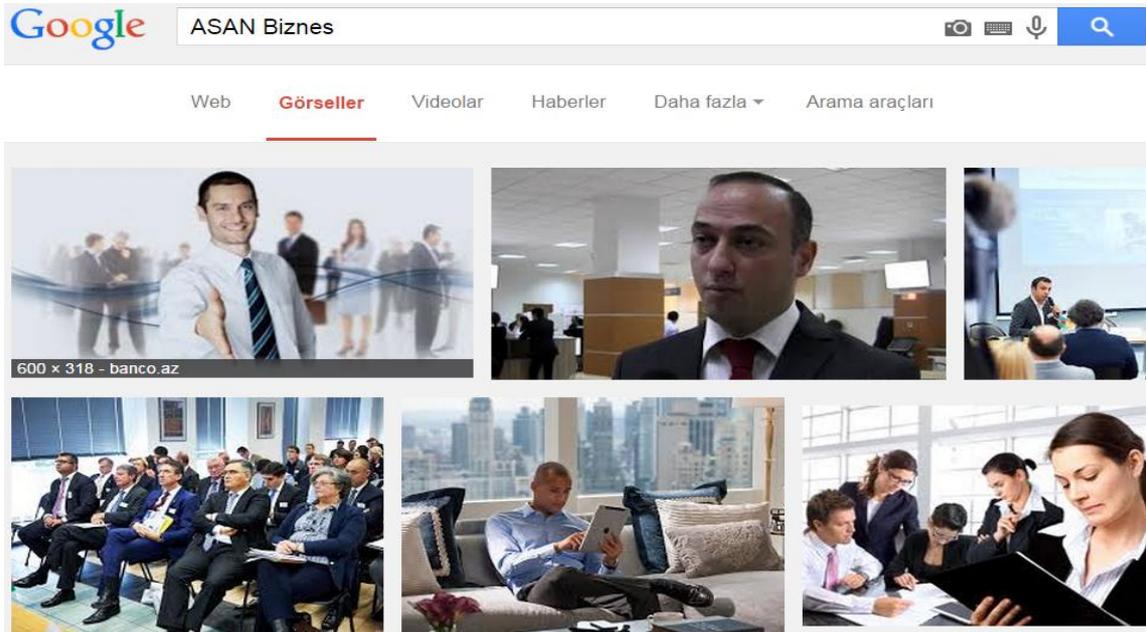




POLICY PAPER # 06/ 2015



A CONCEPT PAPER FOR “ASAN BUSINESS”

ASAN Service at the State Agency for Public Service and Social Innovations was established in 2012. ASAN Service is a one stop shop system where multiple government agencies deliver their services to the citizens. The establishment of ASAN Service has made considerable contribution toward tackling the problem of corruption at the front offices of public institutions. Since its establishment, more than 4 million people have used the various services offered by ASAN centers. Currently, ASAN service centers operate in Baku, Sumgait, Ganja, Sabirabad and Barda.

The private sector represents 82% of the Azerbaijani economy. There are around 615,000 business entities operating in Azerbaijan. Of these, 85% are individual entrepreneurs, and only 15% are registered as legal entities; 80% of all legal entities are small businesses, while medium and big businesses constitute remaining 20%. The government have taken several important steps for the development of business. The registration of a business entity has become fairly easy from both a legislative and practical point of view. A one stop shop system was established at the Ministry of Taxes and ASAN service centers to accelerate the process of business registration. Moreover, it is possible to register as an individual entrepreneur or as a legal entity via electronic services. An online information portal on business licenses and permits has also been developed. A common register of all inspections has been established at the Ministry of Justice to reduce arbitrary and groundless inspections of business entities. A new law on inspections and the protection of the interests of business entities will also contribute to solution of problems in this direction. However, small and medium-sized businesses continue to suffer the most from the current market conditions. High cost of licenses and permits and bureaucratic obstacles for obtaining them, monopoly, limited access to financing, lack of skilled labor, foreign trade and customs regulations, tax rates and corruption – these are some of the main challenges that businesses face. Opportunities provided by the ASAN service centers can be instrumental in lifting these obstacles and creating a favorable business environment in Azerbaijan. ASAN service centers are already serving the general population and it is necessary to consider the possible expansion of ASAN Service in the business direction. Therefore, it is expedient to have a public discussion on a concept for ASAN Business.

