



Economy Profile:
Azerbaijan

DOING BUSINESS 2013

**Smarter Regulations for
Small and Medium-Size Enterprises**



COMPARING BUSINESS REGULATIONS FOR DOMESTIC FIRMS IN 185 ECONOMIES

10TH EDITION

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INTRODUCTION

Doing Business sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers.

In a series of annual reports *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 185 economies, from Afghanistan to Zimbabwe, over time. The data set covers 46 economies in Sub-Saharan Africa, 33 in Latin America and the Caribbean, 24 in East Asia and the Pacific, 24 in Eastern Europe and Central Asia, 19 in the Middle East and North Africa and 8 in South Asia, as well as 31 OECD high-income economies. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

This economy profile presents the *Doing Business* indicators for Azerbaijan. To allow useful comparison, it also provides data for other selected economies (comparator economies) for each indicator. The data in this report are current as of June 1, 2012 (except for

the paying taxes indicators, which cover the period January–December 2011).

The *Doing Business* methodology has limitations. Other areas important to business—such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not directly studied by *Doing Business*. The indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. The data not only highlight the extent of obstacles to doing business; they also help identify the source of those obstacles, supporting policy makers in designing regulatory reform.

More information is available in the full report. *Doing Business 2013* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2013*, are available on the *Doing Business* website at <http://www.doingbusiness.org>.

THE BUSINESS ENVIRONMENT

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies. *Doing Business* provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 185 by the ease of doing business index. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 10 topics included in the index in *Doing Business 2013*: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The ranking on each topic is the simple average of the percentile rankings on its component indicators (see the data notes for more details). The employing workers indicators are not included in this year's aggregate ease of doing business ranking, but the data are presented in this year's economy profile.

The aggregate ranking on the ease of doing business benchmarks each economy's performance on the indicators against that of all other economies in the *Doing Business* sample (figure 1.1). While this ranking tells much about the business environment in an economy, it does not tell the whole story. The ranking on the ease of doing business, and the underlying indicators, do not measure all aspects of the business environment that matter to firms and investors or that affect the competitiveness of the economy. Still, a high ranking does mean that the government has created a regulatory environment conducive to operating a business.

ECONOMY OVERVIEW

Region: Eastern Europe & Central Asia

Income category: Upper middle income

Population: 9,168,000

GNI per capita (US\$): 5,290

DB2013 rank: 67

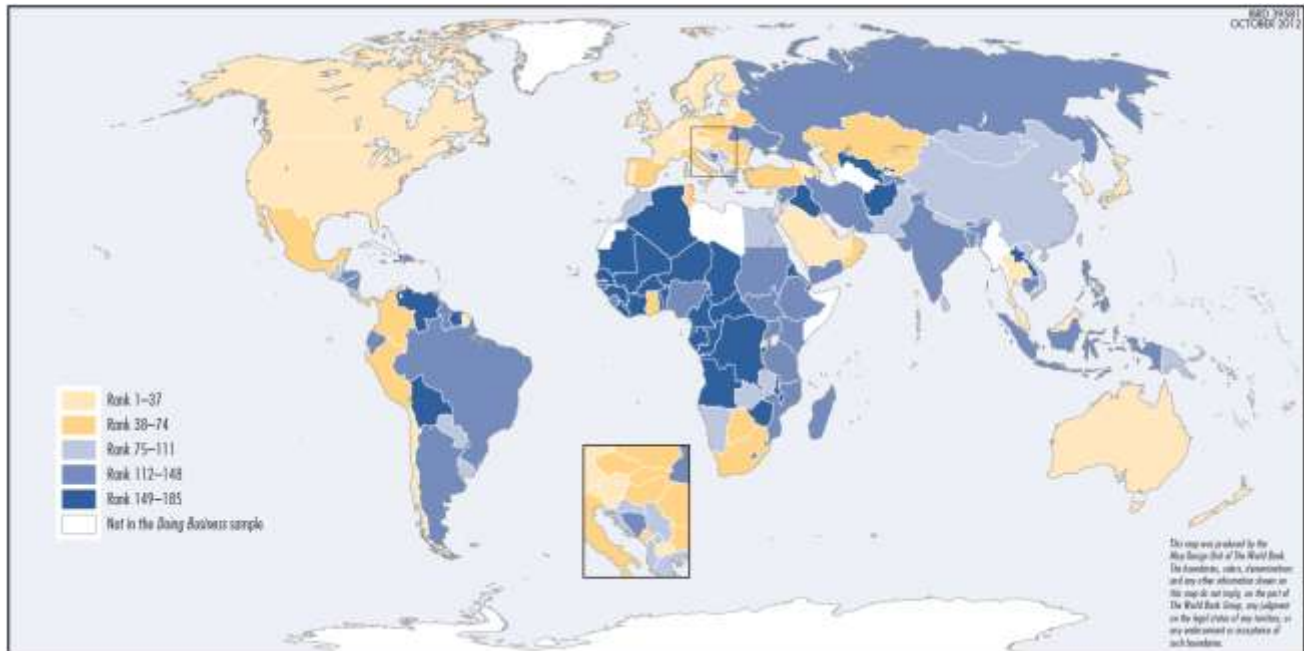
DB2012 rank: 66*

Change in rank: -1

* DB2012 ranking shown is not last year's published ranking but a comparable ranking for DB2012 that captures the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year. See the data notes for sources and definitions.

THE BUSINESS ENVIRONMENT

Figure 1.1 Where economies stand in the global ranking on the ease of doing business



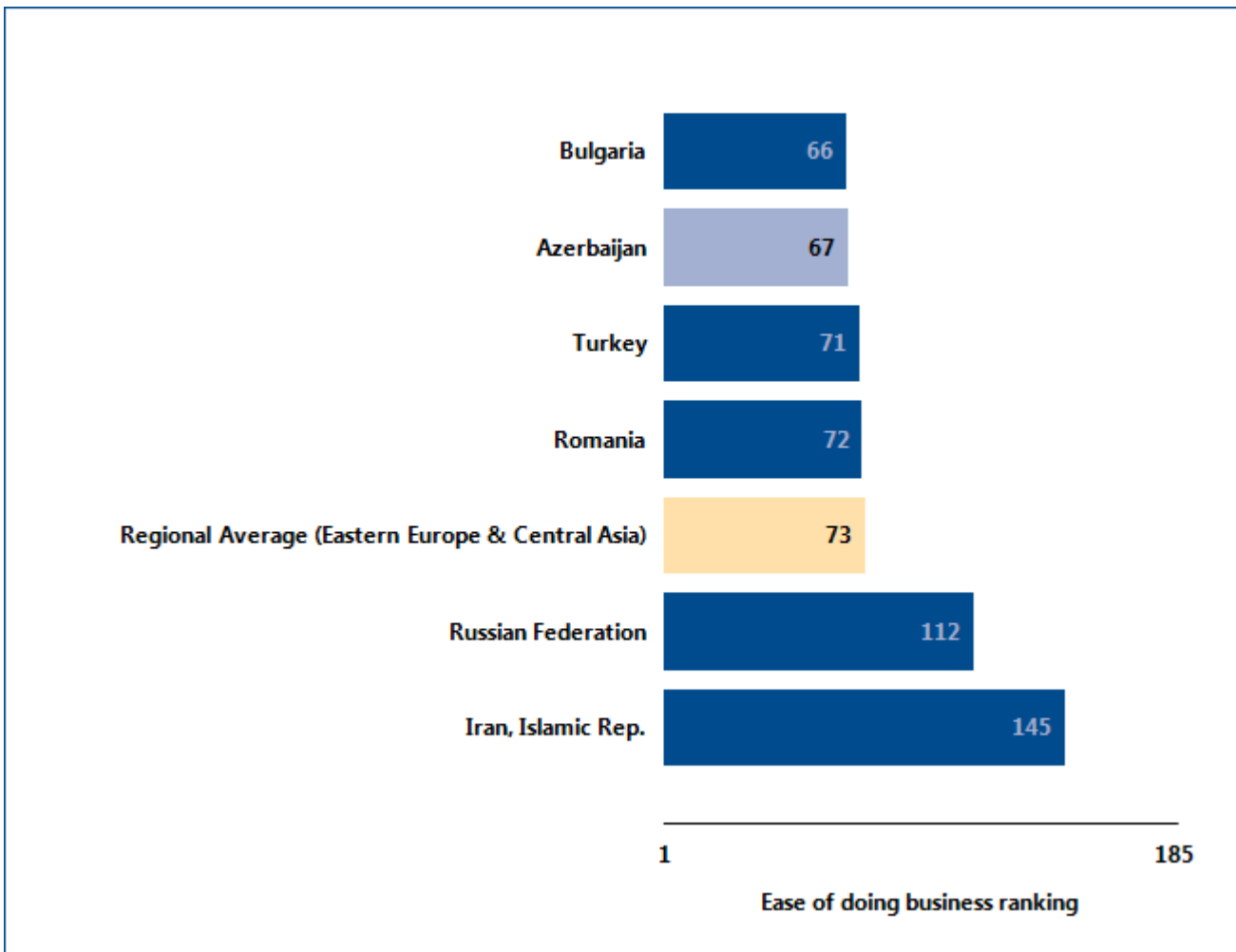
Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

For policy makers, knowing where their economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks relative to comparator economies and

relative to the regional average (figure 1.2). The economy's rankings on the topics included in the ease of doing business index provide another perspective (figure 1.3).

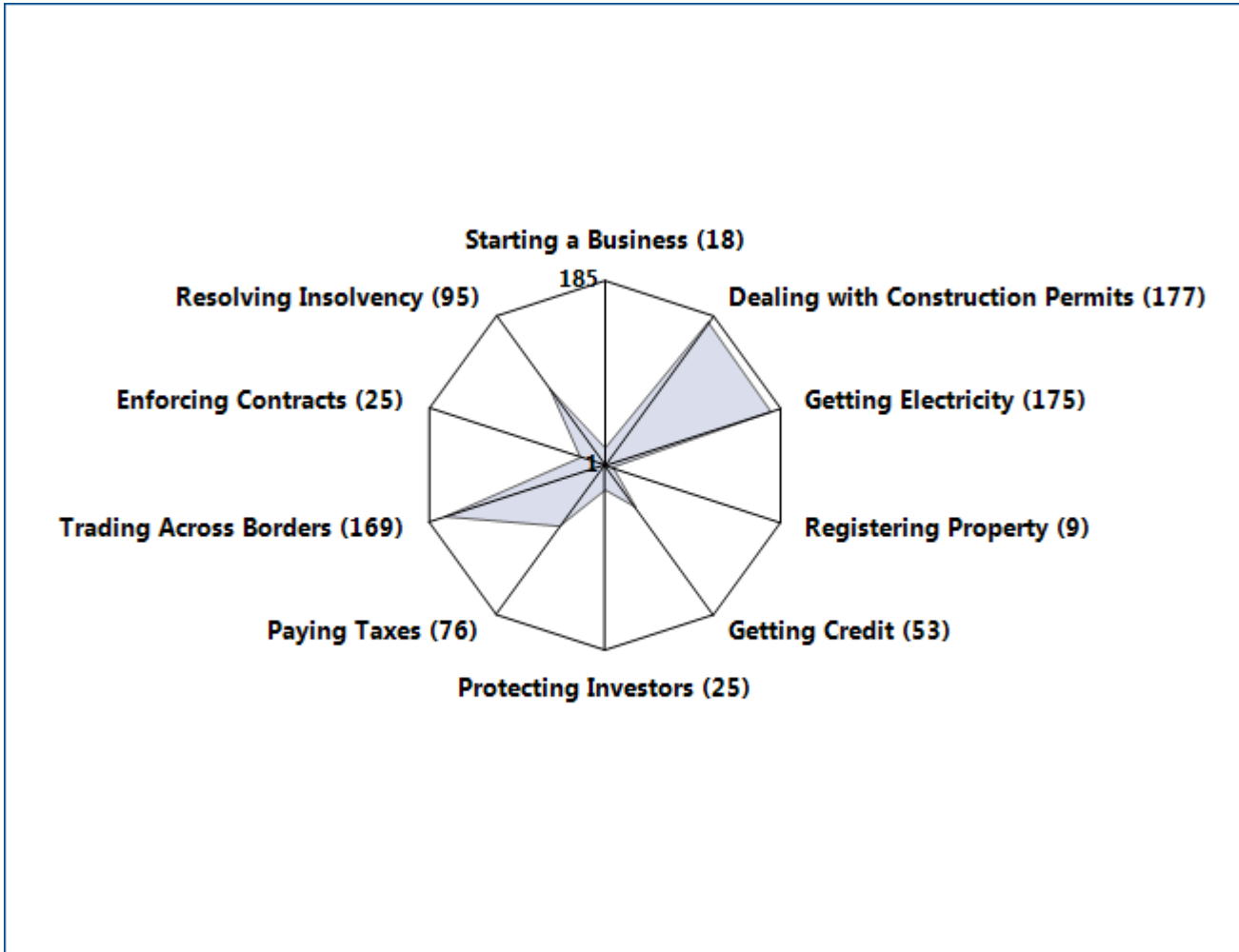
Figure 1.2 How Azerbaijan and comparator economies rank on the ease of doing business



Source: Doing Business database.

THE BUSINESS ENVIRONMENT

Figure 1.3 How Azerbaijan ranks on *Doing Business* topics



Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

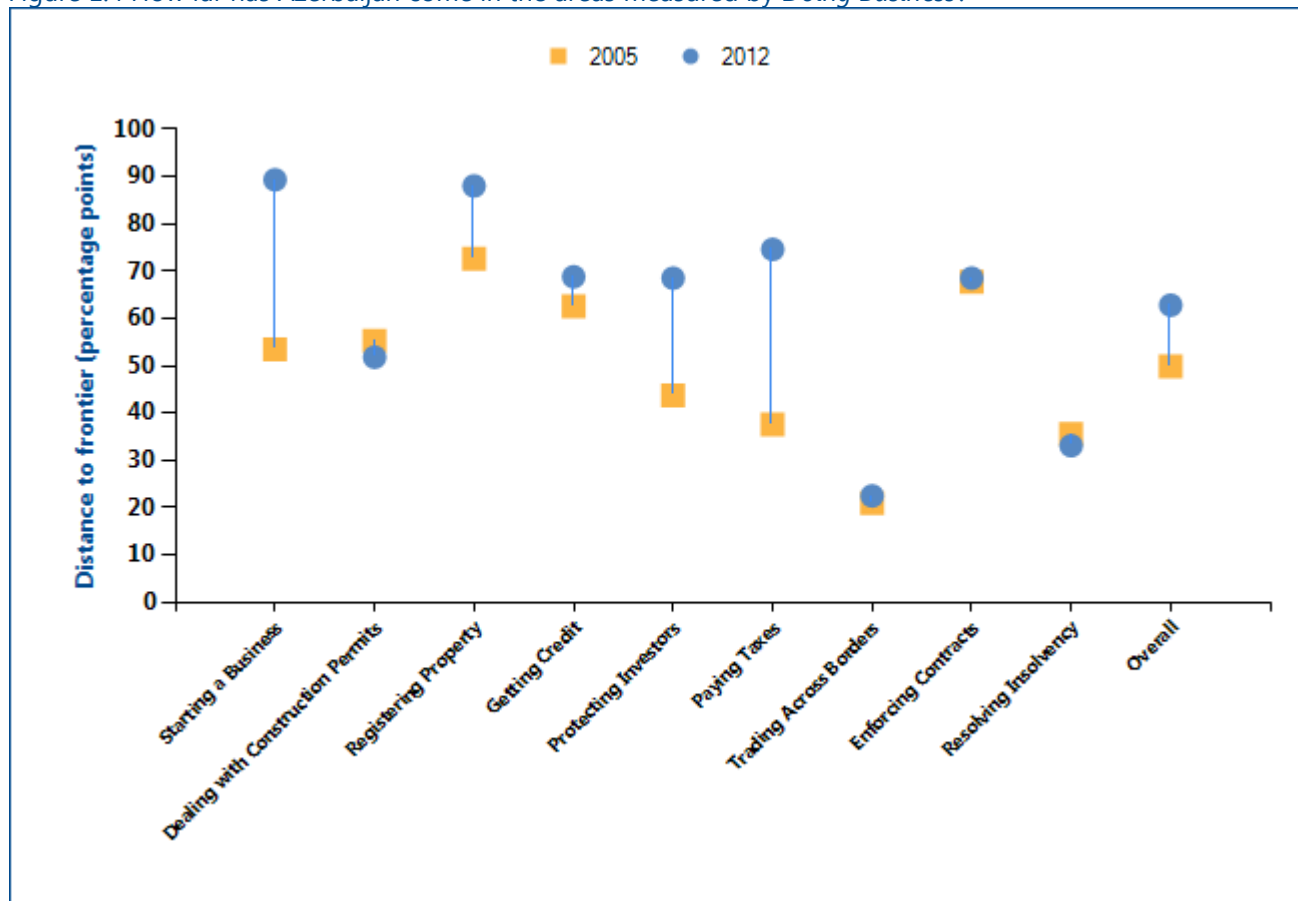
Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy’s regulatory environment for firms, but they are always relative. An economy’s ranking might change because of developments in other economies. An economy that implemented business regulation reforms may fail to rise in the rankings (or may even drop) if it is passed by others whose business regulation reforms had a more significant impact as measured by *Doing Business*.

Moreover, year-to-year changes in the overall rankings do not reflect how the business regulatory environment in an economy has changed over time—or how it has changed in different areas. To aid in assessing such changes, last

year *Doing Business* introduced the distance to frontier measure. This measure shows how far each economy is from the best performance achieved by any economy since 2005 on each indicator in 9 *Doing Business* indicator sets.

Comparing the measure for an economy at 2 points in time allows users to assess how much the economy’s regulatory environment as measured by *Doing Business* has changed over time—how far it has moved toward (or away from) the most efficient practices and strongest regulations in areas covered by *Doing Business* (figure 1.4). The results may show that the pace of change varies widely across the areas measured. They also may show that an economy is relatively close to the frontier in some areas and relatively far from it in others.

Figure 1.4 How far has Azerbaijan come in the areas measured by *Doing Business*?



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The overall distance to frontier is the average of the distance to frontier in the 9 indicator sets shown in the figure. See the data notes for more details on the distance to frontier measure.

Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

The absolute values of the indicators tell another part of the story (table 1.1). The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, may reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. Or they may reveal unexpected strengths in an area of

business regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators today with those in the previous year may show where substantial bottlenecks persist—and where they are diminishing.

Table 1.1 Summary of *Doing Business* indicators for Azerbaijan

Indicator	Azerbaijan DB2013	Azerbaijan DB2012	Bulgaria DB2013	Iran, Islamic Rep. DB2013	Romania DB2013	Russian Federation DB2013	Turkey DB2013	Best performer globally DB2013
Starting a Business (rank)	18	17	57	87	68	101	72	New Zealand (1)
Procedures (number)	6	6	4	7	6	8	6	New Zealand (1)*
Time (days)	8	8	18	13	10	18	6	New Zealand (1)
Cost (% of income per capita)	2.3	2.7	1.1	3.3	2.8	2.0	10.5	Slovenia (0.0)
Paid-in Min. Capital (% of income per capita)	0.0	0.0	0.0	0.5	0.8	1.4	7.2	91 Economies (0.0)*
Dealing with Construction Permits (rank)	177	176	123	166	129	178	142	Hong Kong SAR, China (1)
Procedures (number)	28	28	21	16	15	42	20	Hong Kong SAR, China (6)*
Time (days)	212	212	107	320	287	344	180	Singapore (26)
Cost (% of income per capita)	292.4	335.2	293.5	262.3	79.1	129.2	164.3	Qatar (1.1)

Indicator	Azerbaijan DB2013	Azerbaijan DB2012	Bulgaria DB2013	Iran, Islamic Rep. DB2013	Romania DB2013	Russian Federation DB2013	Turkey DB2013	Best performer globally DB2013
Getting Electricity (rank)	175	175	128	163	168	184	68	Iceland (1)
Procedures (number)	9	9	6	7	7	10	5	Germany (3)*
Time (days)	241	241	130	140	223	281	70	Germany (17)
Cost (% of income per capita)	591.2	677.6	340.7	788.4	584.2	1,573.7	517.9	Japan (0.0)
Registering Property (rank)	9	6	68	165	72	46	42	Georgia (1)
Procedures (number)	4	4	8	9	8	5	6	Georgia (1)*
Time (days)	11	11	15	36	26	44	6	Portugal (1)
Cost (% of property value)	0.5	0.2	2.9	10.5	1.2	0.2	3.3	Belarus (0.0)*
Getting Credit (rank)	53	52	40	83	12	104	83	United Kingdom (1)*
Strength of legal rights index (0-10)	6	6	8	4	9	3	4	Malaysia (10)*
Depth of credit information index (0-6)	5	5	4	5	5	5	5	United Kingdom (6)*
Public registry coverage (% of adults)	17.7	15.6	56.3	25.9	14.0	0.0	23.5	Portugal (90.7)
Private bureau coverage (% of adults)	0.0	0.0	0.0	31.9	44.9	45.4	63.0	United Kingdom (100.0)*
Protecting Investors (rank)	25	24	49	150	49	117	70	New Zealand (1)
Extent of disclosure index (0-10)	7	7	10	7	9	6	9	Hong Kong SAR, China (10)*

Indicator	Azerbaijan DB2013	Azerbaijan DB2012	Bulgaria DB2013	Iran, Islamic Rep. DB2013	Romania DB2013	Russian Federation DB2013	Turkey DB2013	Best performer globally DB2013
Extent of director liability index (0-10)	5	5	1	4	5	2	4	Singapore (9)*
Ease of shareholder suits index (0-10)	8	8	7	0	4	6	4	New Zealand (10)*
Strength of investor protection index (0-10)	6.7	6.7	6.0	3.7	6.0	4.7	5.7	New Zealand (9.7)
Paying Taxes (rank)	76	79	91	129	136	64	80	United Arab Emirates (1)
Payments (number per year)	18	18	15	20	41	7	15	Hong Kong SAR, China (3)*
Time (hours per year)	214	225	454	344	216	177	223	United Arab Emirates (12)
Trading Across Borders (rank)	169	169	93	143	72	162	78	Singapore (1)
Documents to export (number)	8	8	5	7	5	8	7	France (2)
Time to export (days)	38	38	21	25	12	21	13	Singapore (5)*
Cost to export (US\$ per container)	3,430	3,345	1,551	1,470	1,485	2,820	990	Malaysia (435)
Documents to import (number)	10	10	6	8	6	11	7	France (2)
Time to import (days)	38	38	17	32	13	36	14	Singapore (4)
Cost to import (US\$ per container)	3,490	3,405	1,626	2,100	1,495	2,920	1,235	Malaysia (420)
Enforcing Contracts (rank)	25	24	86	53	60	11	40	Luxembourg (1)

Indicator	Azerbaijan DB2013	Azerbaijan DB2012	Bulgaria DB2013	Iran, Islamic Rep. DB2013	Romania DB2013	Russian Federation DB2013	Turkey DB2013	Best performer globally DB2013
Time (days)	237	237	564	505	512	270	420	Singapore (150)
Cost (% of claim)	18.5	18.5	23.8	17.0	28.9	13.4	24.9	Bhutan (0.1)
Procedures (number)	39	39	39	39	32	36	36	Ireland (21)*
Resolving Insolvency (rank)	95	99	93	126	102	53	124	Japan (1)
Time (years)	2.7	2.7	3.3	4.5	3.3	2.0	3.3	Ireland (0.4)
Cost (% of estate)	8	8	9	9	11	9	15	Singapore (1)*
Outcome (0 as piecemeal sale and 1 as going concern)	0		0	0	0	0	0	
Recovery rate (cents on the dollar)	30.6	29.7	31.7	23.1	29.2	43.4	23.6	Japan (92.8)

Note: DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year. The ranking methodology for the paying taxes indicators changed in *Doing Business 2013*; see the data notes for details. For more information on "no practice" marks, see the data notes. Data for the outcome of the resolving insolvency indicator are not available for DB2012.

