in employment.

This measure is one of the reforms reflected in the Strategic Road Map on the Production of Consumer Goods at the Level of Small and Medium Enterprises in the Republic of Azerbaijan, approved by Decree No.1138 of the President of the Republic of Azerbaijan dated December 6, 2016. Thus, another important measure of complex reforms in the country has been carried out

and favorable conditions has been created for the development of the non-oil sector and for the creation of new jobs by stimulating the country's economic development.

Necessary measures are being taken by the President of Azerbaijan Ilham Aliyev to increase the number of SMEs in the economic sphere, improve employment, boost the non-oil sector's exports and increase their role in the GDP. So, measures are taken to eliminate barriers for SMEs, to get access to financial markets in the field of SMEs, provide loans to SMEs and providing risk guarantees to banks, form a lending system that provides risk allocation, and ensure accessibility of financial literacy of SMEs and access to different types of information resources.

## 2. SOCIAL REFORMS

Under the chairmanship of President Ilham Aliyev, great attention is paid to the provision of socially-oriented economic development, and in recent years a number of economic reforms have been implemented in the country and substantial progress has been made. Social protection means the provision of the population by state and private bodies with a permanent source of income, elimination of employment-related risks, prevention of economic and social threats and vulnerabilities, and protection of their rights.

In international practice, different functions and forms are classified with a wide range of different approaches to

social protection underlying activities. These include criteria that cover functions such as protection of poor population, poverty reduction, human capital formation, improving lifestyles, social and economic equality and enhancement of stability and provision of inclusive growth.

As a result of economic reforms carried out to improve and strengthen the social protection mechanism in Azerbaijan, some achievements have been made in this area and the measures taken in 2017 are of major importance. Among such measures, the importance of the Law on Unemployment Insurance should be mentioned particularly.

### 2.1. LAW ON UNEMPLOYMENT INSURANCE

The main goals of the measures to improve the labor market are the employment of unemployed but able-bodied population groups and protection of their rights. Operations carried out in this direction are active or passive operations. Active operations include the establishment of additional work and practice places for people who are not engaged in labor activity, the adoption and application of norms for increasing the number of small and medium-sized businesses and improving their performance. Passive operations include improving and implementing legislation that determines sickness and maternity

leave benefit, safe working conditions and the lowest wage.

Therefore, the implementation of active and passive operations in the enlarged scale in labor market, providing the able-bodied population groups, especially the younger generation with necessary education and vocational knowledge should be at the forefront of solution of factors. This will create conditions for the implementation of issues such as the employment of the population, the full or partial compensation of the income of the able-bodied citizens due to unemployment.

The President of the Republic

of Azerbaijan has signed a Decree in 5 August 2017 in connection with the application of the Law “On Unemployment Insurance” dated June 30, 2017 . The law will come into force on January 1, 2018.

The law will ensure the improvement of the social protection mechanism in the country through the introduction of risk transfer relationships and the establishment of new financing systems in the labor market, compensating the loss of salaries of insured people (workers) and reducing unemployment rate.

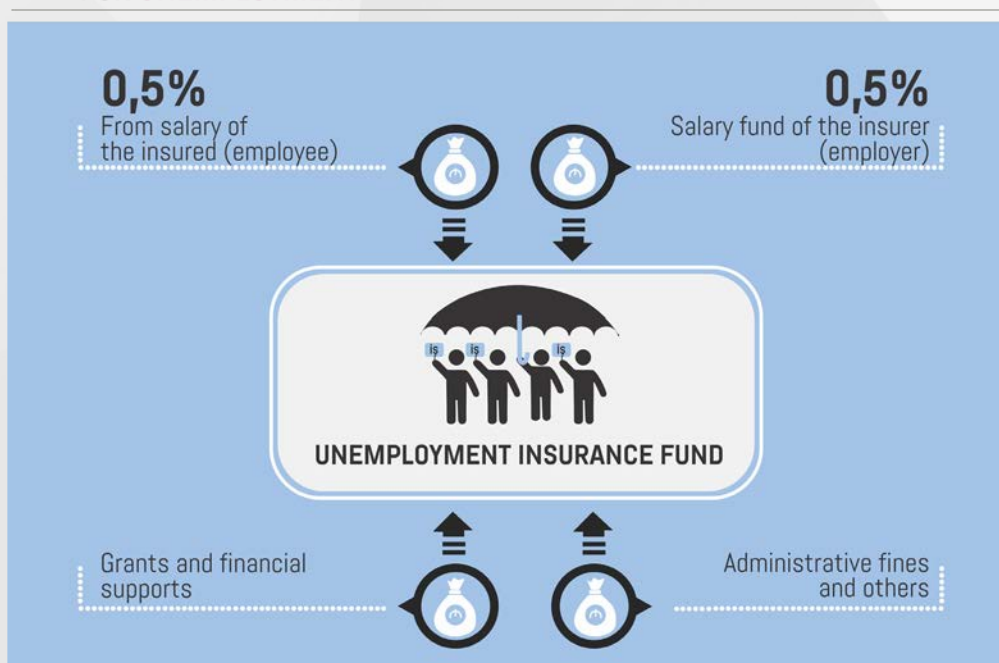
For these kind of purposes, the basic principles defined in the law are the compulsory insurance for unemployment, the provision of state security to the continuity of insurance and the realization of equality of rights of insurance subjects. Additionally, it should be noted that, as a continuation of such principles, it is necessary to mention the priorities of preventing and avoiding the occurrence of