A CONCEPT FOR ASAN BUSINESS

ASAN Business implies the provision of business oriented public information, public services and state support (financial, legal, etc) to small and medium-sized businesses through one stop shop system – ASAN service centers. ASAN Business can be established in three stages:

- Information for businesses;
- Services for businesses
- Support for businesses

In the first stage, ASAN service centers can facilitate the access to legislation and public information for the business entities; in the second stage, public services for business entities can be delivered through one stop shop system; and finally, in the third stage, ASAN service centers can provide legal, financial, administrative and other support for the development of business entities.

Business Information Center

Most of newcomers in the business, as well as some of already operating business entities are not aware of all aspects of legislation, licenses and permits, documentation and reporting, customs and foreign trade regulations. The lack of information results in business entities entering the market too late or in unfavorable conditions. It also has negative impacts on business planning and risk assessment. The Business Information Center established at ASAN service centers can solve these problems and provide useful information to business entities in following directions:

- **Business planning:** Small and medium-sized businesses can be provided with instructional materials related to business planning, as well as some initial assistance. This can result in business entities developing their business plans more clearly and building a more successful enterprise. Business entities can also be provided with document samples and useful forms related to their financial reporting, accounting and work planning.
- **Business legislation:** The new legislation requires that entrepreneurs should have easy, free of charge and unlimited access to legal acts (including technical normative documents) that establish mandatory requirements for business activities¹. In this direction, the Business Information Center can provide business entities with useful information on requirements, standards, fees and fines related to taxation, migration, customs, licenses and permits, social security, insurance, statistics, inspections, labor safety, labor law, hygiene, corporative governance, etc. Currently, the business entities can get useful information on taxation and entrepreneurial issues through 195 hotline established by the Ministry of Taxation and the Ministry of Economy and Industry, as well as issues related to customs through 192 hotline. Apart from these, business oriented public information remains fragmented and needs a systematization. Thus, ASAN Service can provide all this information to small and medium-sized business entities in a systematic way – through the Business Information Center in its central and regional service centers and can also provide consulting services.

BUSINESS IN AZERBAIJAN

The private sector represents 82% of the Azerbaijani economy. There are around 615,000 business entities operating in Azerbaijan. Of these, 85% are individual entrepreneurs, and only 15% are registered as legal entities; 80% of all legal entities are small businesses, while medium and big businesses constitute remaining 20%.

¹ Law on the Regulation of Inspections at the Business Enterprises and the Protection of the Interests of Entrepreneurs, 23 August 2013, <http://www.e-qanun.az>

Services for businesses

This stage may include business registration, obtaining licenses and permits, property acquisition, getting construction permits and access to utilities, as well as services related to customs and foreign trade regulations. Business registration

Currently, commercial legal entities are registered at the ASAN service centers. Business entities can also get their official stamps there. However, business entities should also register their employees for the social security, besides acquiring tax registration numbers. The State Social Protection Fund (SSPF) has created an electronic service for the online social security registration. Only in February 2015, 25,000 people used this e-service to register for the social security². Currently, business entities that have applied to the SSPF via online services should also go to its local offices and collect the social security cards there. It is possible to arrange for the social security cards to be collected at the ASAN service centers as well. Tax identification numbers and identity cards can be collected both at the institutions issuing them and at the ASAN service centers. The same mechanism can be applied to the social security cards. If this measure is implemented, not only it will facilitate the registration of businesses, but it will also help to move up the ranking of Azerbaijan in the Doing Business report.

Licenses and permits

Some entrepreneurial activities demand special licenses and permits. In some cases, it is still problematic for companies to obtain respective licenses and permits³. Bureaucratic obstacles for obtaining licenses and permits cause loss of time, additional costs, difficulty in entering the market, decline in business productivity and deterioration of the competitive environment. Therefore, some entrepreneurs are inclined toward corrupt practices. In order to educate the entrepreneurs about licenses and permits, an information portal was set up in 2011⁴. Although the portal informs the business community about licenses and permits, it doesn't provide electronic services for obtaining them. Besides, there isn't a single state agency charged for issuing licenses and permits from one center. In order to improve the business climate for small and medium-sized businesses both in Baku and regions, respective ministries and other state entities can issue licenses and permits at the ASAN service centers. These licenses and permits may include:

- Special permission for the sale of tobacco products (license);
- Special permission for the sale of alcohol and alcoholic beverages (wine, cognac, vodka and a list of other alcoholic beverages as defined by the Cabinet of Ministers) (license);

² Electronic Government Newsletter, February 2015, <http://www.e-gov.az>

³ Business Anti-Corruption Portal, Azerbaijan Country Profile, 2013

⁴ Procedures for the Conducting Inspections at the Business Entities and the Establishment of the Common Register of The Inspections, approved by the Presidential decree dated 15 February 2011, <http://www.president.az>

BUSINESS REGISTRATION

The registration of a business entity is fairly easy from a practical point of view. A one stop shop system of business registration was established at the Ministry of Taxes and ASAN service centers and as a result, commercial entities can get registered in 3 days. Moreover, it is possible to register via electronic services since 30 December 2011 and it takes 3 days. Online registration is free of charge and is possible for owners of both electronic signatures and ASAN signatures.