* Two or more economies share the top ranking on this indicator. A number shown in place of an economy's name indicates the number of economies that share the top ranking on the indicator. For a list of these economies, see the *Doing Business* website (<http://www.doingbusiness.org>).

Source: *Doing Business* database.

STARTING A BUSINESS

Formal registration of companies has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law. An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good jobs and generating more revenue for the government.

What do the indicators cover?

Doing Business measures the ease of starting a business in an economy by recording all procedures officially required or commonly done in practice by an entrepreneur to start up and formally operate an industrial or commercial business—as well as the time and cost required to complete these procedures. It also records the paid-in minimum capital that companies must deposit before registration (or within 3 months). The ranking on the ease of starting a business is the simple average of the percentile rankings on the 4 component indicators: procedures, time, cost and paid-in minimum capital requirement.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the procedures. It assumes that all information is readily available to the entrepreneur and that there has been no prior contact with officials. It also assumes that the entrepreneur will pay no bribes. And it assumes that the business:

- Is a limited liability company, located in the largest business city.
- Has between 10 and 50 employees.
- Conducts general commercial or industrial activities.

WHAT THE STARTING A BUSINESS INDICATORS MEASURE

Procedures to legally start and operate a company (number)

- Preregistration (for example, name verification or reservation, notarization)
- Registration in the economy's largest business city
- Postregistration (for example, social security registration, company seal)

Time required to complete each procedure (calendar days)

- Does not include time spent gathering information
- Each procedure starts on a separate day
- Procedure completed once final document is received
- No prior contact with officials

Cost required to complete each procedure (% of income per capita)

- Official costs only, no bribes
- No professional fees unless services required by law

Paid-in minimum capital (% of income per capita)

- Deposited in a bank or with a notary before registration (or within 3 months)
- Has a start-up capital of 10 times income per capita.
- Has a turnover of at least 100 times income per capita.
- Does not qualify for any special benefits.
- Does not own real estate.
- Is 100% domestically owned.

STARTING A BUSINESS

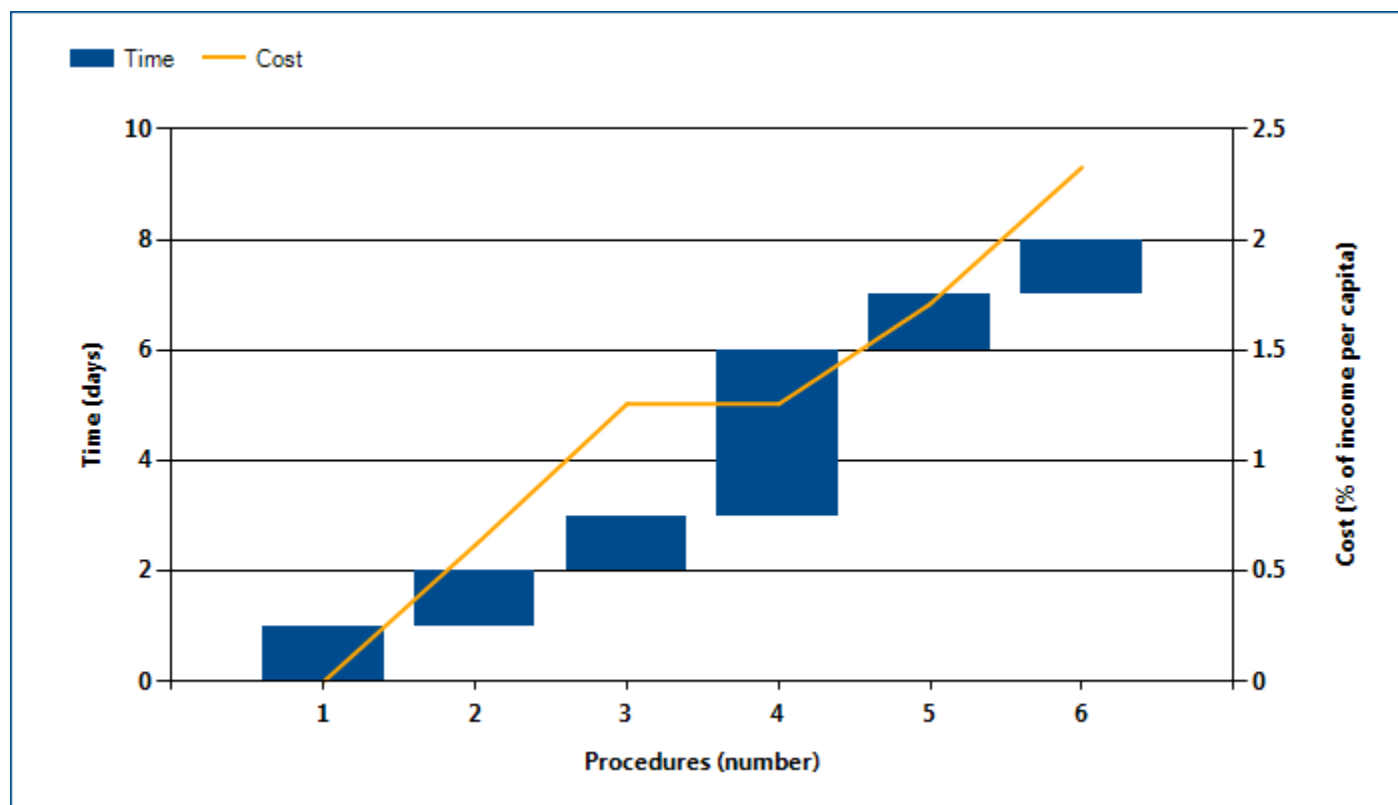
Where does the economy stand today?

What does it take to start a business in Azerbaijan? According to data collected by *Doing Business*, starting a business there requires 6 procedures, takes 8 days,

costs 2.3% of income per capita and requires paid-in minimum capital of 0.0% of income per capita (figure 2.1).

Figure 2.1 What it takes to start a business in Azerbaijan

Paid-in minimum capital (% of income per capita): 0.0



Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the starting a business indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

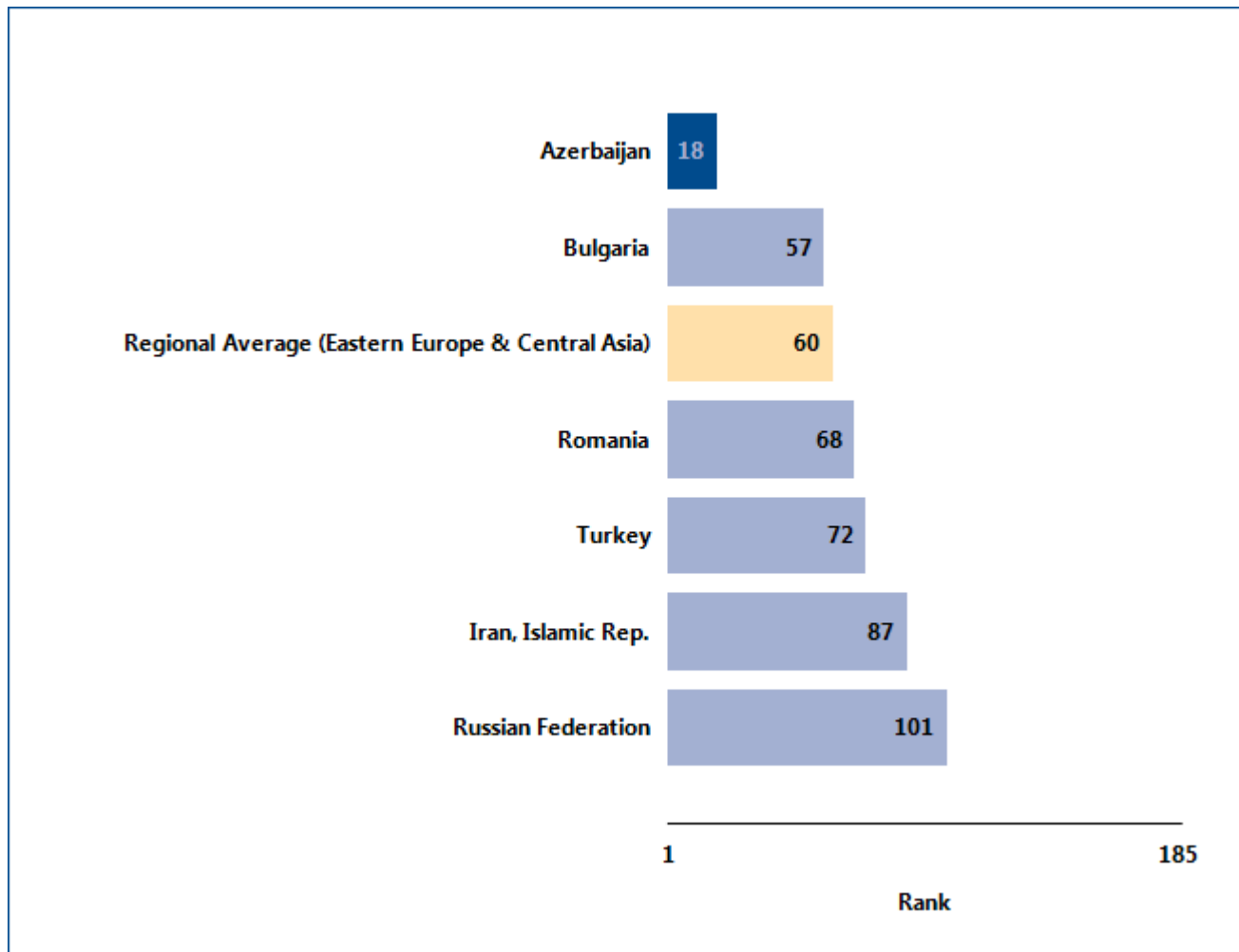
Source: *Doing Business* database.

STARTING A BUSINESS

Globally, Azerbaijan stands at 18 in the ranking of 185 economies on the ease of starting a business (figure 2.2). The rankings for comparator economies and the

regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Azerbaijan to start a business.

Figure 2.2 How Azerbaijan and comparator economies rank on the ease of starting a business



Source: *Doing Business* database.

STARTING A BUSINESS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to start a business in Azerbaijan today, data over time show which aspects of the process have changed—and which have not (table 2.1). That can help identify where the potential for improvement is greatest.

Table 2.1 The ease of starting a business in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	..	..	17	18
Procedures (number)	14	13	13	13	12	6	6	6	6	6
Time (days)	105	121	113	51	36	10	10	8	8	8
Cost (% of income per capita)	16.8	14.4	12.3	9.3	6.9	3.2	2.9	3.1	2.7	2.3
Paid-in Min. Capital (% of income per capita)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year.

Source: *Doing Business* database.

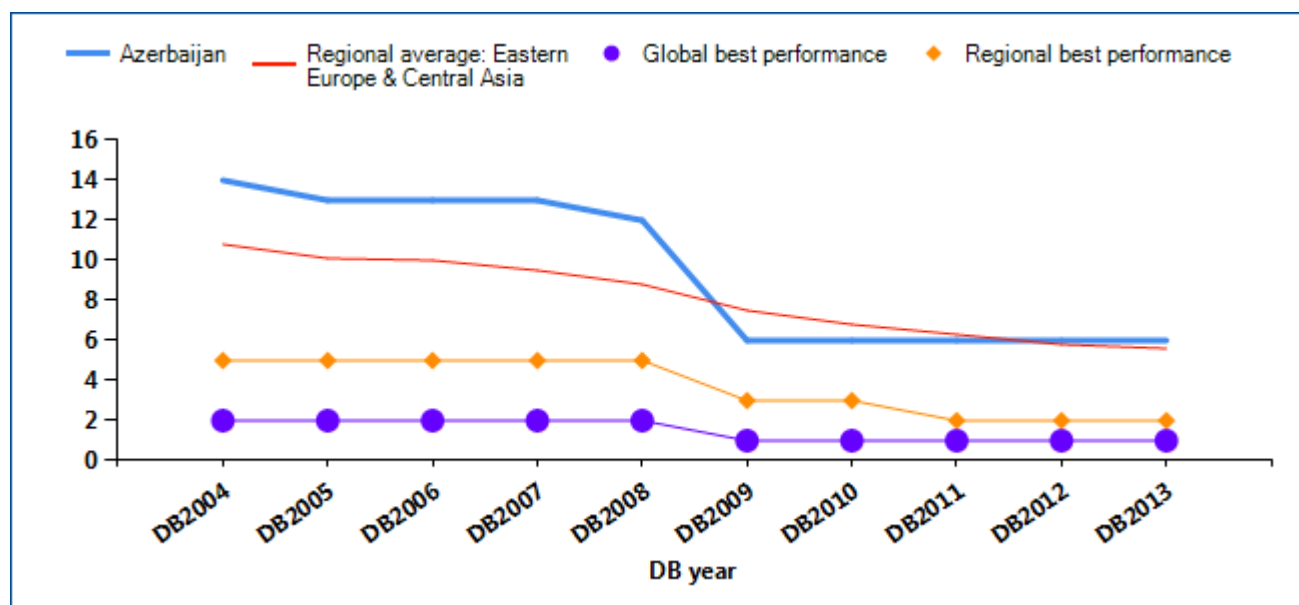
STARTING A BUSINESS

Equally helpful may be the benchmarks provided by the economies that over time have had the best performance regionally or globally on the procedures, time, cost or paid-in minimum capital required to start a business (figure 2.3). These benchmarks help show

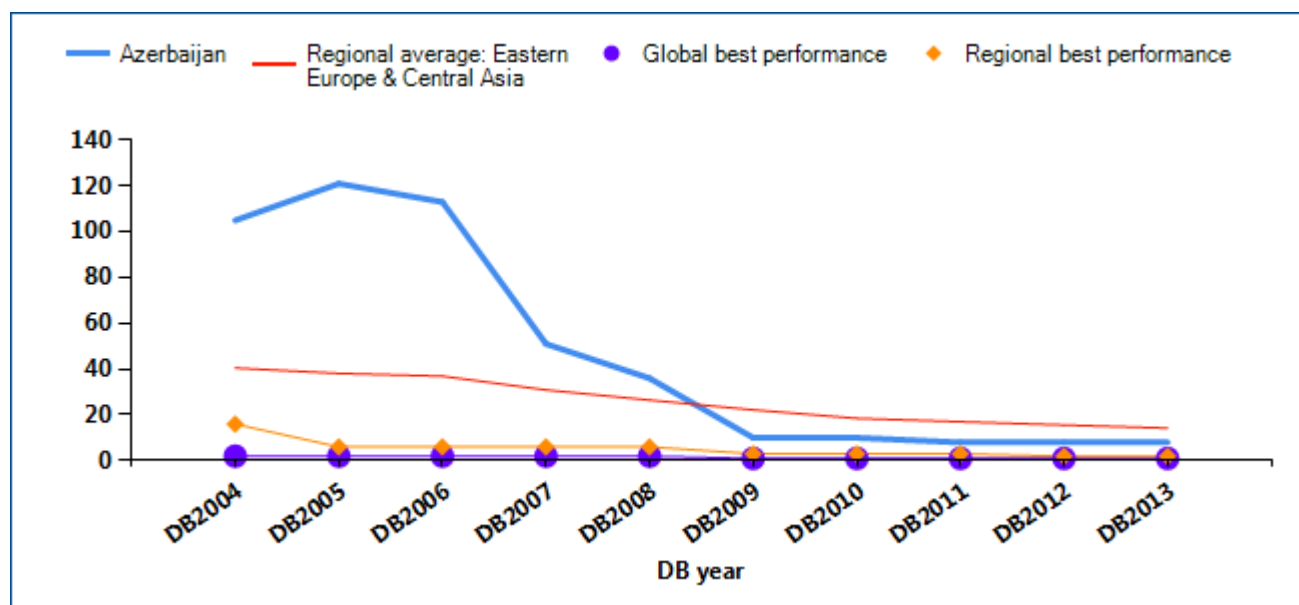
what is possible in making it easier to start a business. And changes in regional averages can show where Azerbaijan is keeping up—and where it is falling behind.

Figure 2.3 Has starting a business become easier over time?

Procedures (number)

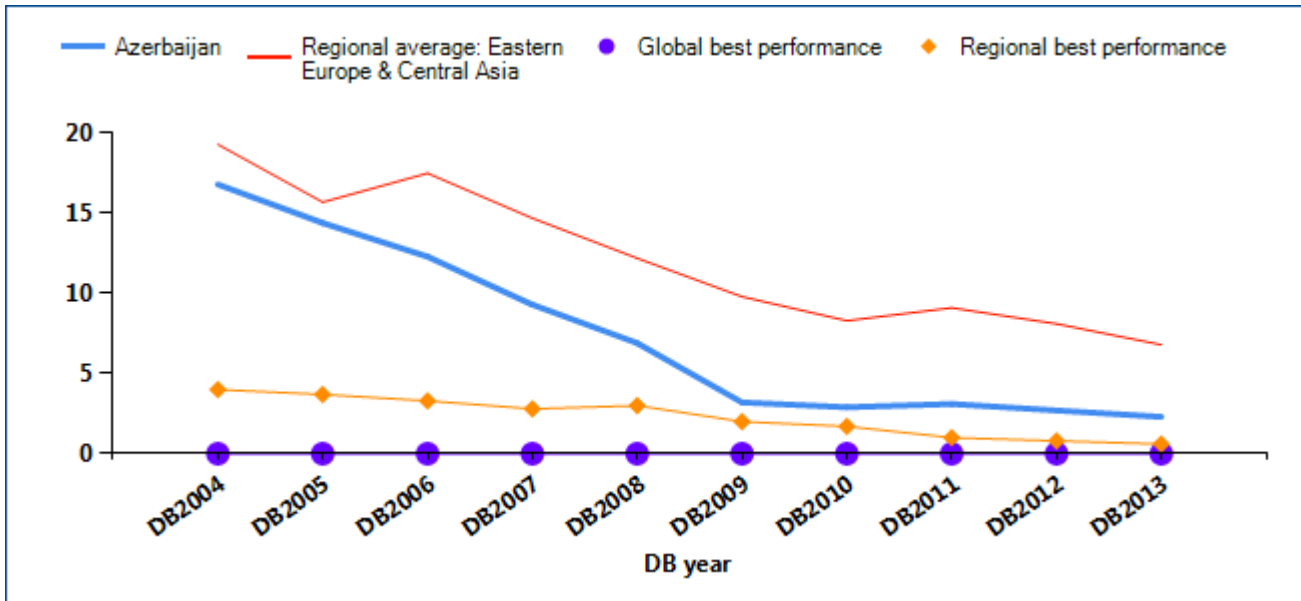


Time (days)

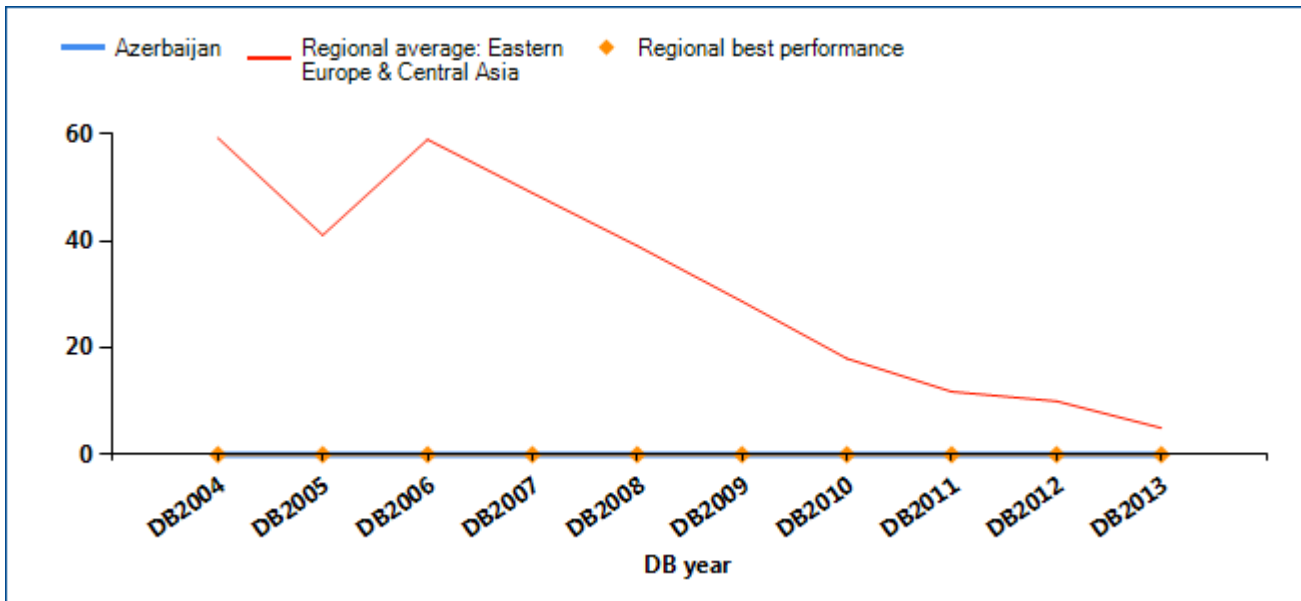


STARTING A BUSINESS

Cost (% of income per capita)



Paid-in minimum capital (% of income per capita)



Note: Ninety-one economies globally have no paid-in minimum capital requirement.

Source: Doing Business database.

STARTING A BUSINESS

Economies around the world have taken steps making it easier to start a business—streamlining procedures by setting up a one-stop shop, making procedures simpler or faster by introducing technology and reducing or eliminating minimum capital requirements. Many have undertaken business registration reforms in stages—and they often are part of a larger regulatory reform program. Among the benefits have been

greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities.

What business registration reforms has *Doing Business* recorded in Azerbaijan (table 2.2)?

Table 2.2 How has Azerbaijan made starting a business easier—or not?
By *Doing Business* report year

DB year	Reform
DB2008	The requirement to obtain approval of the company seal design by the Ministry of Justice was abolished.
DB2009	A one-stop shop for completing registration requirement was created reducing the number of procedures, days and cost.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

STARTING A BUSINESS

What are the details?

Underlying the indicators shown in this chapter for Azerbaijan is a set of specific procedures—the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. These are identified by *Doing Business* through collaboration with relevant local professionals and the study of laws, regulations and publicly available information on business entry in that economy. Following is a detailed summary of those procedures, along with the associated time and cost. These procedures are those that apply to a company matching the standard assumptions (the “standardized company”) used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators measure).