any case for insurance events and ensuring the participation of public organizations in unemployment insurance management. Thus, the law envisages the creation of conditions for re-employment of unemployed citizens by increasing their working capacity, knowledge and skills.

An unemployment insurance payment are referred to citizens who have lost their jobs as a result of cancellation of the state body or legal entity or abbreviation of staff of the employees. This law does not apply to people who are on social position.

The amount of money (insurance premium) to be paid by the insured (employee) and the insurer (employer) to the relevant executive authority shall be calculated on the basis of the insurance rate. Therefore, international experience has been used to determine the interest rate (insurance tariff) applicable to the wage fund of employer and to the wage of employee and the lowest interest rate has been decided.

**SOURCES OF INSURANCE FUNDS FOR UNEMPLOYMENT**





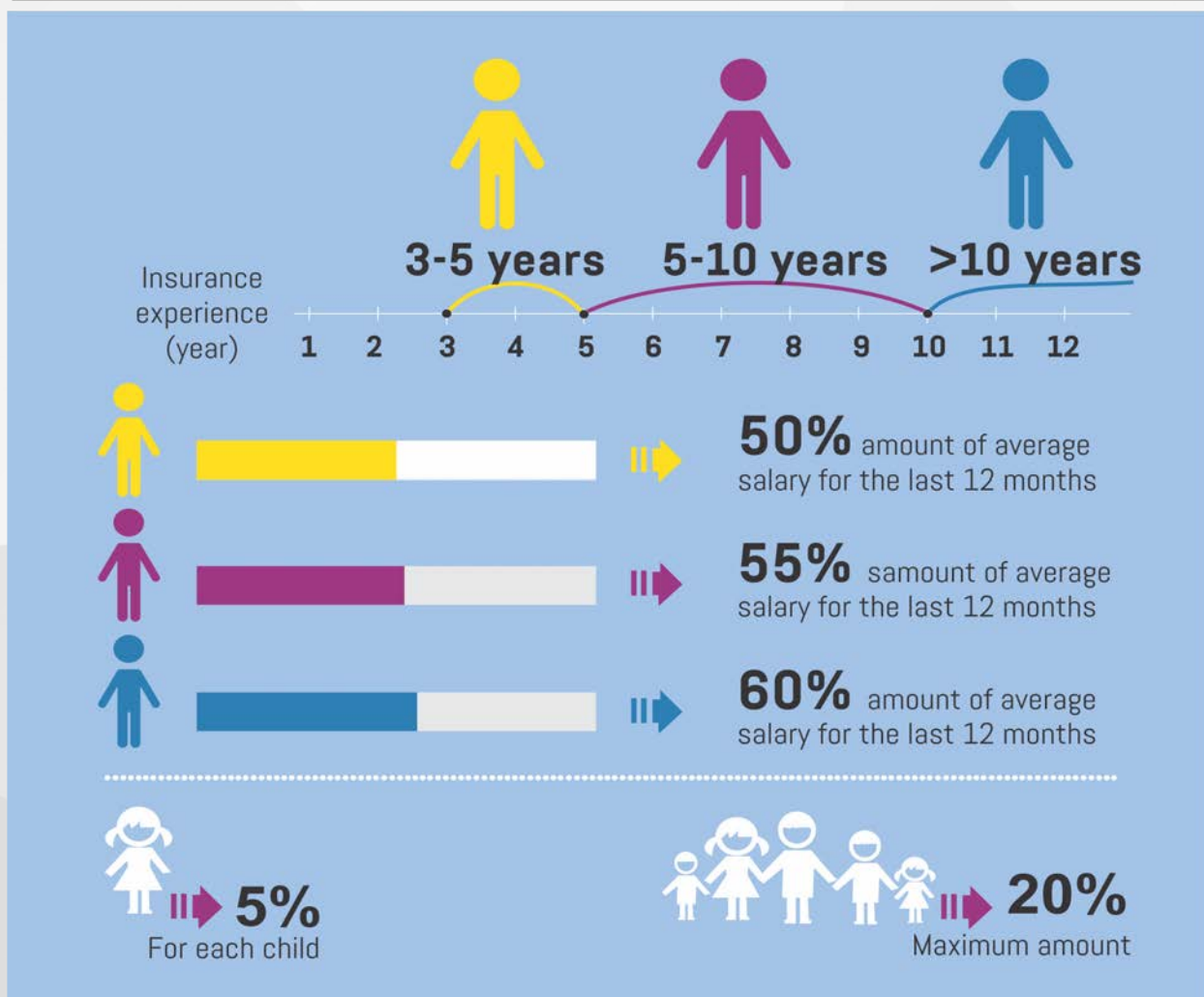
Types of unemployment insurance premium include main insurance payment, addition to insurance payment and minimum insurance payment. In terms of main insurance subscription the monthly insurance premium for unemployment is regarded to a resident who is able to work, but unemployed for over 12 months in the last 24 months and has at least 3 years of work experience before the start of the unemployment. The calculation of monthly insurance premium is made by applying the appropriate interest rates to the average monthly wage. Also, it should be noted that before the start of unemployment for the