LICENSES AND PERMITS

Number of business activities requiring licenses and permits were decreased from 240 to 30 by the Presidential decree in 2002. However, the number has tripled by 2013 (now 90 licenses). Research done in 2007 revealed that 37% of surveyed business people had to pay unofficial payments for obtaining licenses and permits. According to another research conducted in 2011, 56% of respondents believed that it was impossible to obtain licenses and permits without bribes.

-
- Special permission for passenger and cargo transportation (license); distinctive marks and special distinctive marks issued by the Ministry of Transportation (permit);
 - Special permission for private pharmaceutical activity issued by the Ministry of Healthcare (license);
 - Hygiene certificate issued by the Ministry of Healthcare;
 - Compliance certificate issued by the State Committee for Standardization, Metrology and Patents;
 - Quality certificate issued by the Ministry of Economy and Industry;
 - Recognition certificate issued by the State Committee for Standardization, Metrology and Patents;
 - Special permission for tourism activity issued by the Ministry of Culture and Tourism (license);
 - Special permission for operating hotels and other hotel type entities issued by the Ministry of Culture and Tourism (license).

These licenses and permits are the most demanded among the businesses. The first two licenses in the list are issued by the respective local executive authorities, other eight licenses and permits – by the central executive authorities. Currently, ASAN has service centers in Baku, Sumgait, Ganja, Barda, Sabirabad and in near future it will open new regional service centers in Gabala, Masally, Guba, Shaki and Tovuz. Therefore, ASAN has a capacity to issue licenses and permits throughout the country at its service centers and this measure can contribute to the development of entrepreneurship in both Baku and regions.

Property acquisition

The State Committee for Property Issues is responsible for the administration of state property and now this process became easier thanks to reforms in Azerbaijan. That is why, Azerbaijan is ranked 10th place in the world for registering property according to the Doing Business 2015 report. The State Committee for Property Issues is also responsible for the lease of state property. The lease is awarded through a tender. The sale of the state property is carried out according to the rules of privatization of the state property and through an auction. State Committee for Property Issues has 8 functioning electronic services for sale of state property through auction. These services make it possible for entrepreneurs to access and participate in the auction. It should be possible to register property at ASAN Service centers. It can be a big boost for the development of small and medium-sized businesses, if the lease and privatization of state property can also be available through ASAN service centers. The State Committee for Property Issues is responsible for the administration of state property and especially, state-owned land and it also has a representative at ASAN service centers, therefore it shouldn't be a problem to organize the process of lease and privatization of state property through ASAN service centers.

Construction

In Doing Business 2015 report, Azerbaijan has moved up its ranking by 17 places in dealing with construction permits, but the country still has a low

ranking in the world (150th place). In order to improve this ranking, issuing of permits for small-scale construction can be facilitated. Currently, small and medium-sized businesses have to acquire a land plot if they want to construct trade or service facilities. First, they have to apply to the auction commissions at the respective city and district executive authorities for acquiring state-owned lands. If they win the auction, they have to acquire the land on a basis of a sales contract and then register the property on their name. Then, they have to obtain approval of the project designs from the respective architecture and city (district) building departments. These procedures demand a lot of time and are vulnerable to corruption. However, ASAN Service can deliver these procedures in a transparent way in its central and regional service centers and thus lift a heavy burden from the small and medium-sized businesses. In order to perform this administrative reform, representatives of local executive authorities should be assigned to ASAN service centers.

Public utility services

According to the Doing Business 2015 report, one of the main challenges to businesses in Azerbaijan is getting electricity (159th place). For example, an entrepreneur who has built a shopping center should wait 165 days and pay a fee around 1000 AZN in order to get electricity for his facilities. This procedure is also vulnerable to corruption. Therefore, it is reasonable if ASAN service centers can issue technical specification documents granting the commercial entities an access to water, gas and electricity.

Customs and trade

Another challenge for businesses in Azerbaijan is customs and trade regulations. Although one stop shop principle is implemented in this area, no visible progress has been achieved. Simplification of customs procedures is also one of the main conditions for Azerbaijan's accession to WTO. It is reasonable to have ASAN service centers to accept declarations on the customs clearance of goods and vehicles, as well as customs duties. Despite numerous speculations in the media, these services are not available at the ASAN service centers yet.