STANDARDIZED COMPANY

City: Baku

Legal Form: Limited Liability Company (LLC)

Paid in Minimum Capital Requirement: None

Start-up Capital: 10 times GNI per capita

Summary of procedures for starting a business in Azerbaijan—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>Obtain a confirmation of the legal address of the company from the proposed lessor</p> <p>The company must obtain a lease agreement to confirm the location of its permanent governing body. Usually, a guarantee letter from the proposed lesser, along with a notarized copy of the ownership certificate for the premises, is acceptable as evidence of the LLC's legal address.</p>	1 day	no charge
2	<p>Notarize company documents</p> <p>Several documents required for registration have to be notarized. This includes the lease agreement and authorization by the land lord.</p> <p>LLC's charter is not subject to notarization. If the LLC is to be founded by legal entities (as opposed to individuals), notarized copies of charters of legal entities founding the LLC and their registration certificates must be enclosed to the application to the Ministry of Taxes.</p> <p>A notarized lease agreement may be replaced by a guarantee letter from the Landlord and a notarized ownership certificate (or another title document) in order to evidence the LLC's legal address.</p> <p>Also, the application to the Ministry of Taxes must be notarized.</p>	1 day	AZN 30
3	<p>Open a temporary bank account, deposit the charter capital and obtain a receipt; pay the state registration fee and get a receipt</p>	1 day	AZN 11 + AZN 20

No.	Procedure	Time to complete	Cost to complete
	<p>Although there is no minimal capital requirement for LLCs, an LLC shall be established with some capital, which in practice can be quite nominal. Capital of the LLC shall be fully paid-in prior to the state registration of the LLC.</p> <p>The most practical way is payment of the LLC capital to the temporary account with the bank. Following registration of the LLC, the proceeds in the temporary account are transferred to a regular settlement account of the LLC. Banks may charge fees for opening bank accounts. Amount of fee may vary but is normally 20 AZN.</p> <p>The state fee for registration of a LLC is 11 AZN. The registration fee shall be paid by founders (or their representatives) of limited liability companies to the account of the Ministry of Taxes with treasury. Ministry of Taxes is a state authority responsible for registration of a LLC since January 2008.</p> <p>The Ministry of Taxes is vested with the authority to register limited liability companies pursuant to the Decree No. 696 of the President of the Republic of Azerbaijan dated 28 December 28, 2007 (setting principle of "one stop shop" for registration of commercial legal entities).</p> <p>The payment of charter capital may also be evidenced by an extract from the bank account, which would be acceptable to the Ministry of Justice as evidence of payment of the charter capital. The bank issues a letter addressed to the Ministry of Taxes, confirming payment of the charter capital. The bank account cannot be used for other purposes until tax authority consent is received after registration.</p>		
4	<p>File documents with the company registrar at the One Stop shop Taxes, register for VAT purposes</p> <p>Since January 2008, the Ministry of Taxes is responsible for business registration within 3 business days at the One stop shop. 100% of registrations are carried out through one stop shop, which became fully operational in January 1, 2008.</p> <ul style="list-style-type: none"> • Standard application form • Founding documents – the charter of the entity approved by the founder or his/her legal representative, minutes of the foundation meeting; • Bank receipt confirming the payment of the state registration fee; • If the founder is a legal entity – notarized copy of the certificate on registration (extract from state registry) and the charter; • If the founder is an individual – copy of his/her identity card; • A document confirming the legal address of the entity (this document may be a notarized rental agreement, lease, or free-of-charge use contract, or notarized agreement on use of legal address of object's proprietor (owner), or document confirming ownership of the property. • In case of appointment of an authorized representative, a copy of his/her identity card. • A document (letter or extract) issued by the Bank to evidence the 	3 days	included in procedure 3

No.	Procedure	Time to complete	Cost to complete
	<p>amount of charter capital contributions made by the LLC's founders. In practice, to be accepted by the Ministry of Taxes, the Bank's letter must be (a) printed out on the Bank's letterhead, (b) signed by the Bank's authorized representative, and (c) sealed with the Bank's stamp.</p> <p>On 25 June 2009, a desk for the notary was placed inside the onse stop to notarize all the required documents for registration. The notary services there are limited to certifying the registration applications and copies of original documents. Several documents required for registration have to be notarized. This includes company charter, the lease agreement, the application for registration and authorization by the land lord.</p>		
5	<p>Obtain a company seal</p> <p>No state duty is charged. The cost of the stamp depends on the price of the private contractor and varies between AZN 4 and AZN 40. Various companies produce the seals, and the law does not restrict a company to any particular producer.</p>	1 day	may vary between AZN 4 AZN 40
6	<p>Open a permanent bank account</p> <p>Opening a permanent bank account requires the following documents:</p> <ul style="list-style-type: none"> • Standard application form • Notarized copy of certificate on state registration • Notarized copy of the statute of the company • Stamp and signature sample card – notarized • A special authorization form - "Notification duplicate" issued by the local tax authorities (where the LLC has been registered) and addressed to a bank where the company's account is to be opened 	1 day	AZN 30

* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

DEALING WITH CONSTRUCTION PERMITS

Regulation of construction is critical to protect the public. But it needs to be efficient, to avoid excessive constraints on a sector that plays an important part in every economy. Where complying with building regulations is excessively costly in time and money, many builders opt out. They may pay bribes to pass inspections or simply build illegally, leading to hazardous construction that puts public safety at risk. Where compliance is simple, straightforward and inexpensive, everyone is better off.

What do the indicators cover?

Doing Business records the procedures, time and cost for a business to obtain all the necessary approvals to build a simple commercial warehouse in the economy's largest business city, connect it to basic utilities and register the property so that it can be used as collateral or transferred to another entity.

The ranking on the ease of dealing with construction permits is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the warehouse, including the utility connections.

The business:

- Is a limited liability company operating in the construction business and located in the largest business city.
- Is domestically owned and operated.
- Has 60 builders and other employees.

The warehouse:

- Is a new construction (there was no previous construction on the land).
- Has complete architectural and technical plans prepared by a licensed architect.

WHAT THE DEALING WITH CONSTRUCTION PERMITS INDICATORS MEASURE

Procedures to legally build a warehouse (number)

Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates

Completing all required notifications and receiving all necessary inspections

Obtaining utility connections for water, sewerage and a fixed telephone line

Registering the warehouse after its completion (if required for use as collateral or for transfer of the warehouse)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of income per capita)

Official costs only, no bribes

- Will be connected to water, sewerage (sewage system, septic tank or their equivalent) and a fixed telephone line. The connection to each utility network will be 10 meters (32 feet, 10 inches) long.
- Will be used for general storage, such as of books or stationery (not for goods requiring special conditions).
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

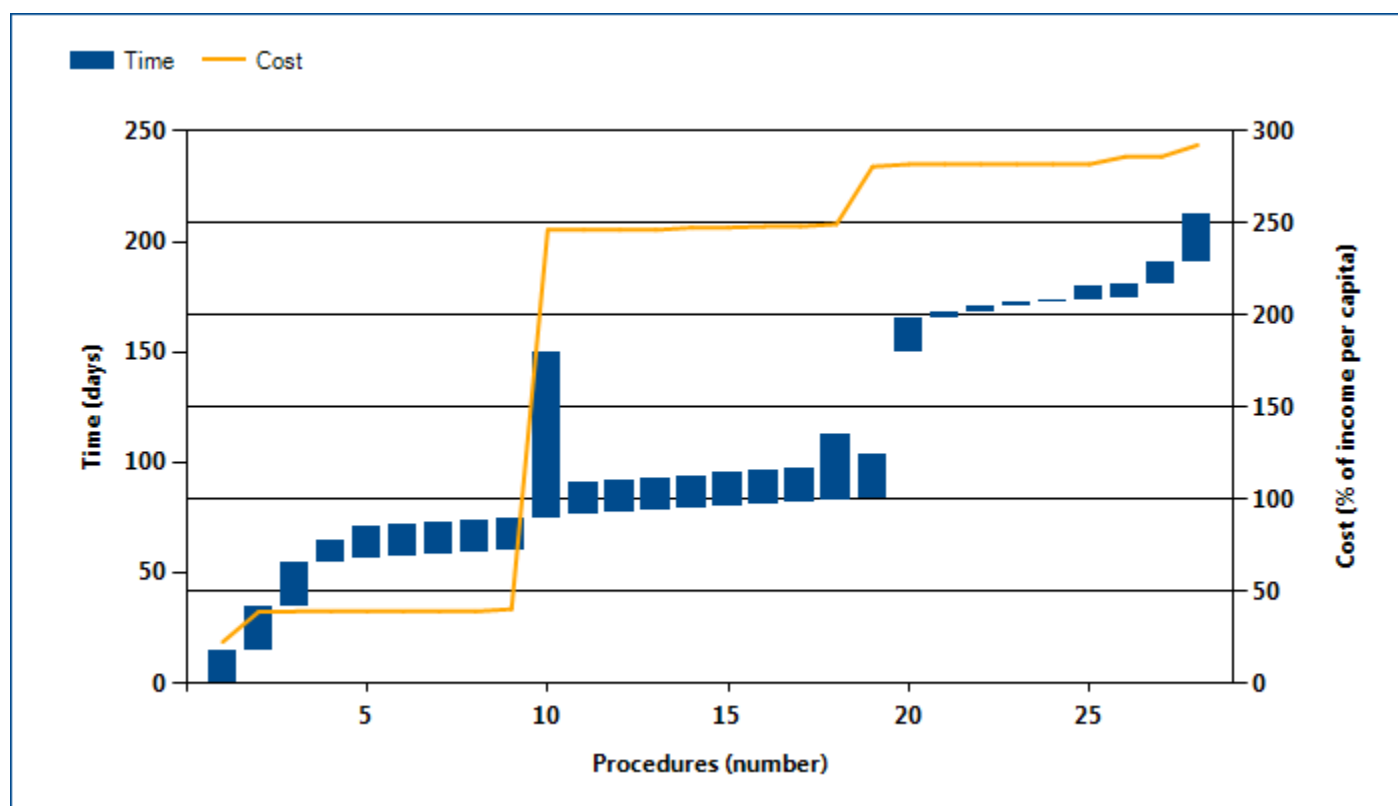
DEALING WITH CONSTRUCTION PERMITS

Where does the economy stand today?

What does it take to comply with the formalities to build a warehouse in Azerbaijan? According to data collected by *Doing Business*, dealing with construction

permits there requires 28 procedures, takes 212 days and costs 292.4% of income per capita (figure 3.1).

Figure 3.1 What it takes to comply with formalities to build a warehouse in Azerbaijan



Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

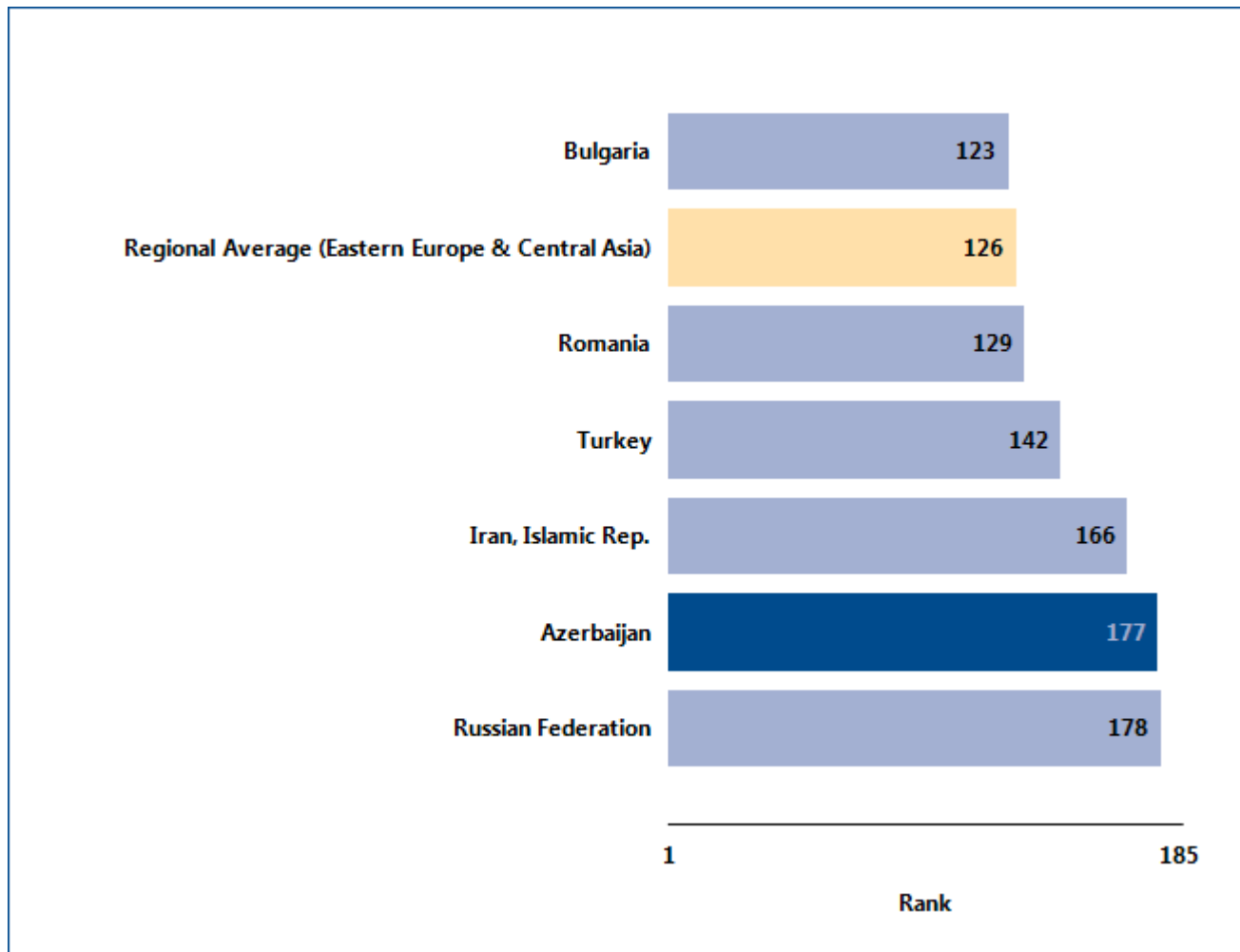
Source: *Doing Business* database.

DEALING WITH CONSTRUCTION PERMITS

Globally, Azerbaijan stands at 177 in the ranking of 185 economies on the ease of dealing with construction permits (figure 3.2). The rankings for comparator economies and the regional average ranking provide

other useful information for assessing how easy it is for an entrepreneur in Azerbaijan to legally build a warehouse.

Figure 3.2 How Azerbaijan and comparator economies rank on the ease of dealing with construction permits



Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to deal with construction permits in Azerbaijan today, data over time show which

aspects of the process have changed—and which have not (table 3.1). That can help identify where the potential for improvement is greatest.

Table 3.1 The ease of dealing with construction permits in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	176	177
Procedures (number)	28	28	28	28	28	28	28	28
Time (days)	211	211	211	211	211	211	212	212
Cost (% of income per capita)	0.3	0.2	766.4	518.0	365.9	385.6	335.2	292.4

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year. For more information on "no practice" marks, see the data notes.

Source: *Doing Business* database.

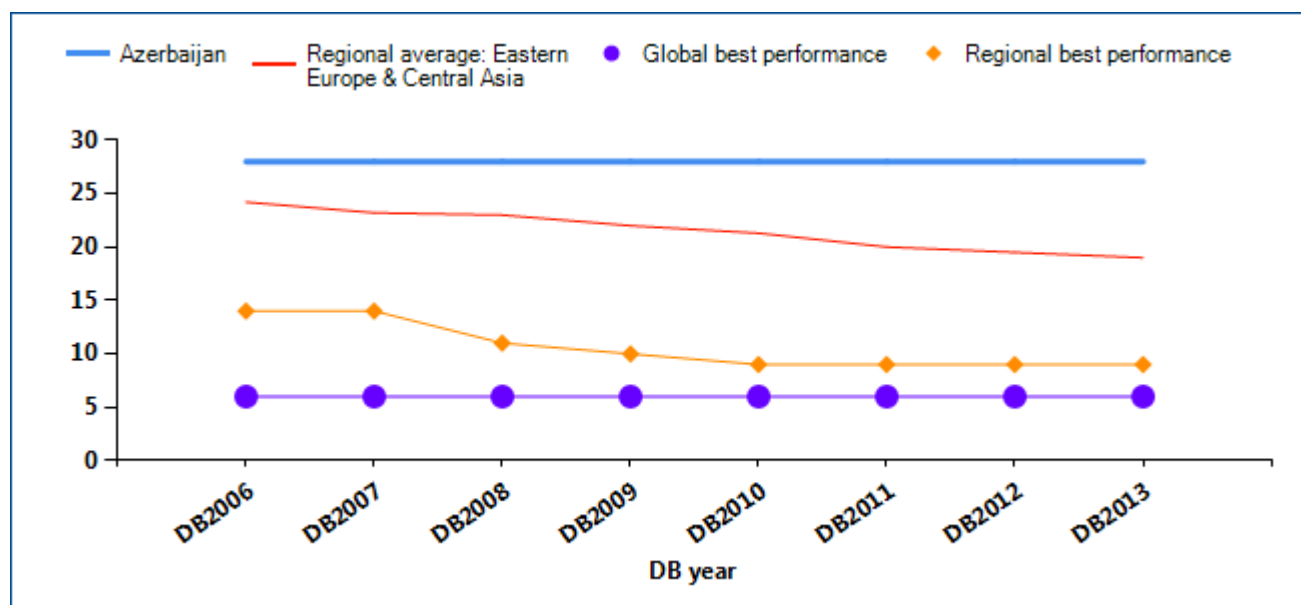
DEALING WITH CONSTRUCTION PERMITS

Equally helpful may be the benchmarks provided by the economies that over time have had the best performance regionally or globally on the procedures, time or cost required to deal with construction permits (figure 3.3). These benchmarks help show what is

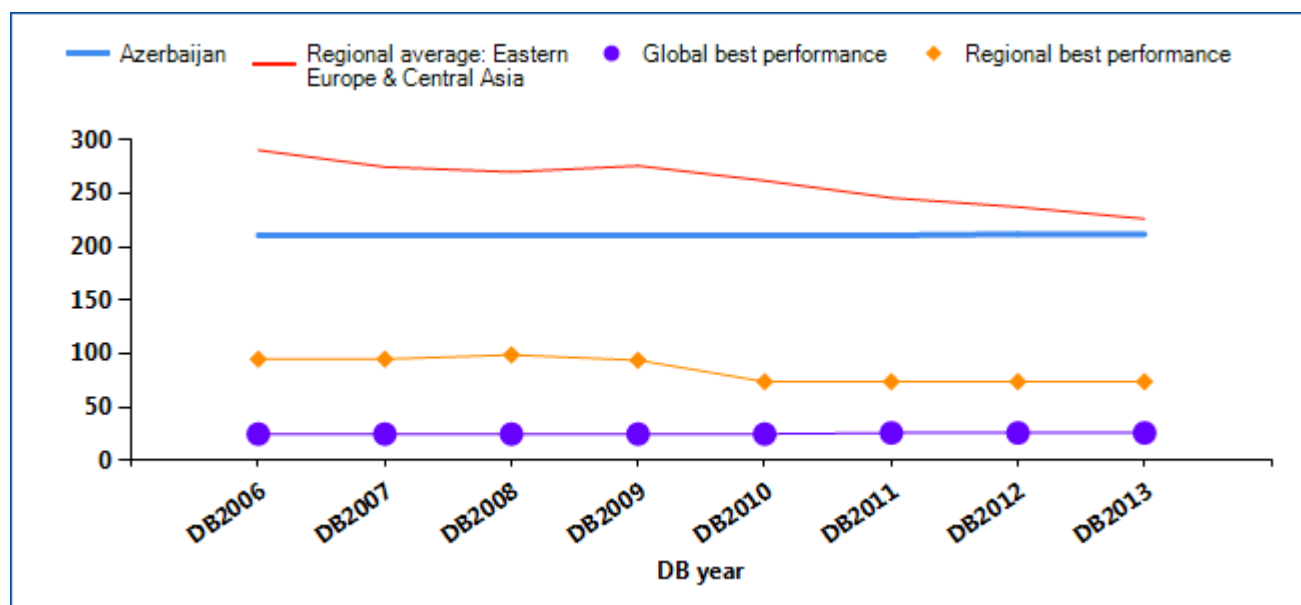
possible in making it easier to deal with construction permits. And changes in regional averages can show where Azerbaijan is keeping up—and where it is falling behind.

Figure 3.3 Has dealing with construction permits become easier over time?

Procedures (number)

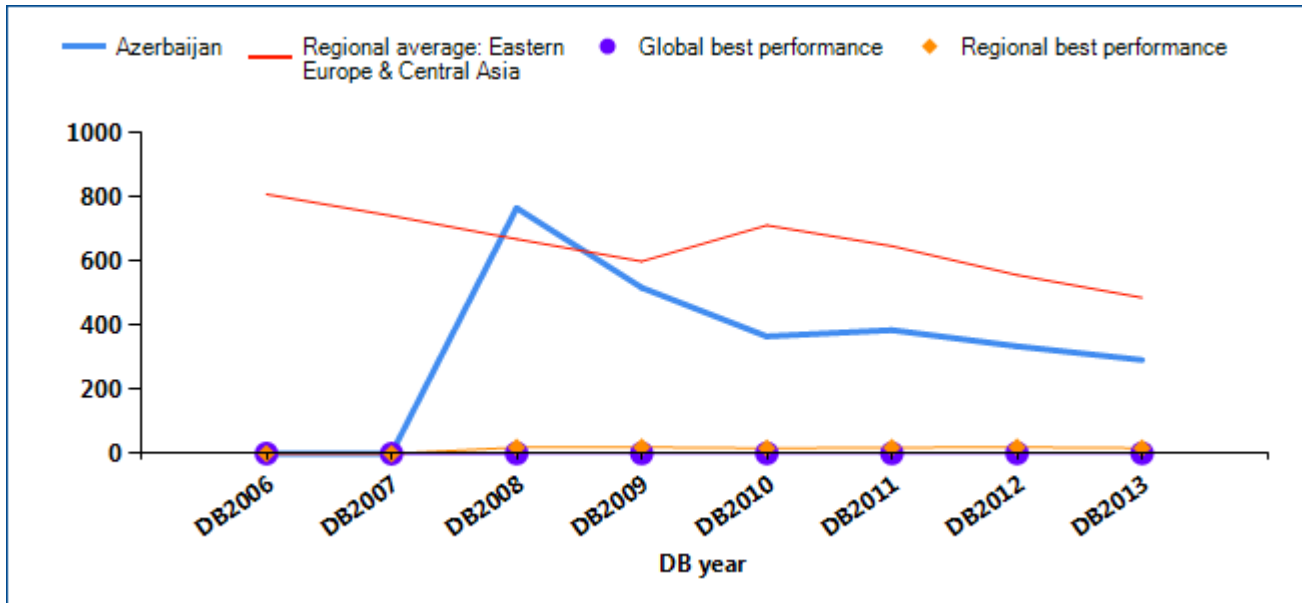


Time (days)



DEALING WITH CONSTRUCTION PERMITS

Cost (% of income per capita)



Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

Smart regulation ensures that standards are met while making compliance easy and accessible to all. Coherent and transparent rules, efficient processes and adequate allocation of resources are especially important in sectors where safety is at stake. Construction is one of them. In an effort to ensure

building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. What construction permitting reforms has *Doing Business* recorded in Azerbaijan (table 3.2)?