employees who has been unemployed for for less than 12 months in the last 24 months and has minimum 3 years of work experience minimum insurance premium is determined to be paid.

In addition, citizens who have a child under the age of 18, including students and pupils, who are under the age of 23, is eligible to apply for the addition premium to the insurance payment and addition to the insurance payment is paid together with main insurance contribution.

The minimum amount of insurance premium is determined by the executive authority and is set equal to the monthly minimum wage amount.

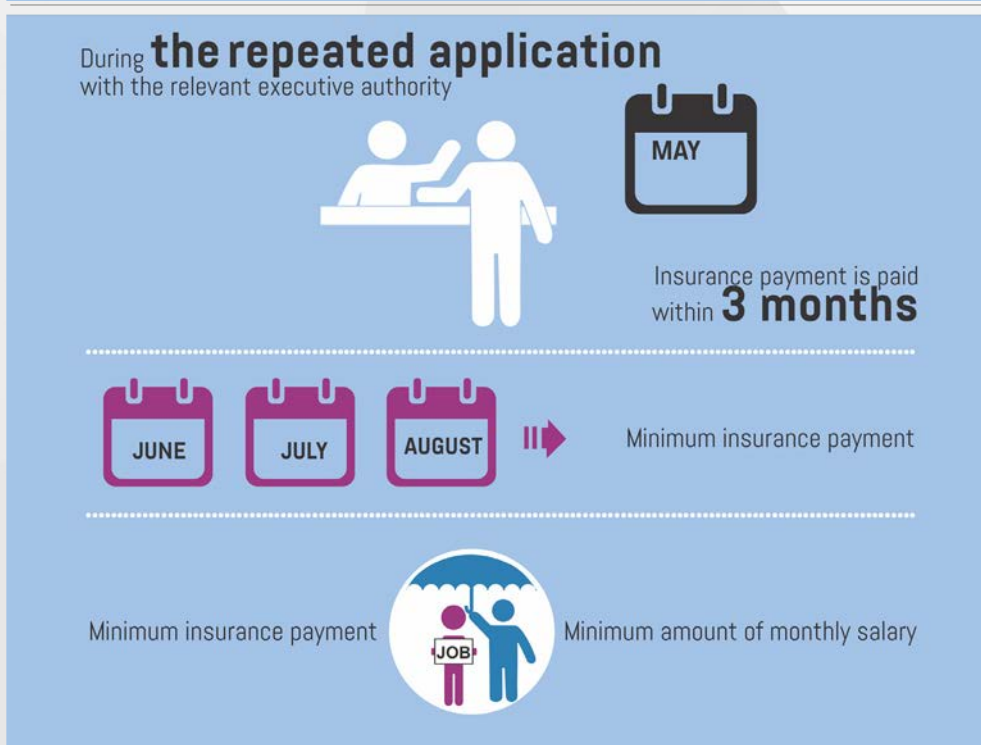
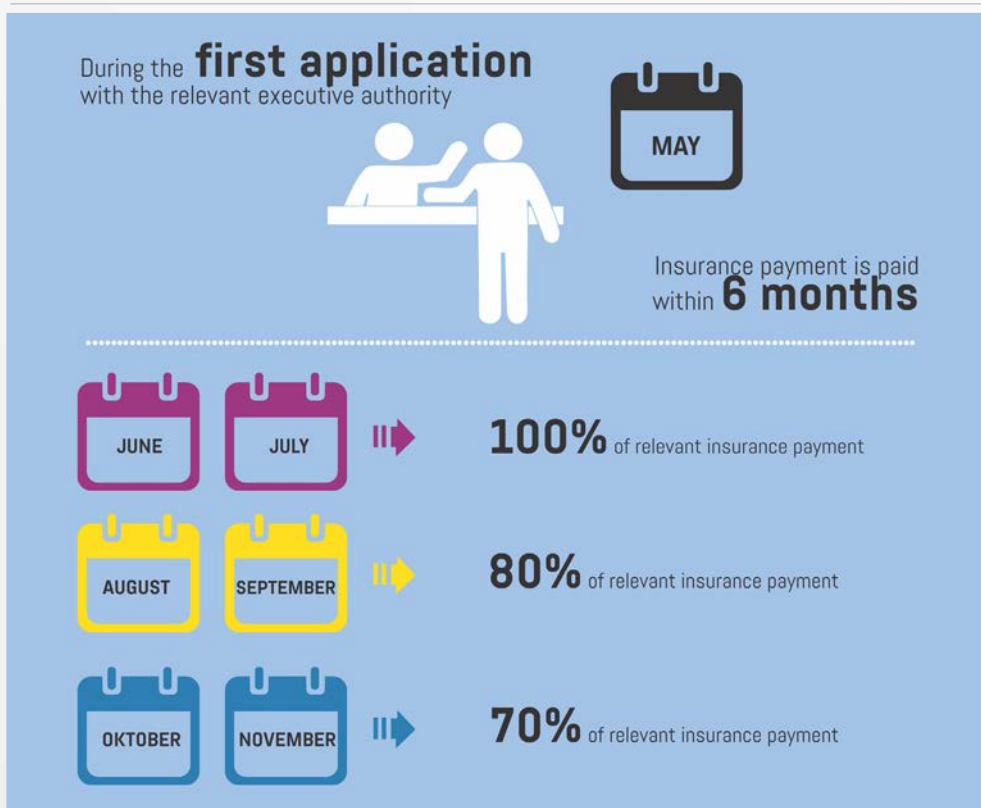
### MAIN INSURANCE PAYMENT AND ADD-ON TO THE INSURANCE PAYMENT



In order to receive insurance payment, the citizen applies to the relevant executive authority and for the first time, the amount of insurance premium is determined no lower than the

rate of minimum insurance premium at certain interest rates in accordance with the continuation of the unemployment period.