Support to business

Credits

Local banks are lending between 100,000-500,000 AZN to small and medium-sized businesses⁵, but interest rates are high (20-25%). Main state financial support mechanisms for businesses are The State Fund for Supporting Entrepreneurship, "Agroleasing" Open Joint-stock Company and the State Agency for Agricultural Credits. If these credits are provided through one stop shop mechanism at the ASAN service centers, it can lead

⁵ The website of Unibank: <http://www.unibank.az/az/>; the website of Demirbank: <http://www.demirbank.az/>; the website of AccessBank: <http://www.accessbank.az/>

to small and medium-sized businesses having greater access to financing and as a result, further development of entrepreneurship. That is, the representatives of The State Fund for Supporting Entrepreneurship, "Agroleasing" Open Joint-stock Company and the State Agency for Agricultural Credits can also operate at the ASAN centers. A separate development fund at the ASAN service (ASAN Development Fund) can be established to support start-ups and business ideas of young people. For example, Regional Development Agencies in Turkey are doing the similar job successfully. In Azerbaijan, ASAN Service can play the same role of regional development agencies. Another option is establishing ASAN Credit initiative. ASAN may undertake part of the risk of loans granted by the banks to innovative start-up projects. It is also possible to bring banks to the ASAN service centers based on objective criteria and free market principles. By this way, Any business entity registered at the ASAN center and having a business plan may have better access to business credits.

Audit consulting

According to the new legislation, the inspecting state agency should provide written and oral explanation to businesses on its competences regarding the implementation of mandatory requirements, as well as provide instructions on overcoming encountered difficulties. If there occurs any shortcomings in the activities of business entities while they are complying with the explanations and instructions, they cannot be held responsible for those shortcomings. Taking this provision of the law into consideration, it can be reasonable for ASAN Service to provide consultancy to businesses about state inspections. This new provision also makes entrepreneurs interested in consultancies and they will welcome this new measure at the ASAN service centers. ASAN service centers can provide the entrepreneurs with information on all types of inspections and answer their respective inquiries.

Personnel

One of the main problems that small and medium-sized businesses face is lack of skilled labor. A special website – asankadr.az was created to help businesses to solve their shortcomings with skilled labor. The website was created with the intention of finding jobs for ASAN volunteers, but anyone can post their resumes on the website. This website meets the highest possible standards in the field of employment in Azerbaijan. Both employers and job seekers can benefit from this electronic service. However, ASAN service centers can also have an offline service dedicated to employment issues. Any commercial entities registered at the ASAN service centers can approach the personnel department and seek information on the respective HR database.

Conclusion

It is possible from the administrative point of view to ensure the provision of public information, public services and state support to businesses in the central and regional service centers of ASAN. In the light of decrease in oil revenues, it should also be among priorities to increase budget revenues from the non-oil sector and to achieve more efficient and cost-saving public administration. Implementation of the ASAN Business concept can lead to more efficient organization of public administration, development of small and medium-sized businesses and therefore, increase in the non-oil revenues of the state budget. This reform can also increase the public reputation and international prestige of the government. The political will, as well as constructive cooperation between government agencies are essential components for the success of this enterprise.

RECOMMENDATIONS

ASAN service centers should provide the small and medium-sized businesses with:

- Instructions and consultations on business planning;
- Free access to all information about the legal acts on business, as well as provision of legal aid;
- Opportunity to register at the State Social Protection Fund and receive mandatory social security cards;
- Opportunity to apply to the auction commissions for the acquisition of land plots;
- Approval of the project designs for small-scale construction projects;
- Technical specification documents granting access to water, gas and electricity;
- Opportunity to declare customs clearance of goods and vehicles, as well as to pay customs duties
- Access to the credits of the State Fund for Supporting Entrepreneurship, "Agroleasing" Open Joint-stock Company and the State Agency for Agricultural Credits through one stop shop mechanism;
- Complete or partial financing for the start-ups and business ideas of young people through the ASAN Development Fund;
- Consultations on the state inspections;
- HR database for recruitment of skilled labor.

Transparency Azerbaijan

Address: AZ1001, Baku, Jafar Jabbarlı str.16, apt. 7

Tel: (+994 12) 497 81 70

Tel: (+994 12) 497 68 15

Tel: (+994 55) 291 00 02

Fax: (+994 12) 596 20 38

E-mail: info@transparency.az

“This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of Transparency International Azerbaijan and can in no way be taken to reflect the views of the European Union.”