Table 3.2 How has Azerbaijan made dealing with construction permits easier—or not?
By *Doing Business* report year

DB year	Reform
DB2008	No reform as measured by Doing Business.
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

DEALING WITH CONSTRUCTION PERMITS

What are the details?

The indicators reported here for Azerbaijan are based on a set of specific procedures—the steps that a company must complete to legally build a warehouse—identified by *Doing Business* through information collected from experts in construction licensing, including architects, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. These procedures are those that apply to a company and structure matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

BUILDING A WAREHOUSE

City : Baku

Estimated Warehouse Value : AZN 458,985

The procedures, along with the associated time and cost, are summarized below.

Summary of procedures for dealing with construction permits in Azerbaijan —and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>Apply for the allotment of land for construction from the Baku city executive authority (in reality Construction Permit)</p> <p>An application is required for the allotment of land for the construction only if that land is already owned by a builder. A preliminary permit for the project is granted and eligibility of the land plot for construction is determined.</p> <p>The application for the allotment of land must include the following information, as applicable to BuildCo:</p> <ul style="list-style-type: none"> • Architectural peculiarities of the planned construction. • Scope and terms of the planned construction. • Dimensions of the land. • Land ownership documents. <p>Note that these informational requirements are based on the assumption that the land is already legally owned by and registered in BuildCo’s name.</p> <p>The application must also include an attestation to BuildCo’s legal status and to its land plot ownership, the “certificate of state registration.”</p>	15 days	AZN 1,100
2	<p>The Department of Architecture and City Building of the Baku city executive authority verifies the plot dimensions on site</p> <p>After 15 days from the date of submission of the land allotment application (see Procedure 1), the Department of Architecture and City Building and BuildCo representatives examine the land plot to determine the allocation of the construction. This procedure is carried out in compliance with the General Plan and other municipal building</p>	20 days	AZN 800

No.	Procedure	Time to complete	Cost to complete
	<p>regulations. For land plot allocation, the department verifies all information in the application, as well as the following: the area's land economic and management plan, its populated area general plan, and its planning and construction projects (area plans). The Department of Architecture and City Building carries out an on-site inspection of the land plot. The application can be approved if the land plot complies with the area plans. If authorities deny the land plot allocation, they should notify the owner or file a complaint.</p> <p>If that application is approved, the application to prepare the relevant drawings must be filed within 5 days with the corresponding executive authority. Within 10 days of allotting the land plot, the executive authority determines the location (the place and the zone, to determine the standard price of the plot). Subsequently, the executive authority carries out land management tasks (planning) and prepares the plan (drawing) of the plot on the required scale (1:500, 1:2,000, 1:5,000, or 1:10,000), depending on the area dimensions. The land owner pays the cost of these procedures. Prices are not stipulated in the law. There is no fixed charge, but as for other service costs, costs can range from AZN 2 million to AZN 10 million, depending on the land plot and other variables.</p>		
<p>3</p>	<p>Obtain decree on allotment of land for construction by the Baku City Executive Authority</p> <p>The Decree on the Allotment of the Land does not authorize the construction itself. It just permits BuildCo to start the procedure to obtain a construction passport or building permit. The permit is valid for 1 year and may be revoked if no construction activity has been commenced within that period.</p> <p>After the review of the documents obtained from the relevant executive authority, a decision is made within 5 days on the allotment of the land plot to ownership, use, or rent for construction (if the land plot is allotted for ownership or property, the decision is made after the associated fee has been paid).</p> <p>After the order or decree is passed, the area's boundaries must be fixed on the site, according to land management regulations. The order or decree authorizes the procedure of projecting construction on the land plot and the start of construction activity, after the project is deemed to be in good order.</p> <p>The order or decree and the land plot sketch are sent within 5 days to the relevant executive authority to prepare an entitlement.</p> <p>At BuildCo's expense, the relevant executive authority prepares a certificate of right to land within 10 days. The executive authority also registers the right at the Public Land Cadastre and the Public Land Register in BuildCo's name and submits the related documents to the company. The right must also be registered at the State Registry of Real Estate.</p>	<p>20 days</p>	<p>AZN 6</p>

No.	Procedure	Time to complete	Cost to complete
	<p>Before beginning construction on the allotted land plot, the design and engineering-communication passports are prepared and approved. The construction cannot begin without that approval.</p> <p>If the land plot, subject to unreasonable excuse, is not used for its intended purpose, the authorization may be withdrawn and the order or decree shall be considered invalid. There is no statutory time limit.</p>		
4	<p>Obtain consent/opinion/terms from the water and sewage authority (Azersu State Company)</p> <p>Under the law "On Water Supply and Waste Waters", the water and sewage authority will grant a permit and issue guidelines for the construction design and implementation phases. In doing so, the authorities must consider prohibitions and limitations for the water system and wastes. Connection to the main lines is permitted after construction is done.</p>	10 days	no charge
5	<p>* Obtain consent/opinion/terms from the Baku City Sanitation and Epidemiology Center</p> <p>Under the law "On Sanitary and Epidemiology Safety", the authority shall grant a permit and, if necessary, issue guidelines for the construction design and implementation phases.</p>	15 days	no charge
6	<p>* Obtain consent/opinion/terms from the State Fire Control Service of the Ministry for Emergency Situations (MES)</p> <p>Under the law "On Fire Safety" and according to other norms of Azerbaijan, the authorities (taking into account prohibitions and limitations) shall grant a permit and, if necessary, present specific guidelines for the construction design and implementation phases. A fire inspection must be carried out. According to a presidential order (dated December 16, 2005), the fire department of the Ministry of Internal Affairs has been placed under the subordination of the Ministry of Extraordinary Situations (established early 2006).</p>	15 days	no charge
7	<p>* Obtain consent/opinion/terms from the Ministry of Ecology and Natural Resources</p> <p>According to the law "On Environmental Protection", a permit shall be granted and the conditions adjusted to meet environmental protection regulations, land reclamation, rehabilitation and efficient use of natural resources, improvement of territories, and enhancement of the environment.</p>	15 days	no charge
8	<p>* Obtain consent/opinion/terms from the Baku city Heating Systems production unit (subordinate to the Baku city Executive Authority)</p> <p>Upon considering prohibitions and limitations, the authorities grant a permit for centralized heating systems, according to "Regulations on State Energy Control in the Republic of Azerbaijan". If necessary, further technical specifications are indicated.</p>	15 days	no charge
9	<p>* Obtain permission from the Baku city Telephone Network</p>	15 days	AZN 60

No.	Procedure	Time to complete	Cost to complete
	<p>The Baku City Telephone Network grants a permit, considering prohibitions and limitations on the exploitation and security of communications networks, and indicates technical specifications if necessary.</p>		
10	<p>Obtain Construction Passport from the Department of Architecture and City-building of the Baku city executive authority</p> <p>Although currently under discussion, no law exists on construction activity. Moreover, laws on city building and on architectural activity do not specify the procedures to obtain a construction passport. New construction standards have not yet been developed. Therefore, delays might be expected when applying for this document.</p> <p>The construction passport application includes the following:</p> <ul style="list-style-type: none"> • An evaluation of the construction work. BuildCo inquires with different local executive authorities and supply and supervisory organizations to assess their opinions and conclusions • Architectural and planning instructions, including information on land surface, existing buildings, plants, communication and utilities lines, scope of the project, and other construction specifications. These instructions shall be signed by the chief of the Architecture and the City Building Department of Baku City or a deputy • The drawing of the land plot, indicating adjacent streets and crossroads. The drawing must be extracted from the city's General Plan and from the district's Development Plan • The verification of dimensions and marking of the land plot (as accepted on-site by the applicant) • The locations and directions of the engineering communication lines (utilities and the like), indicating their marking and placement on existing buildings, streets, crossroads, and so forth • Copies of consents, opinions, and technical conditions issued by all relevant agencies and utility operators • A topographic plan of the land plot <p>Three copies of the construction passport will be issued: two for the applicant and one for the municipality. After the construction passport has been issued, BuildCo may incur an additional fee if extra work was needed for this process.</p> <p>The construction passport authorizes BuildCo to draw the building's technical project documentation (TPD). The construction passport is valid for 2 years, as are all consents and technical terms contained in them. The passport can be renewed, upon request. However, the renewal is subject to additional inspections by the Architecture and City Building Department.</p>	75 days	AZN 10,000
11	<p>* Obtain technical project documentation (TPD) clearance from the Fire Control Service (Ministry for Emergency Situations)</p> <p>Upon its issuance, the construction passport authorizes technical project documentation (TPD) preparation. The passport does not constitute a permit to start construction. Showing only architectural</p>	15 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>peculiarities, the TPD provides clearance for a 2-year term in compliance with the technical terms set by the utilities operators and other relevant agencies. Any change proposed by BuildCo while preparing the TPD must be reviewed by the Baku City Executive Authority's Architecture and City Building Department.</p> <p>The fire inspection is conducted at no cost by the Main State Fire Service Department. The department determines the procedure time at its discretion.</p>		
12	<p>* Obtain project (TPD) clearance from the Sanitation and Epidemiology Center</p> <p>The TPD gives its consent based on sanitary and hygienic standards, regulations considering the clearance in the construction passport, and public health requirements (sanitary conditions, epidemiological safety) prescribed by the law.</p>	15 days	no charge
13	<p>* Obtain project (TPD) clearance from the Water and Sewage Authority (Azersu State Company)</p> <p>The TPD gives consent, which is valid for 2 years. It is based on clearance included in the construction passport and on regulatory wastewater and water supply requirements.</p>	15 days	no charge
14	<p>* Obtain project (TPD) clearance from telephone provider</p> <p>The TPD gives consent based on the clearance in the construction passport and regulatory requirements for general electrical and communication networks.</p>	15 days	AZN 60
15	<p>* Obtain project (TPD) clearance from the Ministry of Ecology and Natural Resources</p> <p>This procedure is required under the Decree of the Cabinet of Ministers No. 41 (dated February 22, 2001).</p>	15 days	no charge
16	<p>* Obtain expert opinion of project safety from the State Supervision Agency for Construction Safety of the Ministry of Emergency Situations</p> <p>The expert opinion is a prerequisite for obtaining project design approval from the Architecture and City Building Department of the Baku City Executive Authority. Obtaining expert opinion of project safety from the State Supervision Agency for Construction Safety of the Ministry of Emergency Situations is now fee based and costs AZN 30.00.</p>	15 days	AZN 30
17	<p>* Obtain Engineering-geological opinion from the Ministry of Emergencies</p> <p>The engineering/geological opinion is a prerequisite for obtaining the project design approval from the Architecture and City Building Department of the Baku City Executive Authority.</p>	15 days	no charge
18	<p>* Obtain approval of the project designs from the Architecture and City-building Department of the Baku city Executive Authority</p>	30 days	AZN 60

No.	Procedure	Time to complete	Cost to complete
	The TPD is investigated under the requirements and instructions in the construction passport, and the decision is made in compliance with regulatory requirements for architecture and city building terms and conditions.		
19	<p>* State examination of Technical Project Documentation, mainly on seismic stability, by the Ministry for Emergency Situations</p> <p>The Ministry for Emergency Situations grants consent upon checking the TPD for appropriate seismic stability and for compliance with construction regulations and normative standards. For private projects, approval takes only 20 days (and for public projects, 30 days). The approval cost is 0.2 -- 0.5% of the project cost, depending on project size. In the example here, the cost is under 0.4% and assumed to be 0.3%.</p>	20 days	AZN 1,520
20	<p>Register the project documentation with the Chief Agency of Supervision on Safety at Construction under the Ministry for Emergency Situations (MES)</p> <p>The registration is valid for 2 years and may be renewed. After obtaining all necessary consents, BuildCo will register the TPD with the state.</p>	15 days	AZN 60
21	<p>Receive Examination from Labor Inspection - Examinations by state authorities in the order of control during construction works</p> <p>All examinations, except for tax, may be carried out only with the participation of a representative from the Azerbaijan Republic Ministry of Economic Development. Pursuant to the Labor Code and its implementing rules and regulations, the state labor authorities may examine the workplace and labor protection and technical security policies. These examinations are uncommon for new companies. A report is issued with the examination results.</p>	3 days	no charge
22	<p>Receive inspection from Ministry of Ecology and Natural Resources</p> <p>If environmental standards were not in full compliance during construction, the Ministry of Ecology and Natural Resources could inspect the site. An act or statement is issued with the examination results. This procedure involves facilitation fees.</p>	3 days	no charge
23	<p>The State Supervision Agency for Construction Safety of Ministry of Emergency Situations inspects compliance to construction safety rules</p> <p>The inspection for compliance with construction safety rules covers mainly employees' places of eating and sanitary facilities.</p>	1 day	no charge
24	<p>Receive inspection from State Fire Control Service of the Ministry of Emergency Situations</p> <p>Fire inspections could be conducted to check if fire prevention measures are in order. A report is issued with the examination results.</p>	1 day	no charge
25	<p>Obtain water and sewage connection</p> <p>The fee to obtain a water and sewage connection is AZN 2.00 multiplied by the water volume to be delivered in 24 hours (based on</p>	7 days	no charge

No.	Procedure	Time to complete	Cost to complete
	the connected pipe's diameter) Here, it is assumed that 100 cubic meters can be delivered in 24 hours.		
26	* Obtain telephone line	7 days	AZN 200
27	Obtain approval of construction and put it into operation After BuildCo completes construction, a commission will examine the building quality and determine the feasibility of putting the building into operation. The commission consists of representatives from the state control authorities, especially the Architecture and City Building Department, and representatives of organizations for ecology, energy, sanitation, supply, and fire inspection.	10 days	no charge
28	Register building with Real Estate Registry This procedure is governed by the Civil Code of the Azerbaijan Republic and the Law of the Azerbaijan Republic on State Registry of Real Estate. Attached to the application must be the documents defining the company status, construction documents, and a copy of the act or the statement on the operation license. Relevant fees must also be paid. The State Registry of Real Estate registers the building (warehouse) within 20 days and provides the company with a private property right certificate. BuildCo will obtain the complete property right (ownership, order, and use) over the building (warehouse) from the date the certificate is registered.	21 days	AZN 305

* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

GETTING ELECTRICITY

Access to reliable and affordable electricity is vital for businesses. To counter weak electricity supply, many firms in developing economies have to rely on self-supply, often at a prohibitively high cost. Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection.

What do the indicators cover?

Doing Business records all procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. These procedures include applications and contracts with electricity utilities, clearances from other agencies and the external and final connection works. The ranking on the ease of getting electricity is the simple average of the percentile rankings on its component indicators: procedures, time and cost. To make the data comparable across economies, several assumptions are used.

The warehouse:

- Is located in the economy's largest business city, in an area where other warehouses are located.
- Is not in a special economic zone where the connection would be eligible for subsidization or faster service.
- Has road access. The connection works involve the crossing of a road or roads but are carried out on public land.
- Is a new construction being connected to electricity for the first time.
- Has 2 stories, both above ground, with a total surface of about 1,300.6 square meters (14,000 square feet), and is built on a plot of 929 square meters (10,000 square feet).

The electricity connection:

- Is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.

WHAT THE GETTING ELECTRICITY INDICATORS MEASURE

Procedures to obtain an electricity connection (number)

Submitting all relevant documents and obtaining all necessary clearances and permits

Completing all required notifications and receiving all necessary inspections

Obtaining external installation works and possibly purchasing material for these works

Concluding any necessary supply contract and obtaining final supply

Time required to complete each procedure (calendar days)

Is at least 1 calendar day

Each procedure starts on a separate day

Does not include time spent gathering information

Reflects the time spent in practice, with little follow-up and no prior contact with officials

Cost required to complete each procedure (% of income per capita)

Official costs only, no bribes

Excludes value added tax

- Is 150 meters long.
- Is to either the low-voltage or the medium-voltage distribution network and either overhead or underground, whichever is more common in the economy and in the area where the warehouse is located. The length of any connection in the customer's private domain is negligible.
- Involves installing one electricity meter. The monthly electricity consumption will be 0.07 gigawatt-hour (GWh). The internal electrical wiring has been completed.

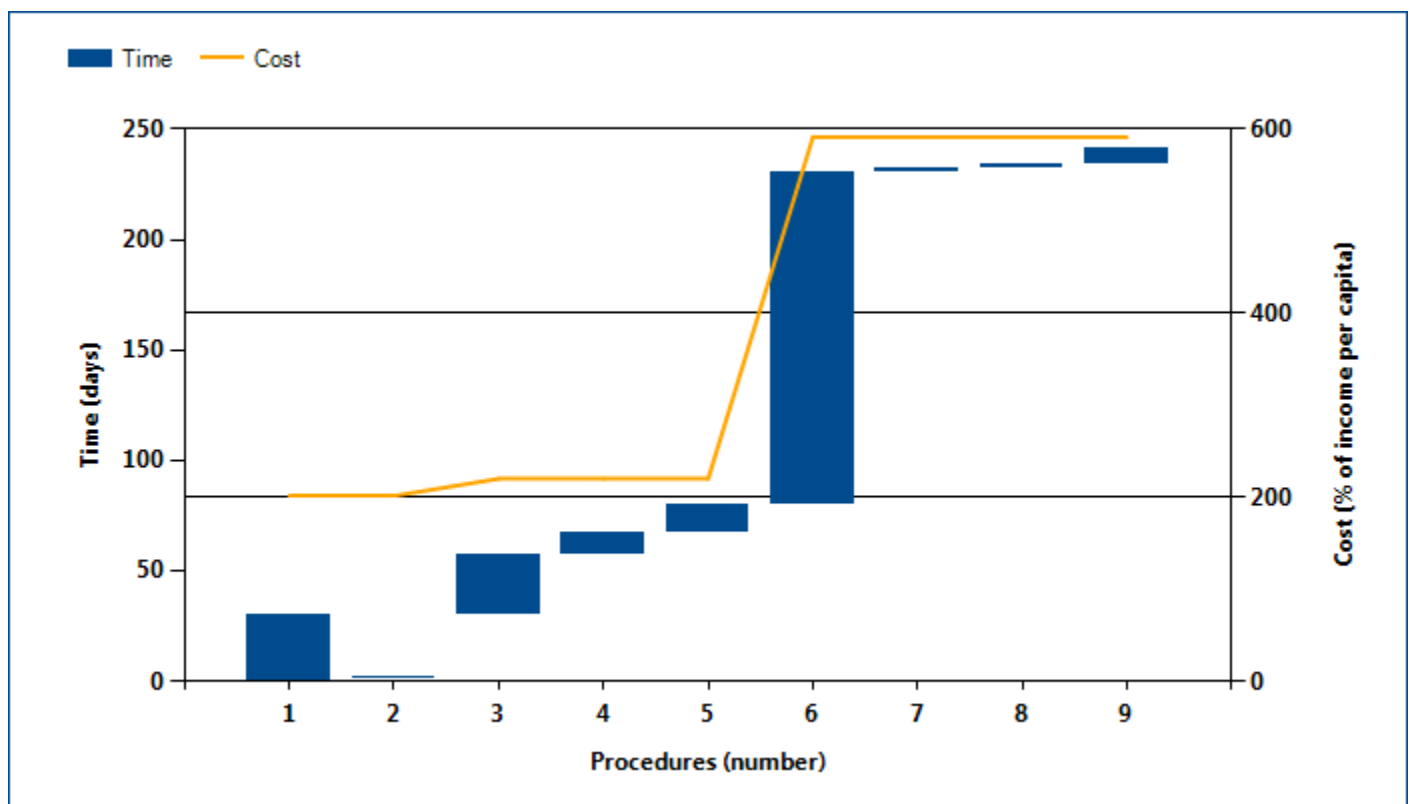
GETTING ELECTRICITY

Where does the economy stand today?

What does it take to obtain a new electricity connection in Azerbaijan? According to data collected by *Doing Business*, getting electricity there requires 9

procedures, takes 241 days and costs 591.2% of income per capita (figure 4.1).

Figure 4.1 What it takes to obtain an electricity connection in Azerbaijan



Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

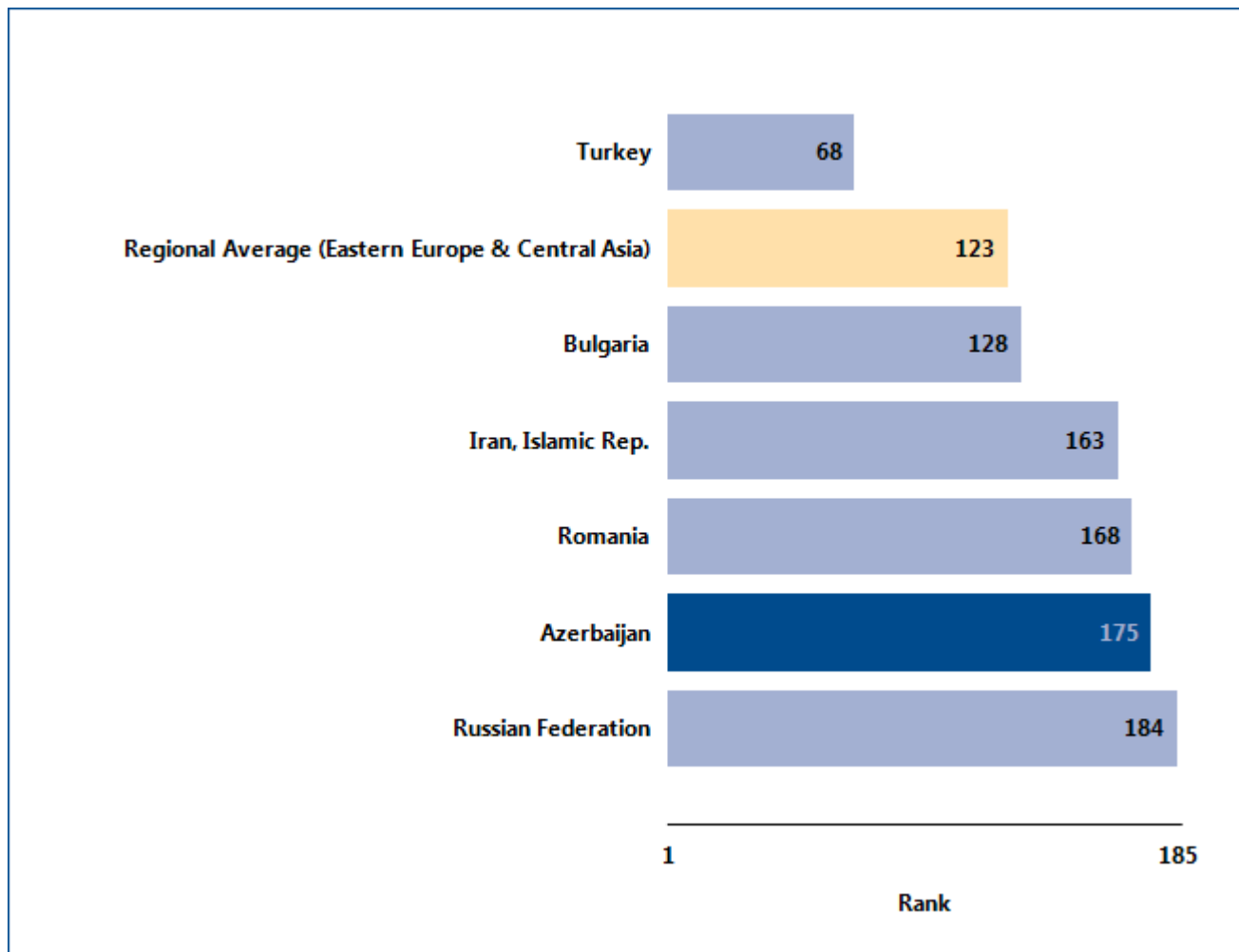
Source: *Doing Business* database.