### MAKING THE INSURANCE PAYMENT DURING THE FIRST APPLICATION

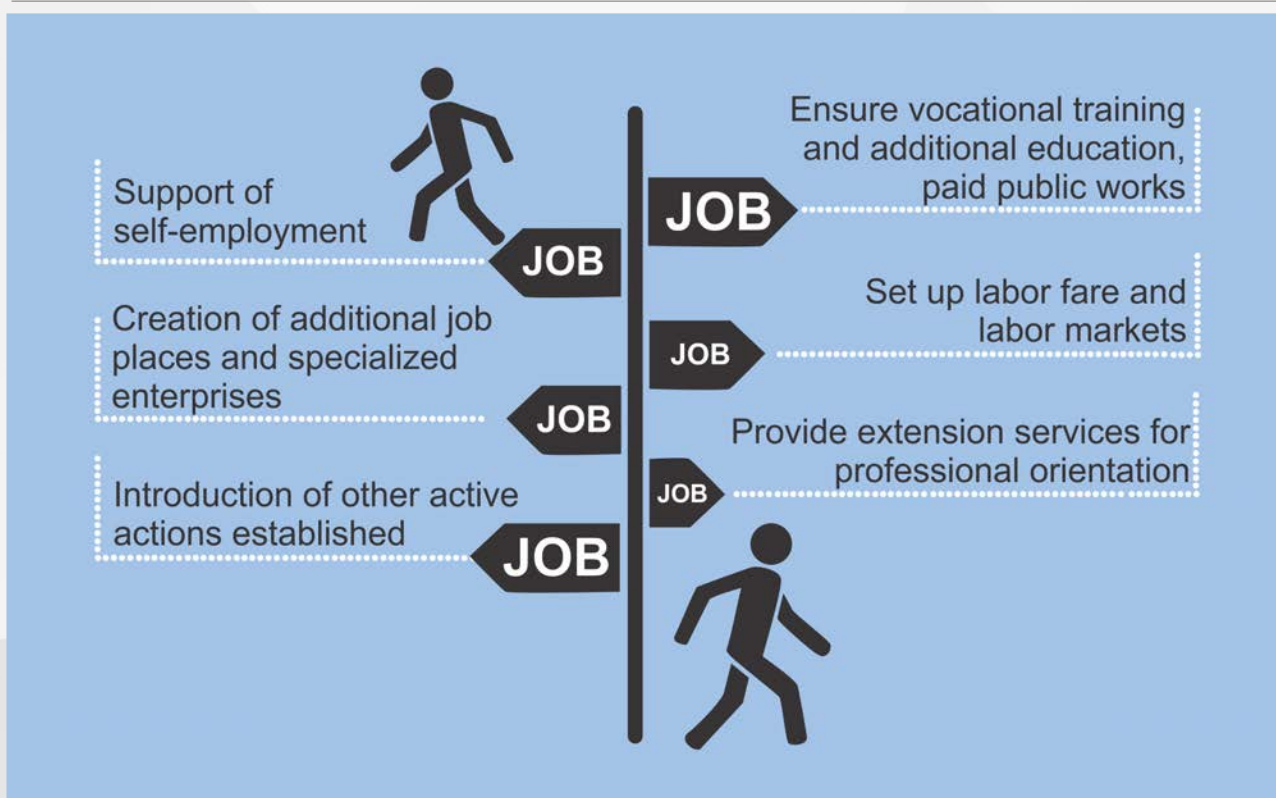


It should be noted that in some cases insurance payment can be stopped. Thus, when a person receiving insurance payment is provided with a civil work or does not give information to the relevant executive authority about enrollment on a job, leaves the individual employment program without any execution or valid reasons, is admitted to the higher or secondary specialized educational institution, refuses proposed professional skills training program or additional education, is called for military service and in such other cases unemployment

insurance premium may be revoked.

In purpose of ensuring the implementation of the principles and functions of social protection, it is planned to finance some operations through unemployment insurance funds. Thus, according to the “Law on Employment”, these programs are provided for the citizens, who have the right to receive unemployment insurance payment and also these active actions ensure the transition from the passive labor market to the active labor market:

### ACTIVE ACTIONS FINANCED AT THE EXPENSE OF INSURANCE FUNDS



The recipient of the insurance payment for an unemployment must personally report to the relevant executive authority about the implementation of the individual

employment programs, at least once a month. At the same time the citizen can be provided with information about appropriate job vacancies, professional skills training programs,

education programs, paid public works and be offered with these kind options. Also, the proper executive authority determines the forms of the reports on the implementation of the individual employment program, on the employer's application for recruiting and the participation in the active events.

It should also be noted that the President of the Republic of Azerbaijan issued a decree on the application of the Law of the Republic of Azerbaijan, on "The 2018 Budget of

the Unemployment Insurance Fund", No 905-VQ of December 1, 2017.

Additionally, on September 12, 2017 a relevant decree on the procedure for the use of social insurance reserves and the payment of additional funds for insured people were issued.

Other decrees and orders signed by the President of the Republic of Azerbaijan to cover the priorities of social protection related to labor market improvement, development of labor pension system and others were also presented.

## 2.2. SOCIAL CARE

### 2.2.1 Social care and support

Social care and support include priorities such as improving the health condition of the population, strengthening medical services, providing all population groups with these services, improving the health insurance system, providing healthy nutritional resources, improving knowledge of the population and developing public utilities for them. In order to ensure such principles, social support and care were provided to disabled people, who were injured during the protection of the territorial integrity, independence and constitutional order of the Republic of Azerbaijan, such as World War II participants and also, to their first-degree relatives. Thus, the orders of the President of the Republic of Azerbaijan were directed to provide them with

high-tech rehabilitation means, as well as additional measures to provide them with one-time financial assistance.