GETTING ELECTRICITY

Globally, Azerbaijan stands at 175 in the ranking of 185 economies on the ease of getting electricity (figure 4.2). The rankings for comparator economies and the

regional average ranking provide another perspective in assessing how easy it is for an entrepreneur in Azerbaijan to connect a warehouse to electricity.

Figure 4.2 How Azerbaijan and comparator economies rank on the ease of getting electricity



Source: Doing Business database.

GETTING ELECTRICITY

Even more helpful than rankings on the ease of getting electricity may be the indicators underlying those rankings (table 4.1). And regional and global best performers on these indicators may provide useful benchmarks.

Table 4.1 The ease of getting electricity in Azerbaijan

Indicator	Azerbaijan DB2013	Azerbaijan DB2012	Best performer in Eastern Europe & Central Asia DB2013	Best performer globally DB2013
Rank	175	175	Georgia (50)	Iceland (1)
Procedures (number)	9	9	Georgia (4)	Germany (3)*
Time (days)	241	241	Kosovo (48)	Germany (17)
Cost (% of income per capita)	591.2	677.6	Lithuania (55.4)	Japan (0.0)

Note: DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year.

* Two or more economies share the top ranking on this indicator. For a list of these economies, see the *Doing Business* website (<http://www.doingbusiness.org>).

Source: *Doing Business* database.

GETTING ELECTRICITY

Obtaining an electricity connection is essential to enable a business to conduct its most basic operations. In many economies the connection process is complicated by the multiple laws and regulations involved—covering service quality, general safety, technical standards, procurement practices and internal wiring installations. In an effort to ensure

safety in the connection process while keeping connection costs reasonable, governments around the world have worked to consolidate requirements for obtaining an electricity connection. What reforms in getting electricity has *Doing Business* recorded in Azerbaijan (table 4.2)?

Table 4.2 How has Azerbaijan made getting electricity easier—or not?

By *Doing Business* report year

DB year	Reform
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Source: *Doing Business* database.

GETTING ELECTRICITY

What are the details?

The indicators reported here for Azerbaijan are based on a set of specific procedures—the steps that an entrepreneur must complete to get a warehouse connected to electricity by the local distribution utility—identified by *Doing Business*. Data are collected from the distribution utility, then completed and verified by electricity regulatory agencies and independent professionals such as electrical engineers, electrical contractors and construction companies. The electricity distribution utility surveyed is the one serving the area (or areas) in which warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected.

OBTAINING AN ELECTRICITY CONNECTION

City: Baku

Name of Utility: Bakielektrikshebeke OJSC

The procedures are those that apply to a warehouse and electricity connection matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

Summary of procedures for getting electricity in Azerbaijan—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>Submit an application for an electricity connection to Baku Electric Shabaka and await issuance of technical conditions</p> <p>The following documents are submitted to the office of Baku Electric Shabaka in paper format:</p> <ul style="list-style-type: none"> • copy of state registration certificate of legal entity; • copy of document proving the right of ownership or use of a facility and a land plot where the facility is situated; • the permit of local executive power authority on the construction of a facility; • break down of the power load required; <p>The fee for connection (technical conditions) would be 82.6 AZN (net of VAT 70 AZN) per kW. One can pay the fees at Bakielektrikshebeke or at the bank.</p>	30 calendar days	AZN 9,800.0
2	<p>* Baku Electric Shabaka inspects the site for preparation of technical conditions</p> <p>If the requested load is more than 20kW, a network engineer from Baku Electric Shabaka will visit the site to determine arrangements for an optimal connection. Someone from the applicant's party must be present during the inspection.</p>	1 calendar day	no charge
3	<p>Await completion of the external connection project design by a private electrical design company</p> <p>Based on the technical conditions issued by Baku Electric Shabaka the</p>	27 calendar days	AZN 900.0

No.	Procedure	Time to complete	Cost to complete
	customer requests from a project planning organization a design of the external electrical connection. The fee for the design is normally 5 to 8 percent of the cost of external connection works.		
4	Submit the project design to Bakielektrikshebeke and await approval of the design The applicant submits the completed project to Baku Electric Shabaka for concurrence.	10 calendar days	no charge
5	Obtain an excavation permit at the Ministry of Transport Depending on the connection contract or agreement either the utility or electrical contractor obtains an excavation permit. In addition depending on where the road is it might be required to get permits from the municipality (if in the center of the city), communal services, gas, water, etc.	13 calendar days	no charge
6	Baku Electric Shabaka or private electrical contractor complete the external connection works Baku Electric Shabaka can carry out the external connection works or the customer can sign a contract with a licensed electrical installation organization.	150 calendar days	AZN 18,007.2
7	Ministry of Emergency Situations inspects the external connection works After the external connection works are completed the Ministry for Emergency Situations (????????????? ?????????????? ??????????) checks if the completed external connection works are in compliance with fire protection standards.	2 calendar days	no charge
8	Energy Inspectorate inspects the external connection works and internal wiring and issues an operation permit (????????????? ?? ??????????????) After the completion of the external connection works there is a final inspection by Energonadzor (State Energy Inspectorate) which issues an operation permit. Energonadzor checks compliance with the technical conditions.	2 calendar days	no charge
9	Conclude a supply contract with Baku Electric Shabaka and await final connection After the operation permit is submitted to Baku Electric Shabaka the customer can conclude a supply contract and be connected to the electrical network and the electricity starts flowing.	7 calendar days	no charge

* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

REGISTERING PROPERTY

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans—limiting access to finance.

What do the indicators cover?

Doing Business records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. The ranking on the ease of registering property is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

The parties (buyer and seller):

- Are limited liability companies, 100% domestically and privately owned.
- Are located in the periurban area of the economy's largest business city.
- Have 50 employees each, all of whom are nationals.
- Perform general commercial activities.

The property (fully owned by the seller):

- Has a value of 50 times income per capita. The sale price equals the value.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.

WHAT THE REGISTERING PROPERTY INDICATORS MEASURE

Procedures to legally transfer title on immovable property (number)

Preregistration (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)

Registration in the economy's largest business city

Postregistration (for example, filing title with the municipality)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of property value)

Official costs only, no bribes

No value added or capital gains taxes included

- Has no mortgages attached and has been under the same ownership for the past 10 years.
- Consists of 557.4 square meters (6,000 square feet) of land and a 10-year-old, 2-story warehouse of 929 square meters (10,000 square feet). The warehouse is in good condition and complies with all safety standards, building codes and legal requirements. The property will be transferred in its entirety.

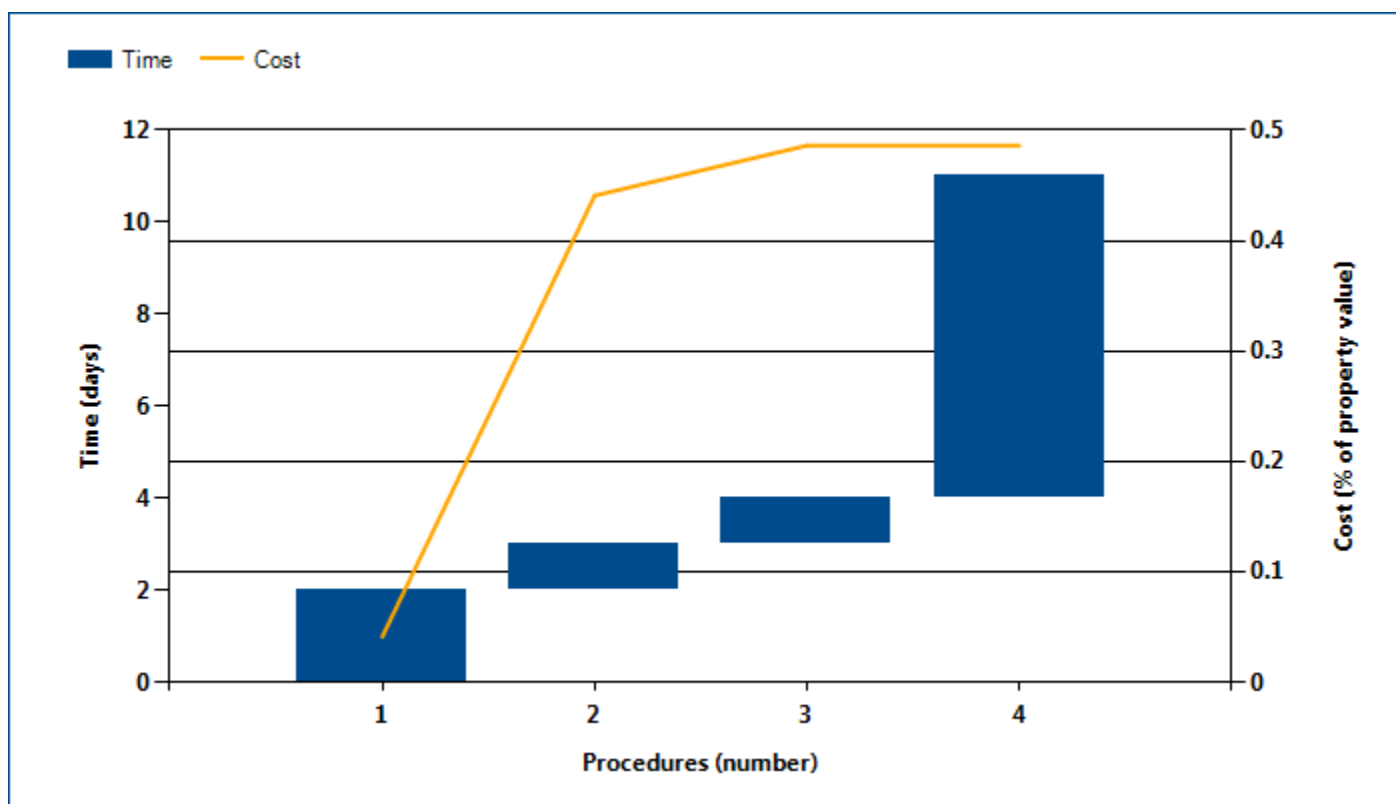
REGISTERING PROPERTY

Where does the economy stand today?

What does it take to complete a property transfer in Azerbaijan? According to data collected by *Doing Business*, registering property there requires 4

procedures, takes 11 days and costs 0.5% of the property value (figure 5.1).

Figure 5.1 What it takes to register property in Azerbaijan



Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the registering property indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

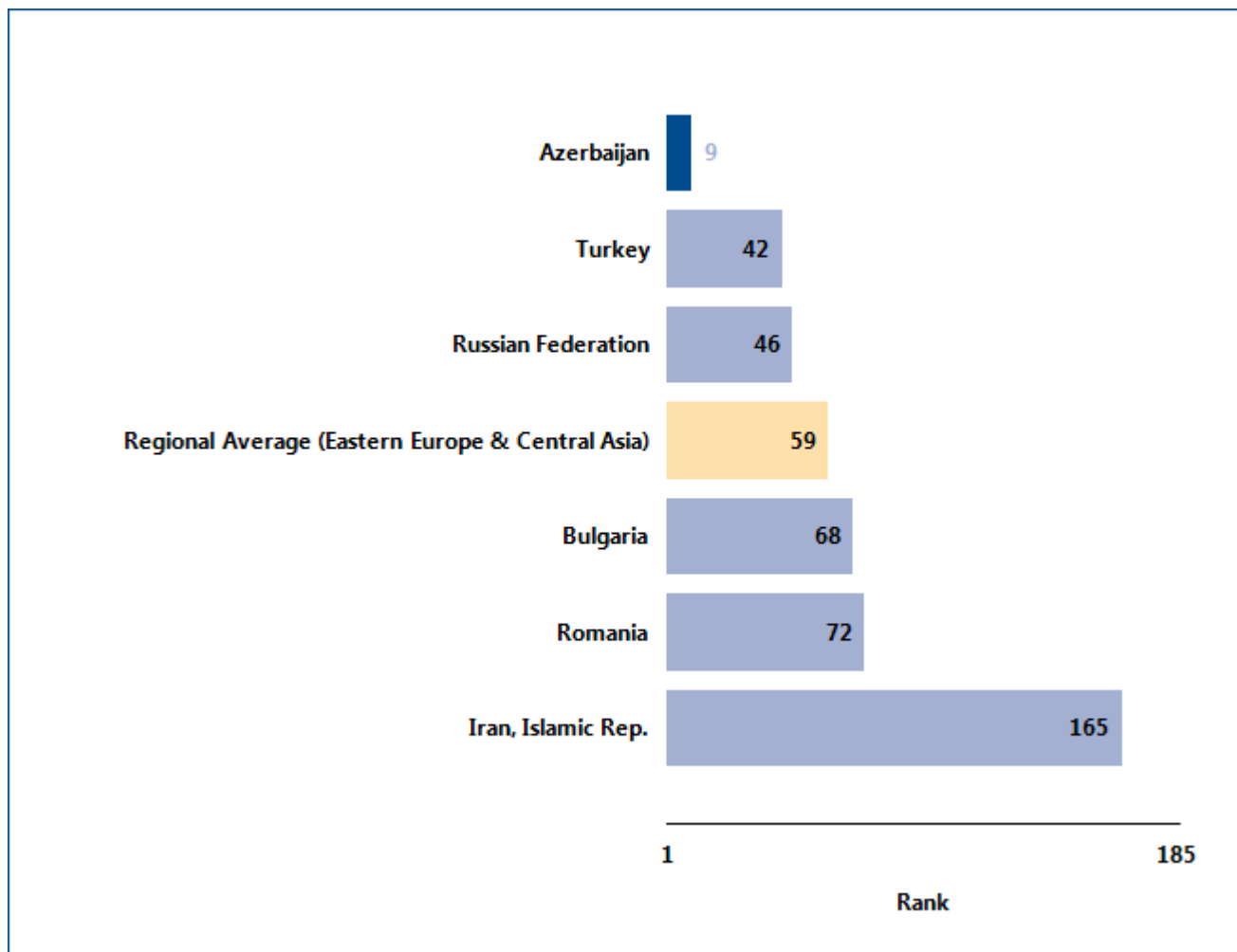
Source: *Doing Business* database.

REGISTERING PROPERTY

Globally, Azerbaijan stands at 9 in the ranking of 185 economies on the ease of registering property (figure 5.2). The rankings for comparator economies and the

regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Azerbaijan to transfer property.

Figure 5.2 How Azerbaijan and comparator economies rank on the ease of registering property



Source: Doing Business database.

REGISTERING PROPERTY

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to register property in Azerbaijan today, data over time show which aspects of the process have changed—and which have not (table 5.1). That can help identify where the potential for improvement is greatest.

Table 5.1 The ease of registering property in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	..	6	9
Procedures (number)	7	7	7	7	4	4	4	4	4
Time (days)	61	61	61	61	11	11	11	11	11
Cost (% of property value)	0.4	0.4	0.3	0.2	0.3	0.2	0.2	0.2	0.5

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year. For more information on "no practice" marks, see the data notes.

Source: *Doing Business* database.

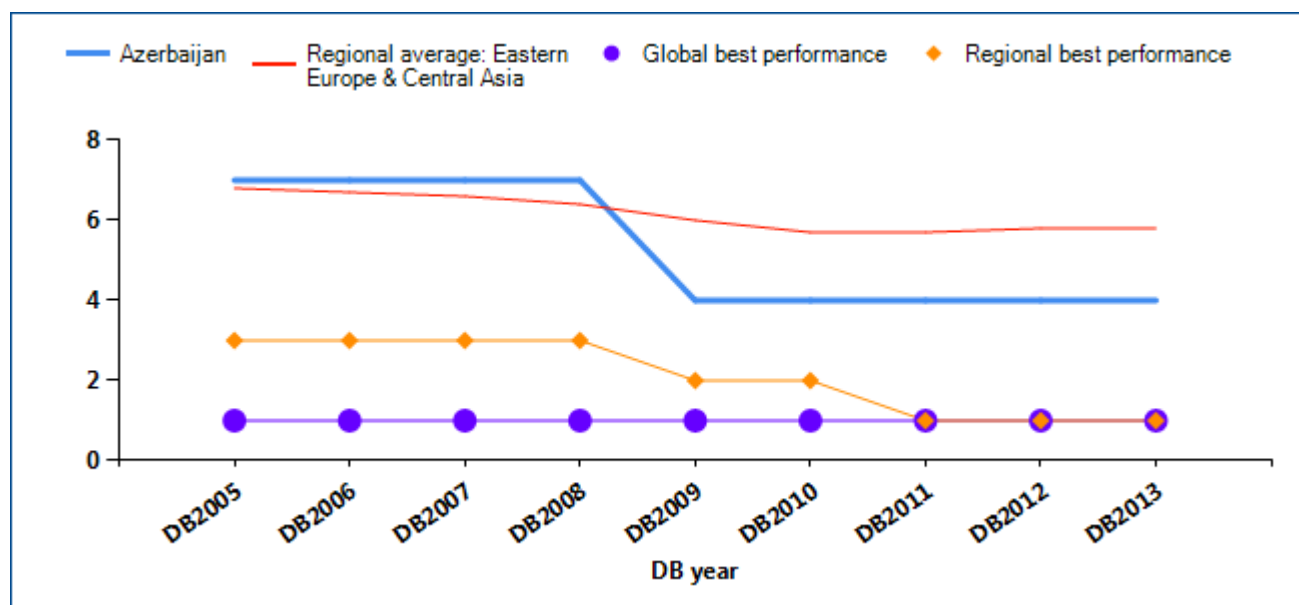
REGISTERING PROPERTY

Equally helpful may be the benchmarks provided by the economies that over time have had the best performance regionally or globally on the procedures, time or cost required to complete a property transfer (figure 5.3). These benchmarks help show what is

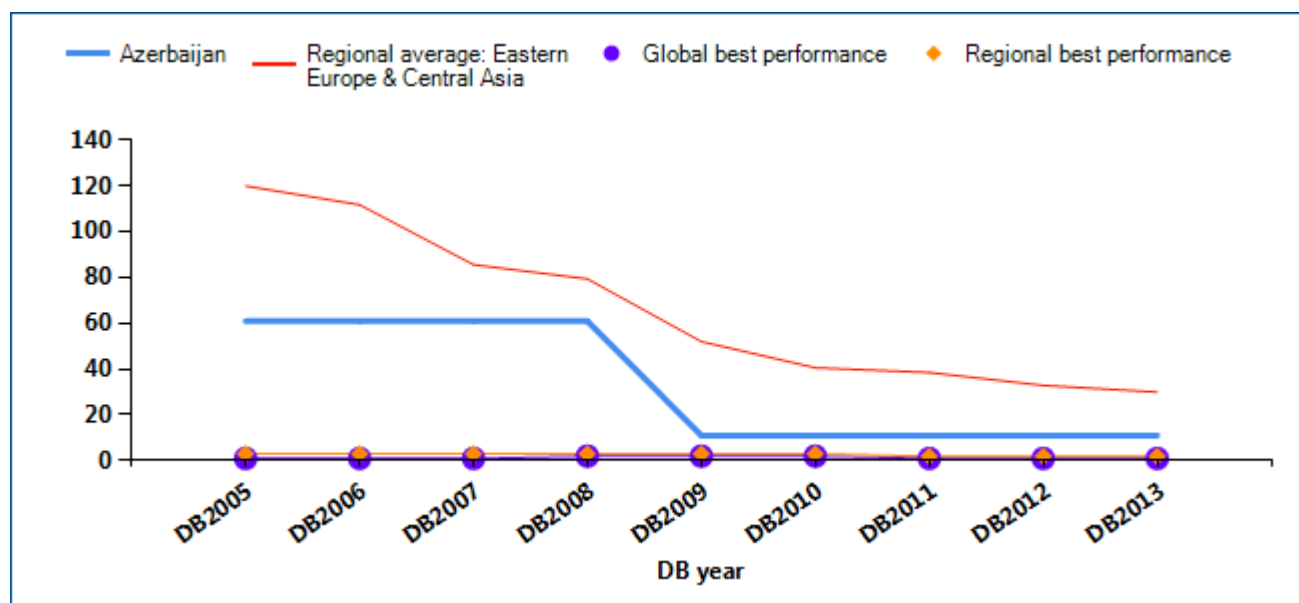
possible in making it easier to register property. And changes in regional averages can show where Azerbaijan is keeping up—and where it is falling behind.

Figure 5.3 Has registering property become easier over time?

Procedures (number)

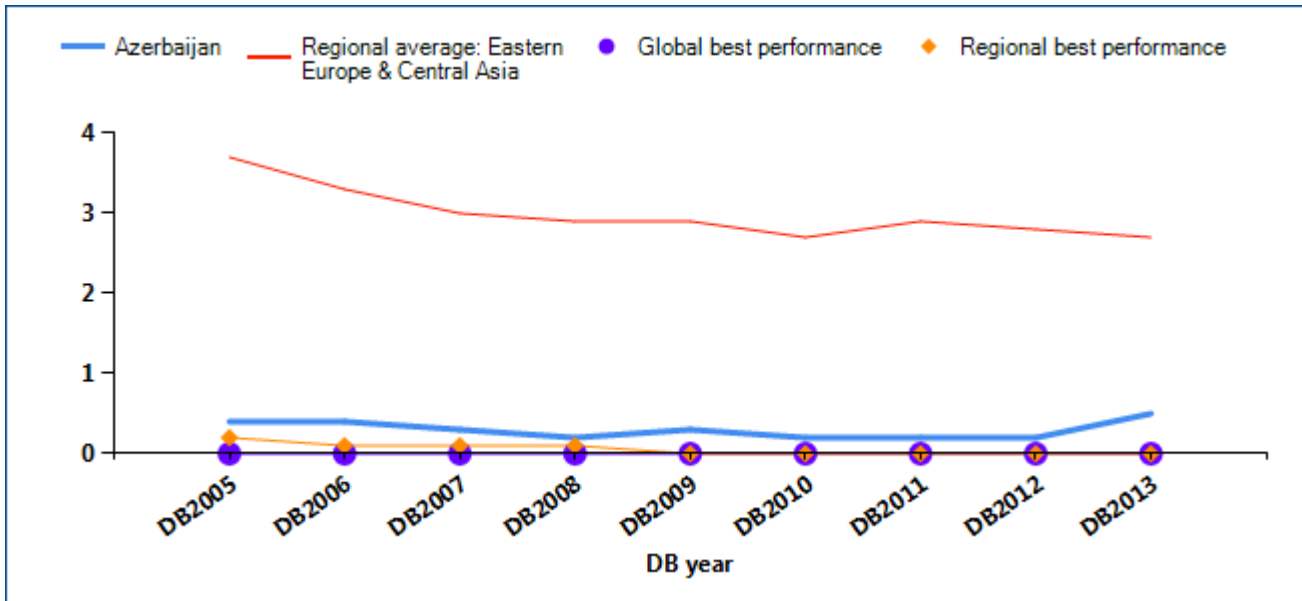


Time (days)



REGISTERING PROPERTY

Cost (% of property value)



Source: Doing Business database.

REGISTERING PROPERTY

Economies worldwide have been making it easier for entrepreneurs to register and transfer property—such as by computerizing land registries, introducing time limits for procedures and setting low fixed fees. Many

have cut the time required substantially—enabling buyers to use or mortgage their property earlier. What property registration reforms has *Doing Business* recorded in Azerbaijan (table 5.2)?

Table 5.2 How has Azerbaijan made registering property easier—or not?
By *Doing Business* report year

DB year	Reform
DB2008	No reform as measured by Doing Business.
DB2009	Azerbaijan introduced a new unified registry reducing the number of procedures from 7 to 4. The State Register Service also introduced the option of expediting 2 out of 4 procedures , it is now possible to register property in 11 days.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

REGISTERING PROPERTY

What are the details?

The indicators reported here are based on a set of specific procedures—the steps that a buyer and seller must complete to transfer the property to the buyer’s name—identified by *Doing Business* through information collected from local property lawyers, notaries and property registries. These procedures are those that apply to a transaction matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

STANDARD PROPERTY TRANSFER

City: Baku
Property Value: AZN 242,803

The procedures, along with the associated time and cost, are summarized below.

Summary of procedures for registering property in Azerbaijan—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>Verification of title and obtaining a non-encumbrance certificate at the Real Estate State Register</p> <p>The buyer should request from the seller or from the Service of State Registry of Real Estate of the Republic of Azerbaijan an updated extract, which allows the buyer to verify the title of the seller and the legal rights attached to the building. According to the Law on the State Registry of Real Estate description of the real estate and/or information about its legal owner and /or limitation of rights related to such real estate may be disclosed only to the legal owner of the real estate; the person authorized by the legal owner; legal owner's heirs at law or heirs by will; and relevant state authorities or municipalities in connection with their competences given by legislation.</p> <p>The cost of the Procedure is AZN 90.88, which includes only state dues for obtaining extract from the State Registry of Real Estate, verifying the title of the Seller, technical documentation related to the real estate (passport or plans) and non-encumbrance certificate. The regular Procedure takes five days, however an expedited version is available for a fee of AZN 100.88 and is completed in two days.</p> <p>The documentation shall include:</p> <ul style="list-style-type: none"> • Standard application form • Fee for the issuance of the certificates 	5 days (regular Procedure) or 2 days (expedited Procedure)	AZN 100.88
2	<p>The buyer applies to the state register service to register the property</p> <p>Registration of the land as well as the property takes place simultaneously at the State Register Service of Real Estate of the Republic of Azerbaijan. As of December 30, 2008 and according to</p>	1 day	AZN 969.42 (AZN 797.40 payable for the registration of title transfer of the warehouse/929 sq.m total area + AZN

No.	Procedure	Time to complete	Cost to complete
	<p>Article 26 of the Law "On State Duties" dated December 4, 2001, as amended, the state duty for obtaining (i) the extract from the State Real Estate Registry Service is AZN 30.00; (ii) the technical documentation related to the real estate (technical passport/plans) is AZN 50.00.</p> <p>Additionally, according to Articles I-1.2.1 to I-1.2.11 and Articles I-2.3.1-3.2 of Decision of Tariff Council No. 04 dated July 31, 2009, AZN 797.40 is payable for the registration of title transfer of the warehouse (929 square meters) and AZN 92.02 for the registration of title transfer of the land (557.4 square meters).</p> <p>A state duty in the amount of AZN 11.00 that was set forth in Article 9.3 of Decision of Tariff Council No. 05 dated April 12, 2006 has been abolished by its subsequent Decision No. 1 dated June 30, 2009.</p>		<p>92.02 title registration of the land/557.4 sq.m of land area + AZN 30 state duty for extract + AZN 50 state duty for technical passport)</p>
<p>3</p>	<p>Notarization of the sale-purchase agreement</p> <p>Under the law, the sale-purchase agreement and the transfer and acceptance act duly signed by both parties must be notarized. In order to get the agreement notarized the seller must provide evidence of his title to the property, i.e. registration certificates (see Procedure 2 and 3). In addition to the above, both the seller and the buyer must provide the notary public with other documents certifying their powers to enter into the sale-purchase agreement (e.g. corporate documents, powers of attorney).</p> <p>There is no legal requirement for the agreement to be prepared by a lawyer. Accordingly, the parties are free to prepare the agreement themselves.</p> <p>The stamp duty is paid to the notary, which in turn he shall transfer to the Treasury within two banking days since the date of receipt of the duty. However, in practice the stamp duty can be paid at a commercial bank. If the parties pay at the bank, receipt of payment should be submitted.</p> <p>The documentation shall include:</p> <ul style="list-style-type: none"> • Sale-purchase agreement and transfer and acceptance act • Registration certificates (obtained in Procedure 1 and 2) • Seller's cadastral package of documents (obtained in Procedure 3) • Corporate documents of the parties (e.g. charters, foundation agreements, powers of attorney) • Technical passport of the property (according to Article 144.2 of the Civil Code, amended by the law of the Republic of Azerbaijan No. 201-IVQD dated September 30, 2011 "On Making Amendments to the Civil Code of the Republic of Azerbaijan", the notary certifies the agreement, which transfers immovable property in accordance with the technical specifications of such immovable property as recorded in the Real Estate State Registrar Service) • Deposit slip (the buyer presents the deposit slip from the bank, confirming that the funds were properly deposited before notary notarizes the transfer agreement. After the completion of transaction, 	<p>1 day</p>	<p>AZN 110</p>

No.	Procedure	Time to complete	Cost to complete
	the notary write a cheque payable to the seller to be presented to the bank to collect the purchase price for the property)		
4	<p>Registration of the buyer's title to the building and the land at the State Service for Registration of Real Estate</p> <p>Upon completion of this Procedure, the new legal owner (the buyer) will receive an extract from the State Registry of Real Estate, evidencing his title and technical documentation as to the real estate, issued in his/her name.</p>	20 days (regular Procedure), 14 days (faster Procedure) or 7 days (fastest expedited Procedure)	Already paid in Procedure 3

* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

GETTING CREDIT

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and the legal rights of borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders to view a potential borrower's financial history (positive or negative)—valuable information to consider when assessing risk. And they permit borrowers to establish a good credit history that will allow easier access to credit. Sound collateral laws enable businesses to use their assets, especially movable property, as security to generate capital—while strong creditors' rights have been associated with higher ratios of private sector credit to GDP.

What do the indicators cover?

Doing Business assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 sets of indicators. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a public credit registry or a private credit bureau. The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. *Doing Business* uses case scenarios to determine the scope of the secured transactions system, involving a secured borrower and a secured lender and examining legal restrictions on the use of movable collateral. These scenarios assume that the borrower:

- Is a private, limited liability company.
- Has its headquarters and only base of operations in the largest business city.

WHAT THE GETTING CREDIT INDICATORS MEASURE

Strength of legal rights index (0–10)

Protection of rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

Depth of credit information index (0–6)

Scope and accessibility of credit information distributed by public credit registries and private credit bureaus

Public credit registry coverage (% of adults)

Number of individuals and firms listed in public credit registry as percentage of adult population

Private credit bureau coverage (% of adults)

Number of individuals and firms listed in largest private credit bureau as percentage of adult population

- Has 100 employees.
- Is 100% domestically owned, as is the lender.

The ranking on the ease of getting credit is based on the percentile rankings on the sum of its component indicators: the depth of credit information index and the strength of legal rights index.

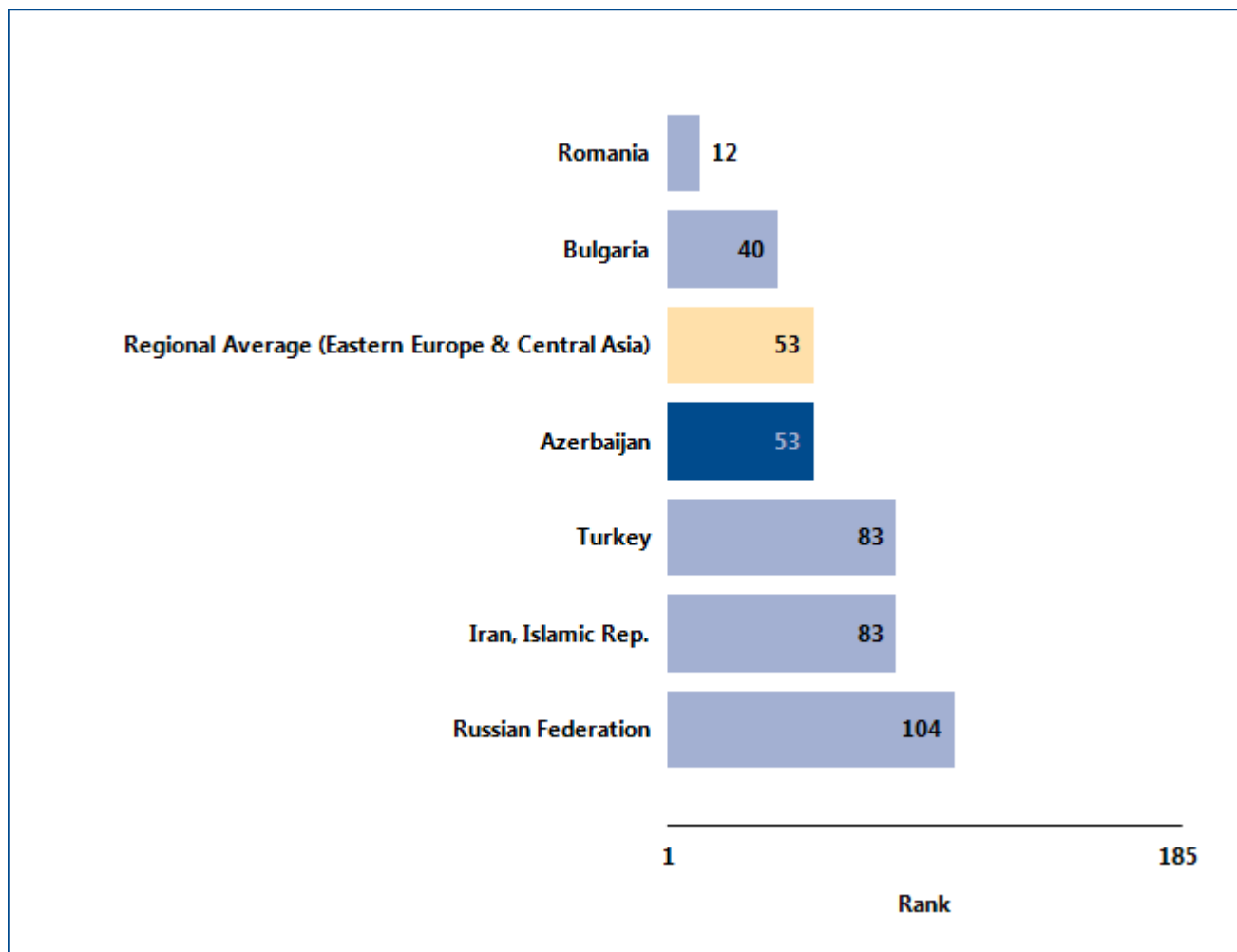
GETTING CREDIT

Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Azerbaijan facilitate access to credit? The economy has a score of 5 on the depth of credit information index and a score of 6 on the strength of legal rights index (see the summary of scoring at the end of this chapter for details). Higher scores indicate more credit information and stronger legal rights for borrowers and lenders.

Globally, Azerbaijan stands at 53 in the ranking of 185 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how well regulations and institutions in Azerbaijan support lending and borrowing.

Figure 6.1 How Azerbaijan and comparator economies rank on the ease of getting credit



Source: Doing Business database.

GETTING CREDIT

What are the changes over time?

While the most recent *Doing Business* data reflect how well the credit information system and collateral and bankruptcy laws in Azerbaijan support lending and borrowing today, data over time can help show where

institutions and regulations have been strengthened—and where they have not (table 6.1). That can help identify where the potential for improvement is greatest.

Table 6.1 The ease of getting credit in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	..	52	53
Strength of legal rights index (0-10)	6	6	6	6	6	6	6	6	6
Depth of credit information index (0-6)	0	4	4	4	5	5	5	5	5
Public registry coverage (% of adults)	0.0	0.4	1.1	1.4	3.1	6.9	7.0	15.6	17.7
Private bureau coverage (% of adults)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year.

Source: *Doing Business* database.

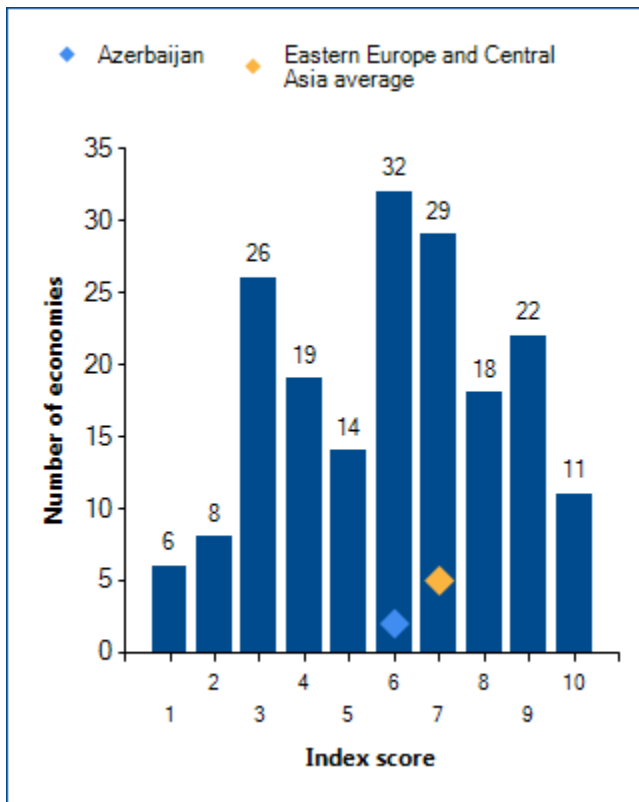
GETTING CREDIT

One way to put an economy's score on the getting credit indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 6.2 highlights the score on the strength of legal rights index for Azerbaijan in 2012

and shows the number of economies with this score in 2012 as well as the regional average score. Figure 6.3 shows the same thing for the depth of credit information index.

Figure 6.2 How strong are legal rights for borrowers and lenders?

Number of economies with each score on strength of legal rights index (0–10), 2012

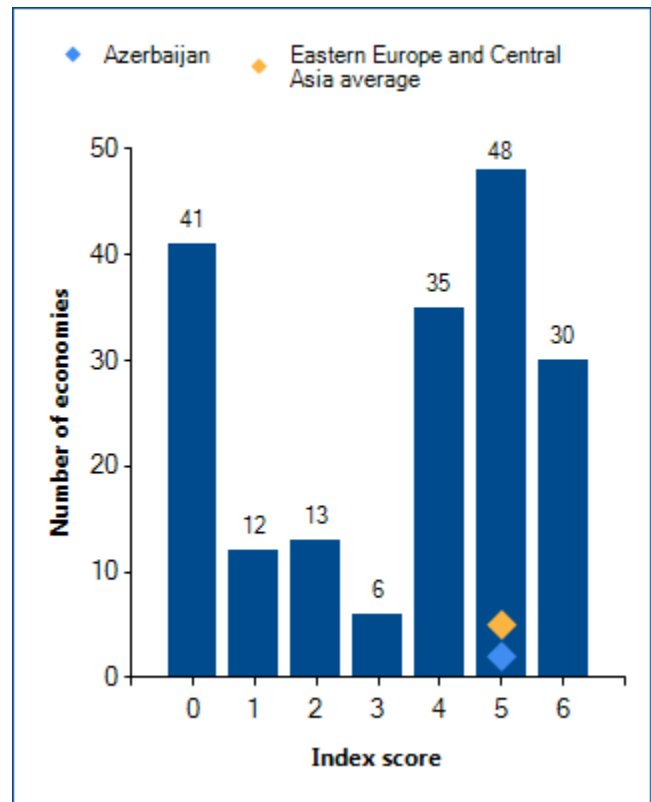


Note: Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate access to credit.

Source: Doing Business database.

Figure 6.3 How much credit information is shared—and how widely?

Number of economies with each score on depth of credit information index (0–6), 2012



Note: Higher scores indicate the availability of more credit information, from either a public credit registry or a private credit bureau, to facilitate lending decisions. Regional averages for the depth of credit information index exclude economies with no public registry or private bureau.

Source: Doing Business database.

GETTING CREDIT

When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of credit information, they can increase entrepreneurs' access to credit. What credit reforms has *Doing Business* recorded in Azerbaijan (table 6.2)?

Table 6.2 How has Azerbaijan made getting credit easier—or not?
By *Doing Business* report year

DB year	Reform
DB2008	No reform as measured by Doing Business.
DB2009	The National Bank of Azerbaijan eliminated the minimum loan threshold to report loans to the public credit registry in September 2007. The public registry now records information on all loans extended by the financial system, thus more than doubling the coverage of borrowers with a credit history.
DB2010	The Public Credit Registry in Azerbaijan enhanced access to credit information by allowing online access of the database to banks, more data available on borrowers, and introduced penalties for banks that send information that is late or incorrect.
DB2011	Azerbaijan improved access to credit by establishing an online platform allowing financial institutions to provide information to, and retrieve it from, the public credit registry.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

GETTING CREDIT

What are the details?

The getting credit indicators reported here for Azerbaijan are based on detailed information collected in that economy. The data on credit information sharing are collected through a survey of a public credit registry or private credit bureau (if one exists). To construct the depth of credit information index, a score of 1 is assigned for each of 6 features of the public credit registry or private credit bureau (see summary of scoring below).

The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. For the strength of legal rights index, a score of 1 is assigned for each of 8 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law.

Summary of scoring for the getting credit indicators in Azerbaijan

Indicator	Azerbaijan	Eastern Europe & Central Asia average	OECD high income average
Strength of legal rights index (0-10)	6	7	7
Depth of credit information index (0-6)	5	5	5
Public registry coverage (% of adults)	17.7	31.9	31.5
Private bureau coverage (% of adults)	0.0	44.8	74.6

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once. Regional averages for the depth of credit information index exclude economies with no public registry or private bureau. Regional averages for the public registry coverage exclude economies with no public registry. Regional averages for the private bureau coverage exclude economies with no private bureau.

Strength of legal rights index (0-10)	Index score: 6
Can any business use movable assets as collateral while keeping possession of the assets; and any financial institution accept such assets as collateral ?	Yes
Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?	No
Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral?	Yes
May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets ?	No
Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered?	No
Is a collateral registry in operation, that is unified geographically and by asset type, with an electronic database indexed by debtor's names?	No

Strength of legal rights index (0–10)	Index score: 6
Are secured creditors paid first (i.e. before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	Yes
Are secured creditors paid first (i.e. before general tax claims and employee claims) when a business is liquidated?	Yes
Are secured creditors either not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure, or the law provides secured creditors with grounds for relief from an automatic stay or	Yes
Does the law allow parties to agree in a collateral agreement that the lender may enforce its security right out of court, at the time a security interest is created?	Yes

Depth of credit information index (0–6)	Private credit bureau	Public credit registry	Index score: 5
Are data on both firms and individuals distributed?	No	Yes	1
Are both positive and negative data distributed?	No	Yes	1
Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?	No	No	0
Are more than 2 years of historical credit information distributed?	No	Yes	1
Is data on all loans below 1% of income per capita distributed?	No	Yes	1
Is it guaranteed by law that borrowers can inspect their data in the largest credit registry?	No	Yes	1

Note: An economy receives a score of 1 if there is a "yes" to either private bureau or public registry.

Coverage	Private credit bureau	Public credit registry
Number of firms	0	21,350
Number of individuals	0	1,158,361

Source: Doing Business database.

PROTECTING INVESTORS

Investor protections matter for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. If the laws do not provide such protections, investors may be reluctant to invest unless they become the controlling shareholders. Strong regulations clearly define related-party transactions, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set clear standards of accountability for company insiders.

What do the indicators cover?

Doing Business measures the strength of minority shareholder protections against directors' use of corporate assets for personal gain—or self-dealing. The indicators distinguish 3 dimensions of investor protections: transparency of related-party transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index). The ranking on the strength of investor protection index is the simple average of the percentile rankings on these 3 indices. To make the data comparable across economies, a case study uses several assumptions about the business and the transaction.

The business (Buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange (or at least a large private company with multiple shareholders).
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.

The transaction involves the following details:

- Mr. James, a director and the majority shareholder of the company, proposes that

WHAT THE PROTECTING INVESTORS INDICATORS MEASURE

Extent of disclosure index (0–10)

Who can approve related-party transactions
Disclosure requirements in case of related-party transactions

Extent of director liability index (0–10)

Ability of shareholders to hold interested parties and members of the approving body liable in case of related-party transactions

Available legal remedies (damages, repayment of profits, fines, imprisonment and rescission of the transaction)

Ability of shareholders to sue directly or derivatively

Ease of shareholder suits index (0–10)

Access to internal corporate documents (directly or through a government inspector)

Documents and information available during trial

Strength of investor protection index (0–10)

Simple average of the extent of disclosure, extent of director liability and ease of shareholder suits indices

the company purchase used trucks from another company he owns.

- The price is higher than the going price for used trucks, but the transaction goes forward.
- All required approvals are obtained, and all required disclosures made, though the transaction is prejudicial to Buyer.
- Shareholders sue the interested parties and the members of the board of directors.