### 2.2.2 Compulsory Medical Insurance Agency

The fundamental economic reforms implemented in the health sector in order to improve the protection of the health of the society, have led to achievements such as the formation of a number of important state agencies, enhancement of the performance of existing institutions, development of the quality of medical services provided and upgrading the quality of medical services, an increase in the financial and technical basis of medical institutions, and improvement of the financing mechanism of this sector. Signing of the relevant Decree on "Health Financing System Reform

and the Application of Compulsory Medical Insurance Conception" is one of the important steps taken in this direction. Thus, it is planned to carry out fundamental economic reforms in the healthcare system, to create a centralized management system, to further increase the quality of medical services, to implement compulsory health insurance and other similar purposes.

The introduction of compulsory health insurance to strengthen and develop the health financing mechanism ensures the following priorities:

- ❖ **Forming additional sources of income and mobilizing new resources for the healthcare system;**
- ❖ **Providing more effective use of existing health care resources;**
- ❖ **Applying better planning of health policy and forming a single center for more effective use of healthcare funds;**
- ❖ **Distributing costs effectually;**
- ❖ **Improving quality of medical services and providing all necessary medical services free of charge;**
- ❖ **Increasing the health condition of the people and raising the transparency and efficiency of the system.**

As a source of compulsory health insurance funds, the state budget of the Republic of Azerbaijan, compulsory health insurance fees and other revenues determined by the legislation should be noted.

The Statute of the State Agency for Compulsory Medical Insurance under the Cabinet of Ministers of the

Republic of Azerbaijan was approved by the Decree of 15 February 2016 on the establishment of the Compulsory Medical Insurance Agency and the Agency commenced its operation. With the Decree of September 6, 2017, the Charter of the Agency has been adopted and the Agency is registered as a legal entity. Thus,

*the Agency is carrying out compulsory health insurance for the purposes set out in the Charter, providing health insurance for all groups of the population, protecting the rights of the insured residents, providing funds for financing medical services within the base (core services) framework, improving the quality of medical services and providing easy access to healthcare services and performing as receiver of health care services and executor of cost recovery services.*

These are the main objectives of the Agency in relation to its priorities:

- ❖ **Participating in the preparation and implementation of public health programs, strategies and development concepts;**
- ❖ **Giving suggestions for the determination of the amount of compulsory health insurance premium in accordance with the "Law on Medical Insurance";**
- ❖ **Establishing insurance reserves funds for the purpose of accumulation of funds of the Agency, ensuring**

*its proper use, strengthening the financial stability in compulsory health insurance;*

*❖ Providing high-quality medical services within the framework of the Basic (Basic Services) package and guaranting that payment for such medical services is indemnified on the arranged time and order to medical institutions;*

*❖ Creating a centralized electronic information system and electronic database in the field of compulsory health insurance and the provision of access to that electronic information system and consideration of*

*applications filed regarding the Agency.*

Eventually, the Compulsory Medical Insurance Agency will develop the health services provided to the health care needs of the population considering the specific characteristics of the illness, the living conditions and other factors, as well as the Agency will increase the measures to adapt the health system to the modern standards and other such principles and it is performing as a very important institution in achieving the goals set in the health sector.

### 2.3. SOCIAL PENSIONS

Social assistance can be classified differently across countries, depending on country legislation and social policy. Social pension is one of the most widespread and most effective means of social protection. Decrees and orders on labor pensions have been adopted by the President of the Republic of Azerbaijan within the framework of social protection principles.

These decrees and orders provide enhancement of the insurance part

of all types of labor pensions and the indexation of the pension capital amounts accumulated in the insurance part of individual accounts in the individual accounting system. Also, a number of changes which are applied to the calculation of a supplement for the employment pension in terms of working experience and to the normative legal acts in this area have been noted.

### 2.4. LABOR MARKET INTERVENTIONS

At the same time, a number of issues were mentioned in the Order of the President of the Republic of Azerbaijan, regards to the “Action Plan on the Prevention of Non-formal Employment in the Republic of Azerbaijan”, dated 9

October 2017. In accordance with the Presidential Decree No. 2760 of 17 March 2017, several factors, such as the development of the system of labor compensation, the strengthening of the control mechanism, the formalization

of employer-employee relationships and the establishment of an effective and efficient cooperation between state agencies on these principles were envisaged. Approval of the Unofficial Employment Prevention Action Plan determined the implementation of the functions of the Commission on

Regulation and Coordination of Labor Relations. Carrying out the principles defined in the plan, coordinating the measures taken and informing the President of the Republic of Azerbaijan on the results achieved are among those kind of aforementioned functions.