PROTECTING INVESTORS

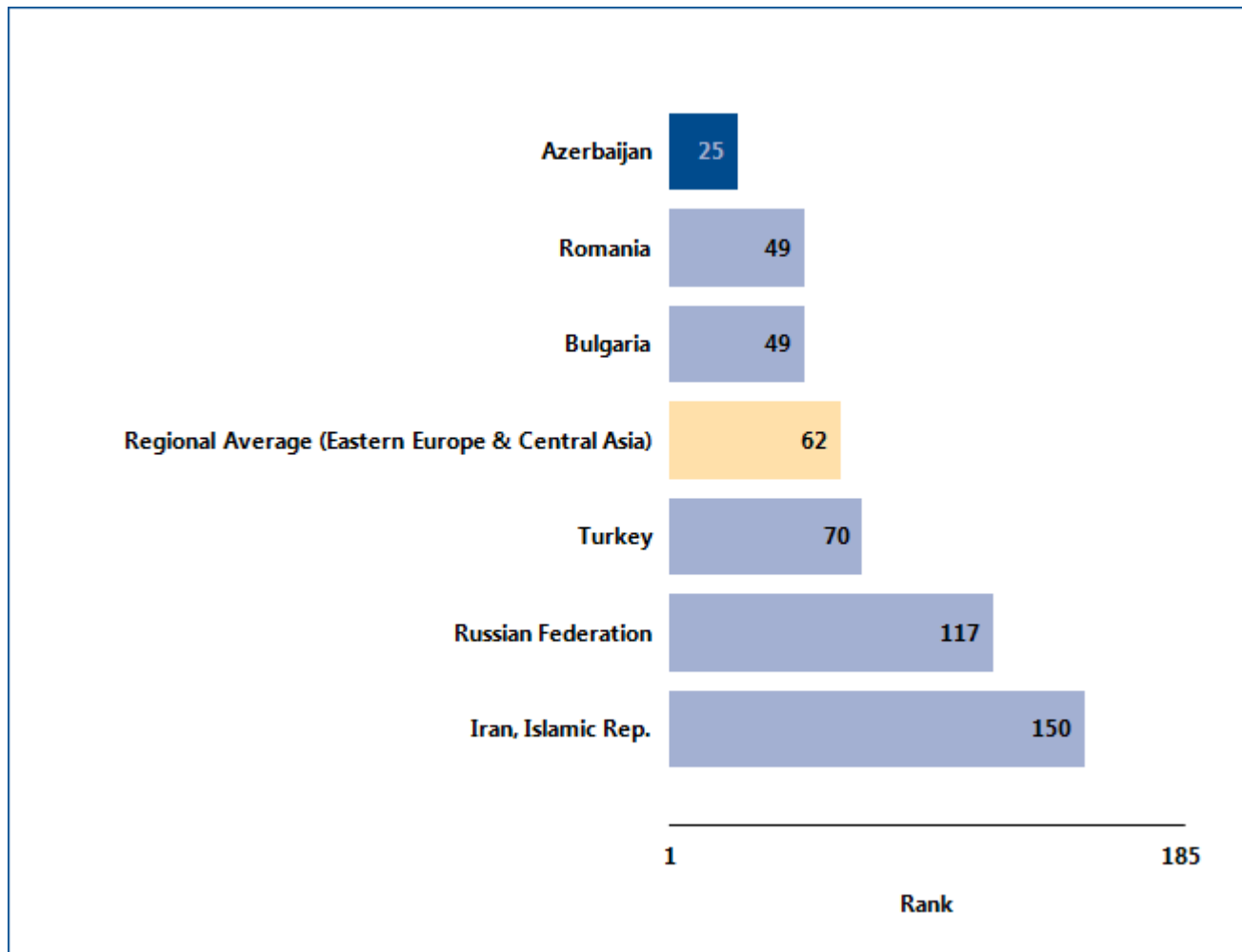
Where does the economy stand today?

How strong are investor protections in Azerbaijan? The economy has a score of 6.7 on the strength of investor protection index, with a higher score indicating stronger protections (see the summary of scoring at the end of this chapter for details).

Globally, Azerbaijan stands at 25 in the ranking of 185 economies on the strength of investor protection

index (figure 7.1). While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger investor protections against self-dealing in the areas measured.

Figure 7.1 How Azerbaijan and comparator economies rank on the strength of investor protection index



Source: Doing Business database.

PROTECTING INVESTORS

What are the changes over time?

While the most recent *Doing Business* data reflect how well regulations in Azerbaijan protect minority investors today, data over time show whether the protections have been strengthened (table 7.1). And

the global ranking on the strength of investor protection index over time shows whether the economy is slipping behind other economies in investor protections—or surpassing them.

Table 7.1 The strength of investor protections in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	24	25
Extent of disclosure index (0-10)	4	4	4	7	7	7	7	7
Extent of director liability index (0-10)	1	1	1	5	5	5	5	5
Ease of shareholder suits index (0-10)	8	8	8	8	8	8	8	8
Strength of investor protection index (0-10)	4.3	4.3	4.3	6.7	6.7	6.7	6.7	6.7

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year.

Source: *Doing Business* database.

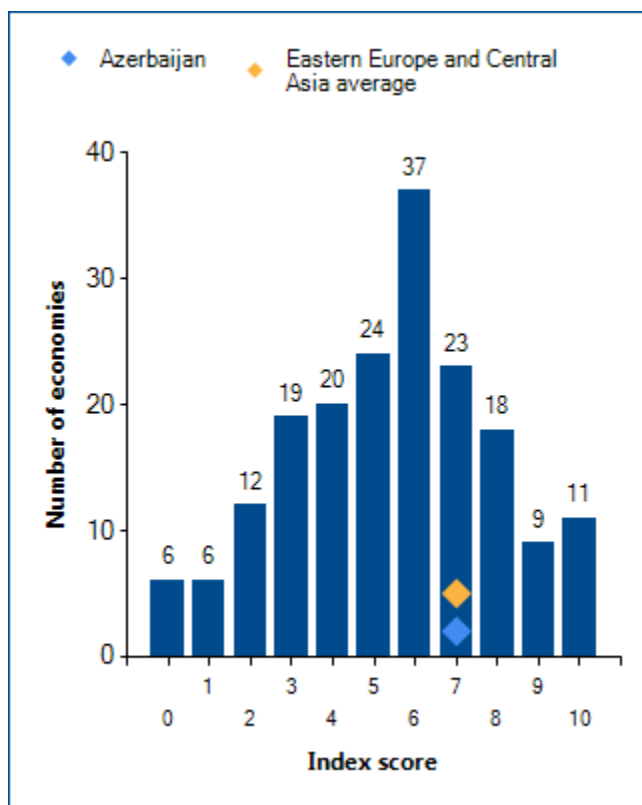
PROTECTING INVESTORS

One way to put an economy's scores on the protecting investors indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 7.2 highlights the score on the extent of disclosure index for Azerbaijan in 2012 and

shows the number of economies with this score in 2012 as well as the regional average score. Figure 7.3 shows the same thing for the extent of director liability index, and figure 7.4 for the ease of shareholder suits index.

Figure 7.2 How strong are disclosure requirements?

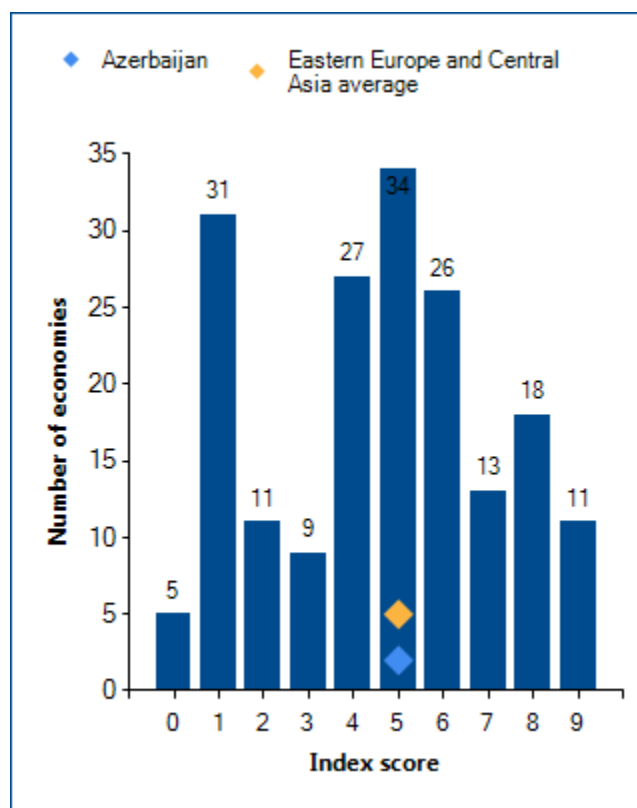
Number of economies with each score on extent of disclosure index (0–10), 2012



Note: Higher scores indicate greater disclosure.
Source: Doing Business database.

Figure 7.3 How strong is the liability regime for directors?

Number of economies with each score on extent of director liability index (0–10), 2012

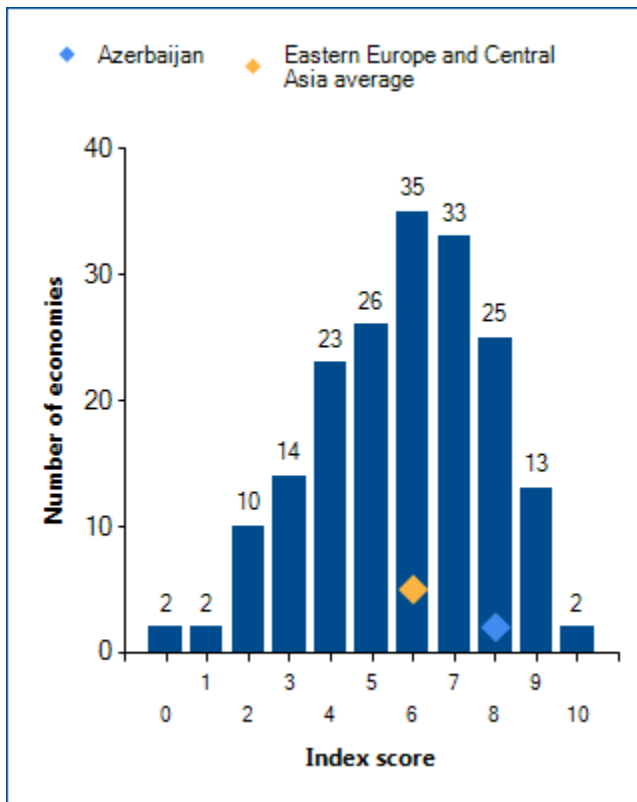


Note: Higher scores indicate greater liability of directors. No economy receives a score of 10 on the extent of director liability index.
Source: Doing Business database.

PROTECTING INVESTORS

Figure 7.4 How easy is access to internal corporate documents?

Number of economies with each score on ease of shareholder suits index (0–10), 2012



Note: Higher scores indicate greater powers of shareholders to challenge the transaction.

Source: *Doing Business* database.

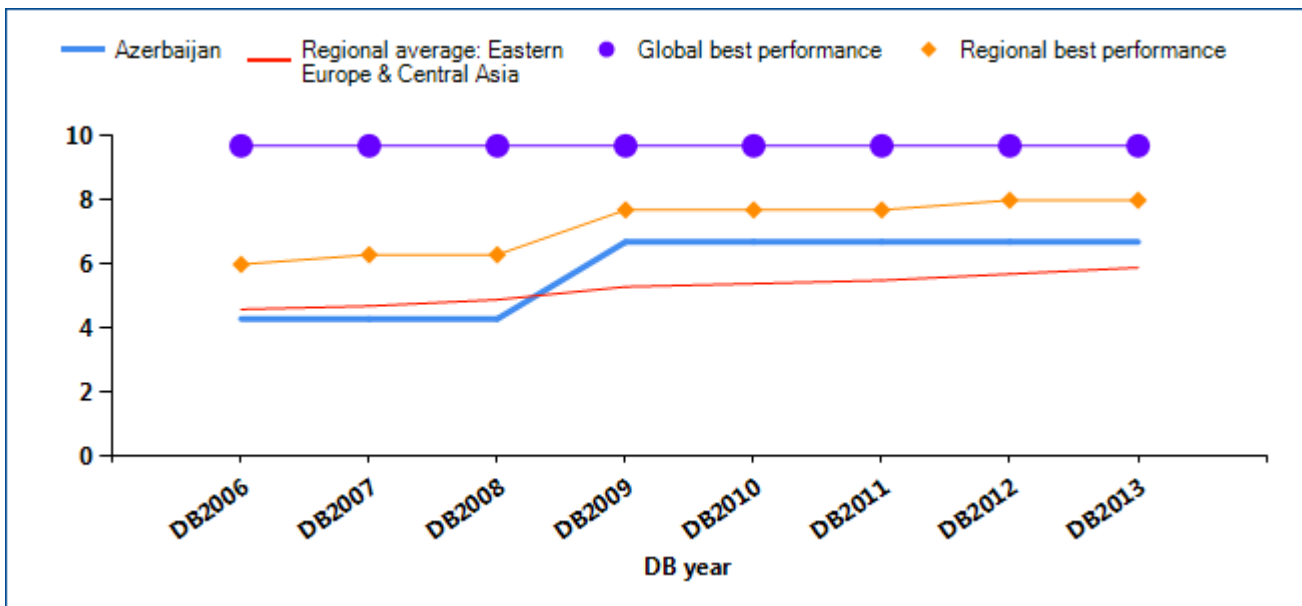
PROTECTING INVESTORS

The scores recorded over time for Azerbaijan on the strength of investor protection index may also be revealing (figure 7.5). Equally interesting may be the

changes over time in the regional average score on this index.

Figure 7.5 Have investor protections become stronger over time?

Strength of investor protection index (0–10)



Note: The higher the score, the stronger the investor protections.

Source: Doing Business database.

PROTECTING INVESTORS

Economies with the strongest protections of minority investors from self-dealing require more disclosure and define clear duties for directors. They also have well-functioning courts and up-to-date procedural rules that give minority investors the means to prove their case and obtain a judgment within a reasonable

time. So reforms to strengthen investor protections may move ahead on different fronts—such as through new or amended company laws or civil procedure rules. What investor protection reforms has *Doing Business* recorded in Azerbaijan (table 7.2)?

Table 7.2 How has Azerbaijan strengthened investor protections—or not?
By *Doing Business* report year

DB year	Reform
DB2008	No reform as measured by Doing Business.
DB2009	Azerbaijan strengthened investor protections by regulating the approval of related-party transactions and expanding remedies available against liable directors.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

PROTECTING INVESTORS

What are the details?

The protecting investors indicators reported here for Azerbaijan are based on detailed information collected through a survey of corporate and securities lawyers as well as on securities regulations, company laws and court rules of evidence. To construct the extent of disclosure, extent of director liability and ease of

shareholder suits indices, a score is assigned for each of a range of conditions relating to disclosure, director liability and shareholder suits in a standard case study transaction (see the notes at the end of this chapter). The summary below shows the details underlying the scores for Azerbaijan.

Summary of scoring for the protecting investors indicators in Azerbaijan

Indicator	Azerbaijan	Eastern Europe & Central Asia average	OECD high income average
Extent of disclosure index (0-10)	7	7	6
Extent of director liability index (0-10)	5	5	5
Ease of shareholder suits index (0-10)	8	6	7
Strength of investor protection index (0-10)	6.7	5.9	6.1

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

	Score	Score description
Extent of disclosure index (0-10)	7	
What corporate body provides legally sufficient approval for the transaction?	1	Shareholders meeting and Mr. James is allowed to vote
Whether disclosure of the conflict of interest by Mr. James to the board of directors is required?	2	Full disclosure of all material facts
Whether immediate disclosure of the transaction to the public and/or shareholders is required?	2	Disclosure on the transaction and Mr. James' conflict of interest
Whether disclosure of the transaction in published periodic filings (annual reports) is required?	2	Disclosure on the transaction and Mr. James' conflict of interest
Whether an external body must review the terms of the transaction before it takes place?	0	No
Extent of director liability index (0-10)	5	
Whether shareholders can sue directly or derivatively for the damage that the Buyer-Seller transaction causes to the company?	1	Yes

	Score	Score description
Whether shareholders can hold Mr. James liable for the damage that the Buyer-Seller transaction causes to the company?	1	Liable for negligence or influencing the approval of the transaction
Whether shareholders can hold members of the approving body liable for the damage that the Buyer-Seller transaction causes to the company?	1	Liable for negligence
Whether a court can void the transaction upon a successful claim by a shareholder plaintiff?	0	Not possible or only in case of Seller's fraud or bad faith
Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff?	1	Yes
Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff?	1	Yes
Whether fines and imprisonment can be applied against Mr. James?	0	No
Ease of shareholder suits index (0-10)	8	
Whether shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit?	0	No
Whether shareholders owning 10% or less of Buyer's shares can request an inspector to investigate the transaction?	1	Yes
Whether the plaintiff can obtain any documents from the defendant and witnesses during trial?	4	Any information that may lead to the discovery of relevant information
Whether the plaintiff can request categories of documents from the defendant without identifying specific ones?	0	No
Whether the plaintiff can directly question the defendant and witnesses during trial?	2	Yes, without approval from the judge
Whether the level of proof required for civil suits is lower than that of criminal cases?	1	Yes
Strength of investor protection index (0-10)	6.7	

Source: *Doing Business* database.

PAYING TAXES

Taxes are essential. They fund the public amenities, infrastructure and services that are crucial for a properly functioning economy. But the level of tax rates needs to be carefully chosen—and needless complexity in tax rules avoided. According to *Doing Business* data, in economies where it is more difficult and costly to pay taxes, larger shares of economic activity end up in the informal sector—where businesses pay no taxes at all.

What do the indicators cover?

Using a case scenario, *Doing Business* measures the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws. The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators: number of annual payments, time and total tax rate, with a threshold being applied to the total tax rate.¹ To make the data comparable across economies, several assumptions about the business and the taxes and contributions are used.

- TaxpayerCo is a medium-size business that started operations on January 1, 2010.
- The business starts from the same financial position in each economy. All the taxes and mandatory contributions paid during the second year of operation are recorded.
- Taxes and mandatory contributions are measured at all levels of government.

WHAT THE PAYING TAXES INDICATORS MEASURE

Tax payments for a manufacturing company in 2011 (number per year adjusted for electronic or joint filing and payment)

Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)

Method and frequency of filing and payment

Time required to comply with 3 major taxes (hours per year)

Collecting information and computing the tax payable

Completing tax return forms, filing with proper agencies

Arranging payment or withholding

Preparing separate tax accounting books, if required

Total tax rate (% of profit before all taxes)

Profit or corporate income tax

Social contributions and labor taxes paid by the employer

Property and property transfer taxes

Dividend, capital gains and financial transactions taxes

Waste collection, vehicle, road and other taxes

- Taxes and mandatory contributions include corporate income tax, turnover tax and all labor taxes and contributions paid by the company.
- A range of standard deductions and exemptions are also recorded.

¹ The threshold is defined as the highest total tax rate among the top 15% of economies in the ranking on the total tax rate. It is calculated and adjusted on a yearly basis. The threshold is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). This year's threshold is 25.7%.

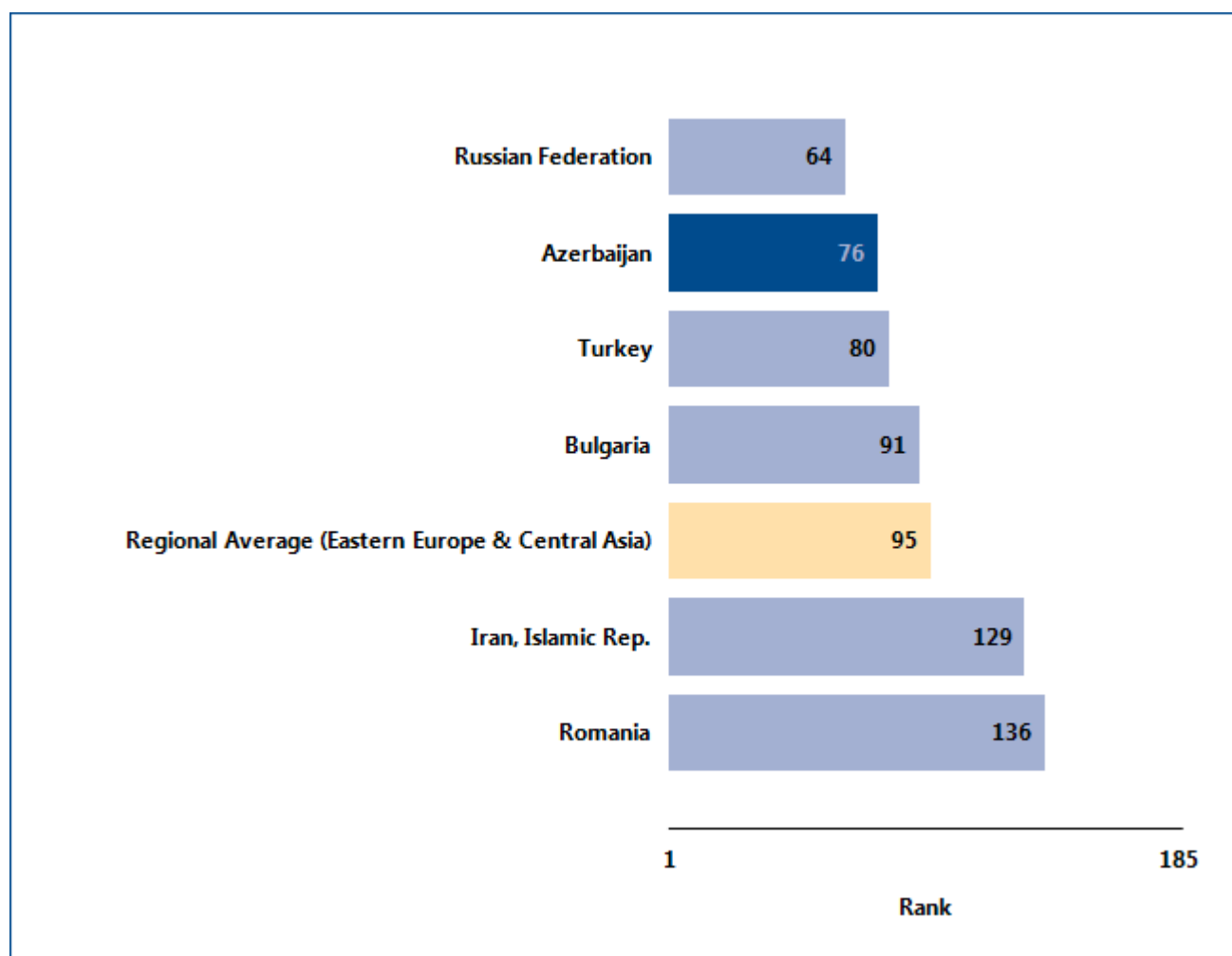
PAYING TAXES

Where does the economy stand today?

What is the administrative burden of complying with taxes in Azerbaijan—and how much do firms pay in taxes? On average, firms make 18 tax payments a year, spend 214 hours a year filing, preparing and paying taxes and pay total taxes amounting to 40.0% of profit (see the summary at the end of this chapter for details).

Globally, Azerbaijan stands at 76 in the ranking of 185 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing the tax compliance burden for businesses in Azerbaijan.

Figure 8.1 How Azerbaijan and comparator economies rank on the ease of paying taxes



Note: DB2013 rankings reflect changes to the methodology. For all economies with a total tax rate below the threshold of 25.7% applied in DB2013, the total tax rate is set at 25.7% for the purpose of calculating the ranking on the ease of paying taxes.

Source: *Doing Business* database.

PAYING TAXES

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to comply with tax rules in Azerbaijan today, data over time show which aspects

of the process have changed — and which have not (table 8.1). That can help identify where the potential for easing tax compliance is greatest.