## 2.5. STRATEGIC ROAD MAP

It should be noted that by the Decree of the President of the Republic of Azerbaijan dated December 6, 2016, the strategic road map for National Economy and key sectors of the economy has been approved, which is planned to implement a number of measures to ensure social protection. The main priority of the Ministry of Labor and Social Protection of the Population in the Strategic Road Map on “Vocational Education and Training Development” in the Republic of Azerbaijan is the clarification of strategic employment areas and forecasting of demand for the staff in the labor market, and forming a working group of representatives of relevant government agencies and preparing Action Plan for 2017 and 2018 of that working group.

Additionally, with the aim of forming an employment policy, that ensures efficient use of local labor resources based on existing demand and supply in the labor market and also setting up qualitative and competitive market, mutual discussions with international organizations have

been held. Furthermore, with the support of the European Union, the Ministry participates in the Turin Process, which is formed by the European Education Foundation in forming a system of co-operation between employer organizations and educational institutions, hence identifying the necessary skills in the labor market. Moreover, presentations and discussions by experts from the European Training Foundation are held by the Ministry.

Also, the necessity of forming the National Monitoring Center, for forecasting and monitoring the Labor Market, has been determined in order to identify strategic areas of employment and predict the staffing needs. According to that, essential negotiations have been conducted with the European Training Foundation in this direction and a plan of action for the implementation of the project has been prepared.

The Ministry of Labor and Social Protection of the Population has established a system of automated

complex information, in an attempt to formulate systematised reports and statistics in line with such principles as collection, processing, analysis of data on the balance of labor resources, data analysis across the country of labor market situation, division of workforce over the region.

On the other hand, the Strategic Road Map on "Production and Processing of Agricultural Products" set priorities for 2017 for the Ministry of Labor and Social Protection of the Population to ensure active participation of women and children in the social life of the village, encouraging family, woman and youth policy in the countryside and the implementation of several such kind of measures.

It is worth mentioning the planning of a series of measures to strengthen the staffing capacity as the functions defined by the Ministry of Labor and Social Protection of Population on the Strategic Road Map on the

"Development of Utilities (Electricity, Water and Gas)".

Thus, as a result of the structural economic reforms carried out by the President of the Republic of Azerbaijan, the social protection system has been developed across all the population groups in the Republic of Azerbaijan, and the mechanism of sustainable and more productive development of the labor market have been formulating. Among the most essential results achieved in this direction are the establishment of an Unemployment Insurance Fund, the latest reforms in labor pension, as well as application of significant actions which are leading to the transition from the passive labor market to the active labor market. The remarkable successes achieved in result of economic reforms, only by the 2017 and also planned actions for that year, have been highly assessed by the International Monetary Fund.



## 3. INSTITUTIONAL REFORMS

### 3.1. ENERGY REGULATORY AGENCY

The Decree of the President of the Republic of Azerbaijan on the establishment of Energy Regulatory Agency under the Ministry of Energy of the Republic of Azerbaijan dated December 22, 2017 has been signed by the President of the Republic of Azerbaijan on accomplishment of institutional reforms. In this decree, the principles of the Decree of the President of the Republic of Azerbaijan, dated December 6, 2016, No.1138, on approval of "Strategic Road Map for Major Sectors of the National Economy and Economy", which covers regular and efficient development of communal services, more transparent, flexible and accessible energy supply, adaptation to the requirements of the competitive market economy and others have been taken into account.

#### **3.1.1 Development of Utilities (electricity, heat, water and gas) sector of the Republic of Azerbaijan**

Measures implemented within the scope of complex economic reforms carried out by the President of the

Republic of Azerbaijan Mr. Ilham Aliyev, in order to achieve strategic goals and contribute sustainable development, created favorable conditions for a significant increase in the share of the non-oil sector in the Gross Domestic Product. One of the substantial measures taken in this direction was the establishment of "Strategic Road Map on Development of Utilities (Electricity, Heat Energy, Water and Gas)".

The main objectives set out in the Strategic Road Map are to provide a fully diversified and sustainable, environmentally friendly, high-tech powered energy supply and efficient energy consumption. It should also be noted that the use of international indicators and practices determines accessibility, efficiency and high quality standards. In fact, the utility sector is one of the main factors of economic development and social welfare. As a result of these kind of operations, those have been performed by considering the important aforementioned priorities, **notable changes in the utility sector have been achieved.**

These include



- ❖ setting up a more modern heating supply system,
- ❖ replacing inefficient heating supply devices with new ones;
- ❖ improving the natural gas supply system in the regions.

It should be noted that, the power supply is provided at the expense of power stations under the subordination of "Azerenergy" OJSC, which was founded by the order of the President of the Republic of Azerbaijan, No 847 of 8 June 2005. In the recent years, increasing investment has led to the creation of a number of new small power stations and the development of their operations, with the use of water, wind, solar and household tulips to make efficient use of existing natural resources.

Under the relevant decrees of the President of the Republic of Azerbaijan, structural reforms in the water and sewage services as well as in the gas industry have been utilised in the framework of state programs for socio-economic development of the regions. In necessary cases, the implementation of remedial or improvement measures has been identified and fulfilled. As a result of these measures, there was a considerable growth in the number of the population provided with

continuous drinking water, as well as in the number of subscribers, regions and stations using natural gas.

One of the steps taken, to achieve the strategic targets set forth in the Strategic Road Map and to accelerate the current pace of economic development, was the issuance of the Decree of December 22, 2017 for the establishment of the Energy Regulatory Agency under the Ministry of Energy of the Republic of Azerbaijan.

### 3.1.2 Activity of the Energy Agency of the Republic of Azerbaijan

Ensuring sustainable and effective development of the utilities sector has been one of the key priorities in the implementation of economic reforms. The main areas of activity of the Energy Regulatory Agency, which are set out in this direction are the following:

- ❖ *Authorisation and application of uniform state policy;*
- ❖ *Ensuring control over the implementation of existing legislation in the relevant area, as well as on the protection of consumer rights;*
- ❖ *Monitoring the application of appropriate norms regarding the effective utilisation of existing natural resources and to the extent possible, to prevent or minimize the damage to the environment when using those natural resources;*
- ❖ *Creating a healthy competitive environment in this area, effectively raising energy production, making relevant proposals related to the formation of uniform pricing policy and attracting investment to this sector;*

- ❖ *Considering and working out the disputes arising between major participants, such as consumers, suppliers, transmitters and distributors;*
- ❖ *Carrying out inspections in this field for the particular cases and rules specified in the Law on "Regulation of Entrepreneurship Supervision and Protection of Entrepreneurs' Interests".*

In order to increase efficiency on the proposed activities, manage risks that may arise, and ensure competent and flexible development the main tasks and principles identified are the following:

- ❖ *Analyzing available proposals for energy prices and presenting the proposals, those are consistent with government regulation;*
- ❖ *Providing protection of consumers' rights, preventing potential violations of law and punishing individuals for commitment of violations, on the principle of adequate and effective service to consumers;*
- ❖ *Increasing investments in the relevant area, ensuring diversification of production, and enhancing activities to form a healthy competitive environment;*
- ❖ *Ensuring energy security, controlling the compliance of existing legislation and guidelines on the creation and use of energy resources consumption limits.*

The Agency was established on the basis of the State Energy Control Department, the State Gas Inspection Department of the Ministry of Energy and the local divisions of these entities, as a legal body. Establishment of the Energy Regulatory Agency will positively contribute to the achievement of several strategic priorities outlined in the Strategic Road Map.

Implementation of the priorities envisaged in the "Strategic Road Map on Development of Utilities (Electricity, Heat Energy, Water and Gas)", where the Energy Regulatory Agency is an integral part, will lead to an increase of 832 mln. in GDP. Also it is forecasted to create favorable conditions for the creation of 6645 thousand jobs.

Improving efficiency in the utility sector, developing tariff standards and existing standards, more efficient and effective use of natural resources, integrating into foreign markets and in this way, enhancing the application of modern technologies, protecting consumer interests and ensuring sustainable development of this sector, minimizing losses when utilizing energy resources, and promoting investment incentives to generate and diversify the national portfolio of production portfolios will contribute to decisive and stimulating system.



## CONCLUSION

Thus, only the economic reforms carried out solely during 2017 have led to significant achievements, covering many areas of the economy. In fact, Mr. President Ilham Aliyev noted that, despite of the economic difficulties of 2017, the economy of Azerbaijan in terms of its competitive ability has become one of the world's top scoring participants, as well as for its economic development in the region and among the CIS countries, has maintained its leadership. The measures, which were taken throughout 2017, were interrelated and led to remarkable economic success, and that these achievements were highly evaluated by international economic and financial

institutions. Thus, economic reforms provoked the development of the country's economy, GDP growth, the surplus of exports in various areas of the non-oil sector, the rise in the investment to the country's economy, especially in a difficult financial and economic conditions, improvement in the export potential of the country, development of social infrastructure, and energy supply enhancement and many other significant successes. The comprehensive incentive, social and institutional reforms carried out in 2017 have a leading role in achieving the goals set out in a number of priorities throughout the missions of the Strategic Road Map.