Table 8.1 The ease of paying taxes in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	79	76
Payments (number per year)	37	37	37	22	22	18	18	18
Time (hours per year)	756	1,000	952	376	376	306	225	214
Total tax rate (% profit)	46.4	42.2	40.9	40.9	40.9	40.9	40.0	40.0

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year. DB2013 rankings reflect changes to the methodology. For all economies with a total tax rate below the threshold of 25.7% applied in DB2013, the total tax rate is set at 25.7% for the purpose of calculating the ranking on the ease of paying taxes.

Source: *Doing Business* database.

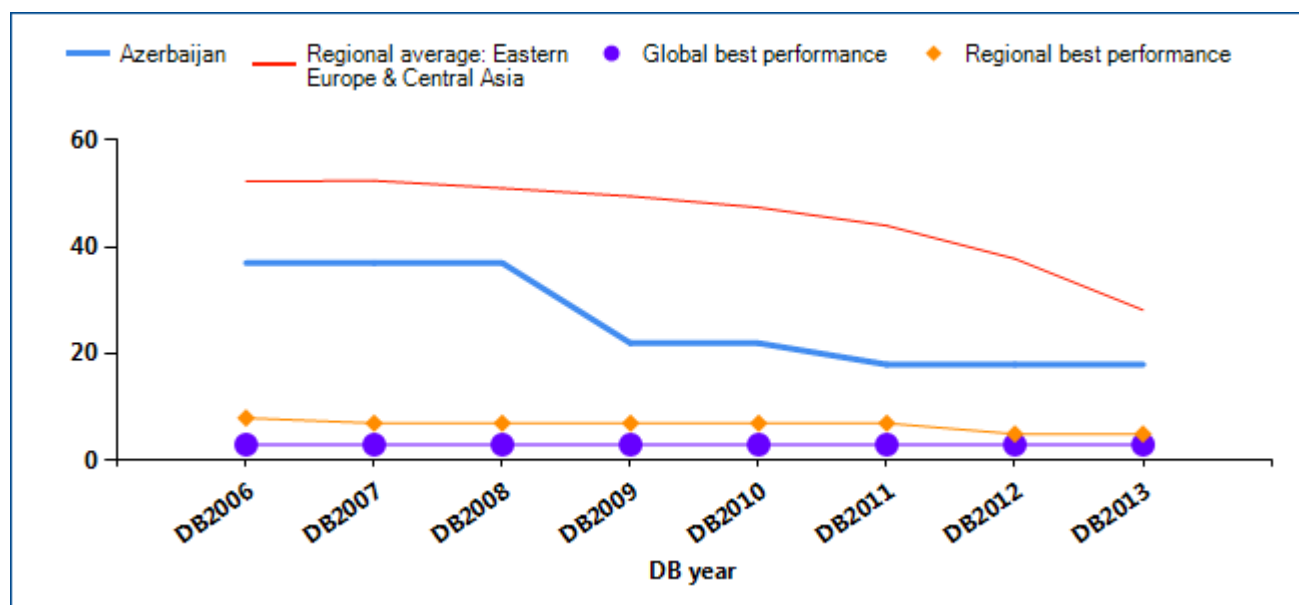
PAYING TAXES

Equally helpful may be the benchmarks provided by the economies that over time have had the best performance regionally or globally on the number of payments or the time required to prepare and file taxes (figure 8.2). These benchmarks help show what is

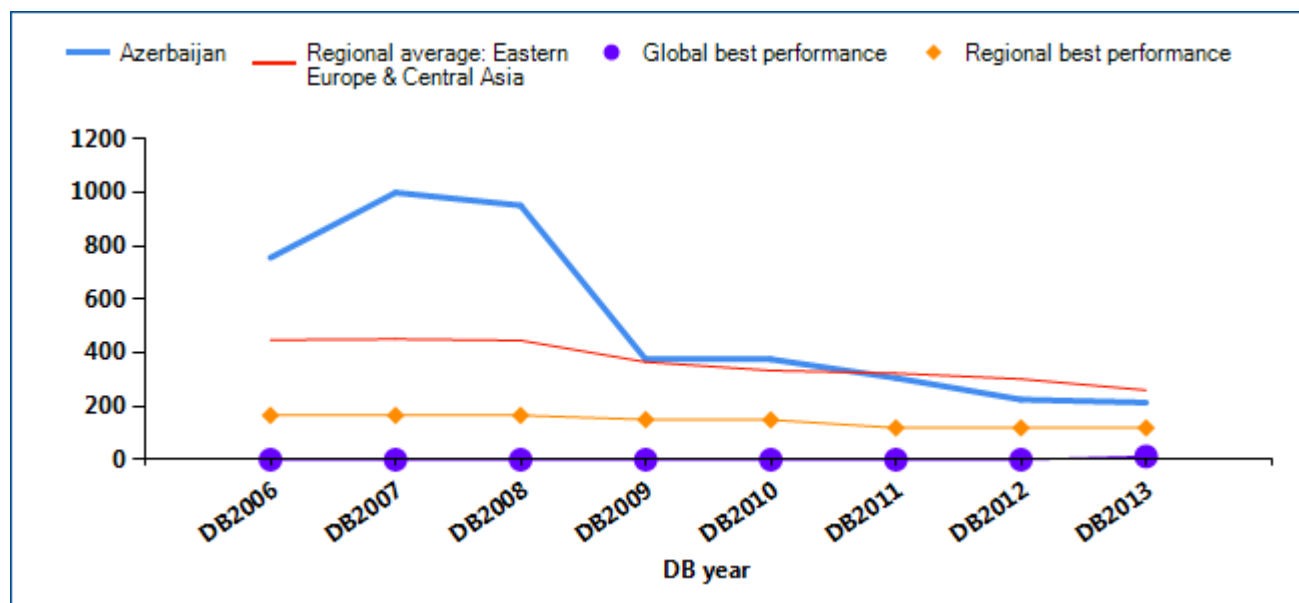
possible in easing the administrative burden of tax compliance. And changes in regional averages can show where Azerbaijan is keeping up—and where it is falling behind.

Figure 8.2 Has paying taxes become easier over time?

Payments (number per year)

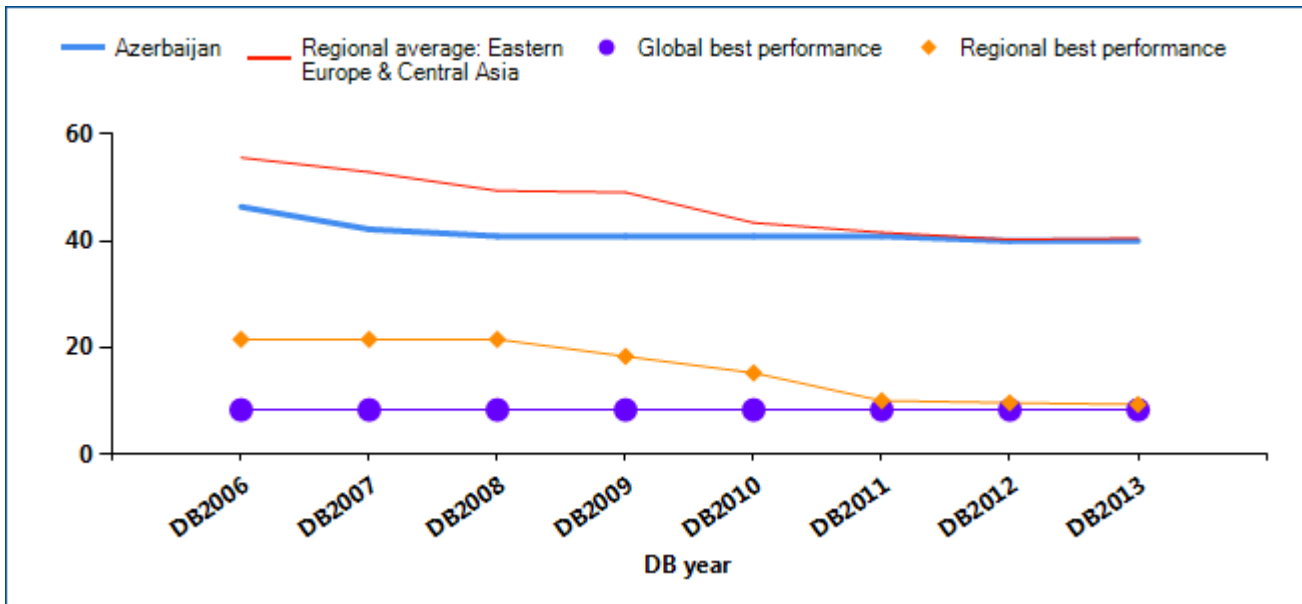


Time (hours per year)



PAYING TAXES

Total tax rate (% of profit)



Source: Doing Business database.

PAYING TAXES

Economies around the world have made paying taxes faster and easier for businesses—such as by consolidating filings, reducing the frequency of payments or offering electronic filing and payment. Many have lowered tax rates. Changes have brought

concrete results. Some economies simplifying tax payment and reducing rates have seen tax revenue rise. What tax reforms has *Doing Business* recorded in Azerbaijan (table 8.2)?

Table 8.2 How has Azerbaijan made paying taxes easier—or not?
By *Doing Business* report year

DB year	Reform
DB2008	Azerbaijan reduced the tax burden for companies by reducing the corporate income tax rate and eased the system of tax payment through the introduction of e-filing and e-payment
DB2009	Online filing and payment system introduced with advanced accounting software systems for calculation. Computer stations provided for users without computer facilities.
DB2010	No reform as measured by Doing Business.
DB2011	A revision of Azerbaijan's tax code lowered several tax rates, including the profit tax rate, and simplified the process of paying corporate income tax and value added tax.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

PAYING TAXES

What are the details?

The indicators reported here for Azerbaijan are based on a standard set of taxes and contributions that would be paid by the case study company used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). Tax practitioners are asked to review standard financial statements as well as a standard list of transactions that the company completed during the year. Respondents are asked how much in taxes and mandatory contributions the business must pay and what the process is for doing so.

LOCATION OF STANDARDIZED COMPANY

City: Baku

The taxes and contributions paid are listed in the summary below, along with the associated number of payments, time and tax rate.

Summary of tax rates and administrative burden in Azerbaijan

Indicator	Azerbaijan	Eastern Europe & Central Asia average	OECD high income average
Payments (number per year)	18	28	12
Time (hours per year)	214	260	176
Profit tax (%)	12.9	9.1	15.2
Labor tax and contributions (%)	24.8	22.1	23.8
Other taxes (%)	2.2	9.3	3.7
Total tax rate (% profit)	40.0	40.5	42.7

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Social security contributions	12		97	22%	gross salaries	24.8	
Corporate income tax	1	online filing	60	20%	taxable profit	12.9	

Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Property Tax	1	online filing	0	1%	annual average tax written down value of fixed assets	2	
Tax on interest	0		0	10%	interest income	0.3	included in other taxes
Vehicle tax	1	online filing	0	AZN 0.02	per cubic meter of engine size	0.2	
Land tax	1	online filing	0	AZN 10	land area per 100 square meters	0.1	
Value added tax (VAT)	1	online filing	57	18%	goods and services	0	not included
Fuel tax	1		0		included in price of fuel	0	small amount
Totals	18		214			40.0	

Source: Doing Business database.

TRADING ACROSS BORDERS

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential. Research shows that exporters in developing countries gain more from a 10% drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets.

What do the indicators cover?

Doing Business measures the time and cost (excluding tariffs and the time and cost for sea transport) associated with exporting and importing a standard shipment of goods by sea transport, and the number of documents necessary to complete the transaction. The indicators cover procedural requirements such as documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover trade logistics, including the time and cost of inland transport to the largest business city. The ranking on the ease of trading across borders is the simple average of the percentile rankings on its component indicators: documents, time and cost to export and import.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the traded goods.

The business:

- Is of medium size and employs 60 people.
- Is located in the periurban area of the economy's largest business city.
- Is a private, limited liability company, domestically owned, formally registered and operating under commercial laws and regulations of the economy.

The traded goods:

- Are not hazardous nor do they include military items.

WHAT THE TRADING ACROSS BORDERS INDICATORS MEASURE

Documents required to export and import (number)

- Bank documents
- Customs clearance documents
- Port and terminal handling documents
- Transport documents

Time required to export and import (days)

- Obtaining, filling out and submitting all the documents
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Does not include sea transport time

Cost required to export and import (US\$ per container)

- All documentation
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Official costs only, no bribes

- Do not require refrigeration or any other special environment.
- Do not require any special phytosanitary or environmental safety standards other than accepted international standards.
- Are one of the economy's leading export or import products.
- Are transported in a dry-cargo, 20-foot full container load.

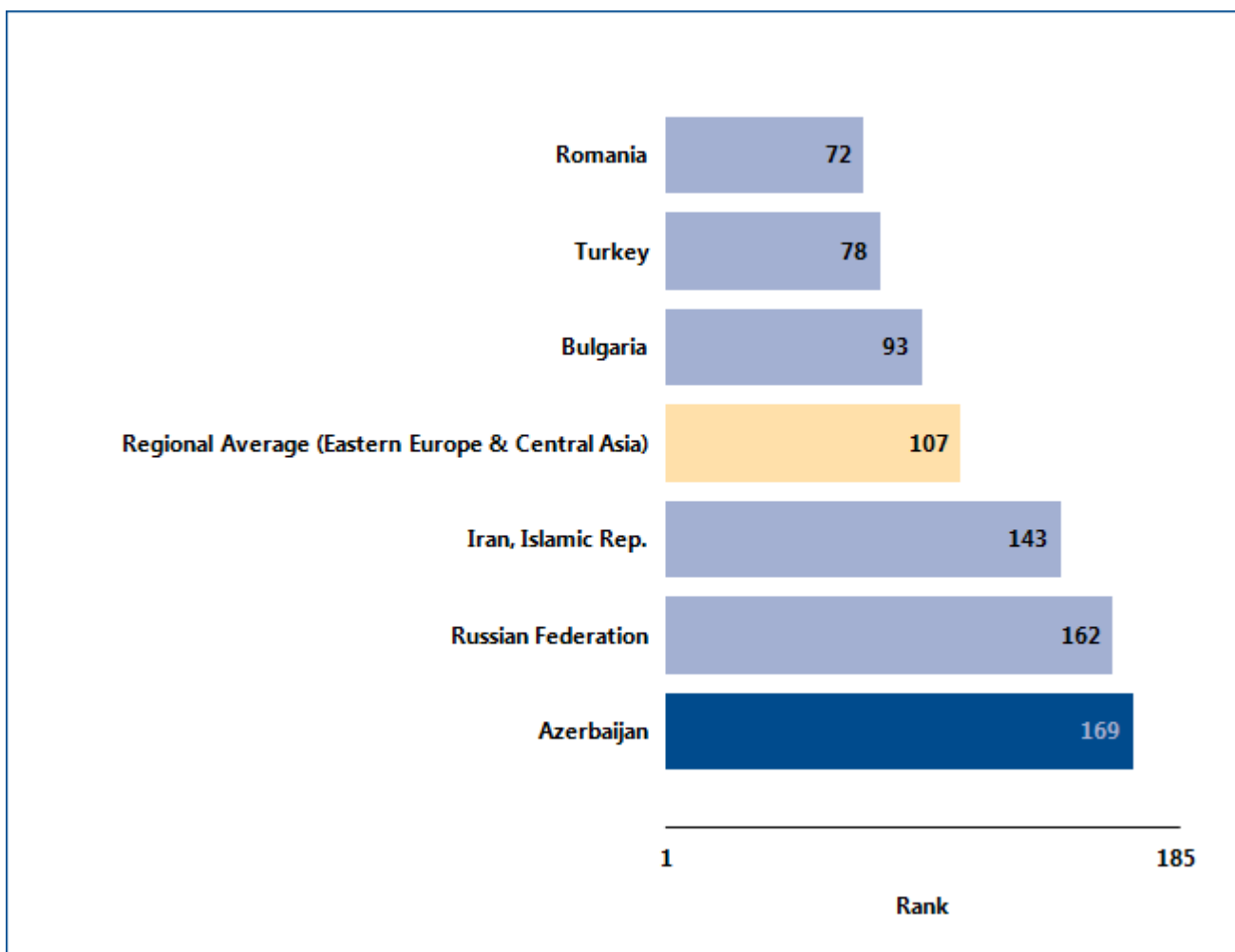
TRADING ACROSS BORDERS

Where does the economy stand today?

What does it take to export or import in Azerbaijan? According to data collected by *Doing Business*, exporting a standard container of goods requires 8 documents, takes 38 days and costs \$3430. Importing the same container of goods requires 10 documents, takes 38 days and costs \$3490 (see the summary of procedures and documents at the end of this chapter for details).

Globally, Azerbaijan stands at 169 in the ranking of 185 economies on the ease of trading across borders (figure 9.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for a business in Azerbaijan to export and import goods.

Figure 9.1 How Azerbaijan and comparator economies rank on the ease of trading across borders



Source: *Doing Business* database.

TRADING ACROSS BORDERS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to export or import in Azerbaijan today, data over time show which aspects of the

process have changed—and which have not (table 9.1). That can help identify where the potential for improvement is greatest.

Table 9.1 The ease of trading across borders in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	169	169
Documents to export (number)	8	8	8	8	8	8	8	8
Time to export (days)	43	43	43	43	41	38	38	38
Cost to export (US\$ per container)	3,155	3,155	3,155	3,515	3,420	3,420	3,345	3,430
Documents to import (number)	10	10	10	10	10	10	10	10
Time to import (days)	48	48	48	48	42	38	38	38
Cost to import (US\$ per container)	2,945	2,945	2,945	3,420	3,480	3,480	3,405	3,490

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year.

Source: *Doing Business* database.

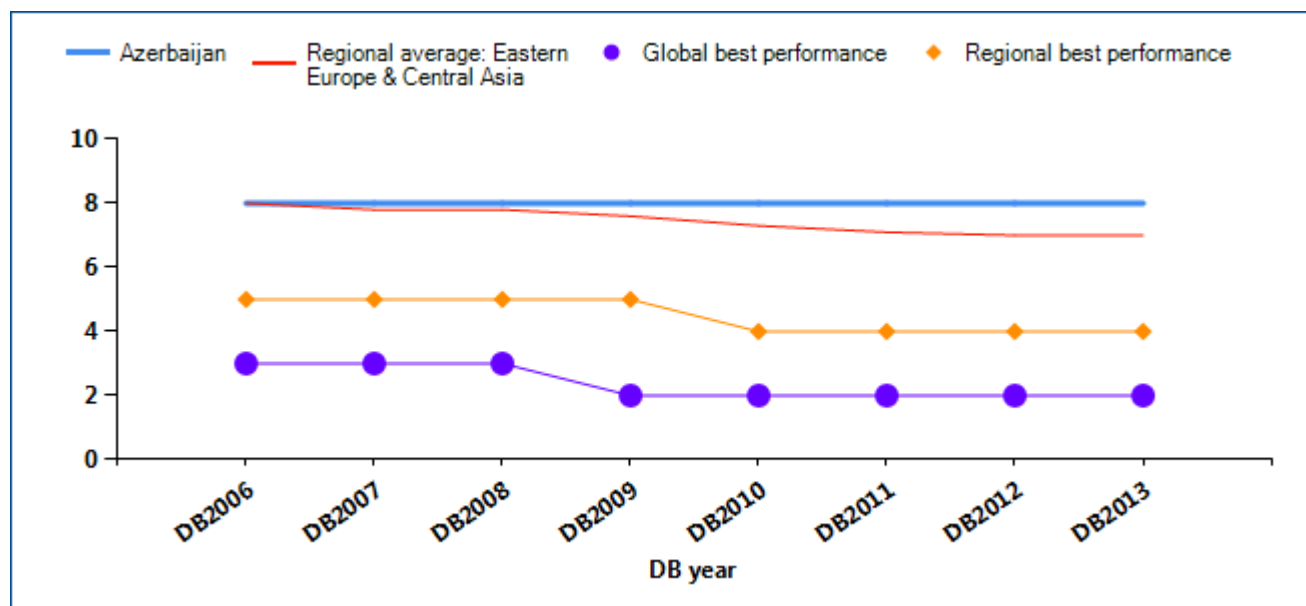
TRADING ACROSS BORDERS

Equally helpful may be the benchmarks provided by the economies that over time have had the best performance regionally or globally on the documents, time or cost required to export or import (figure 9.2).

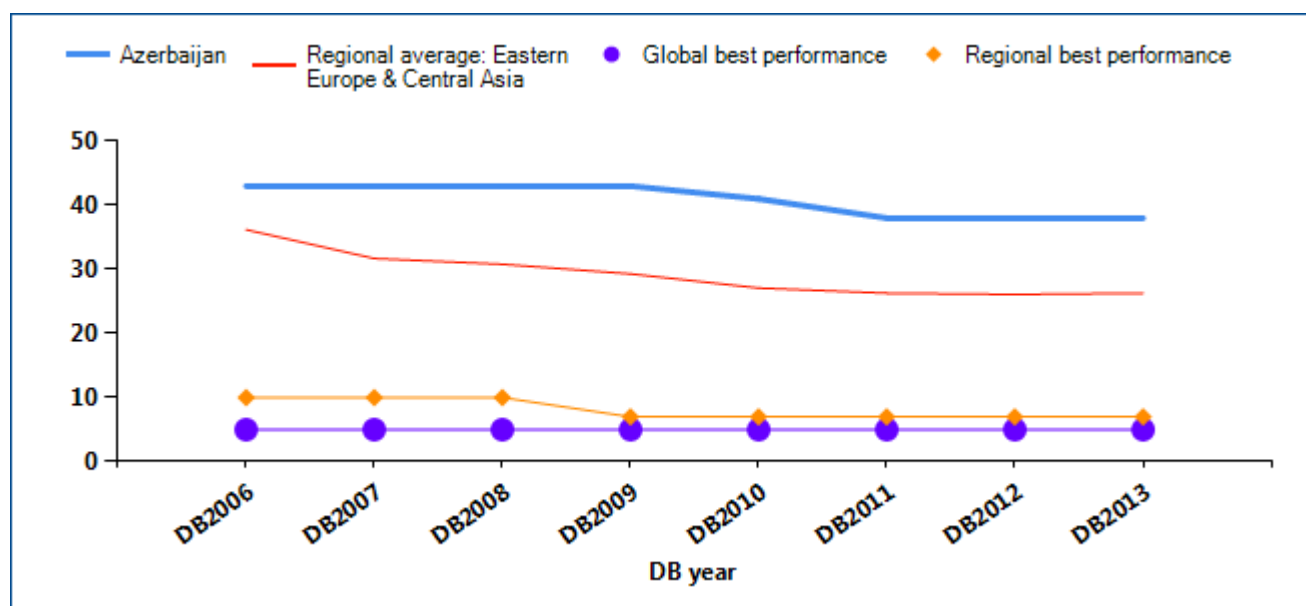
These benchmarks help show what is possible in making it easier to trade across borders. And changes in regional averages can show where Azerbaijan is keeping up—and where it is falling behind.

Figure 9.2 Has trading across borders become easier over time?

Documents to export (number)

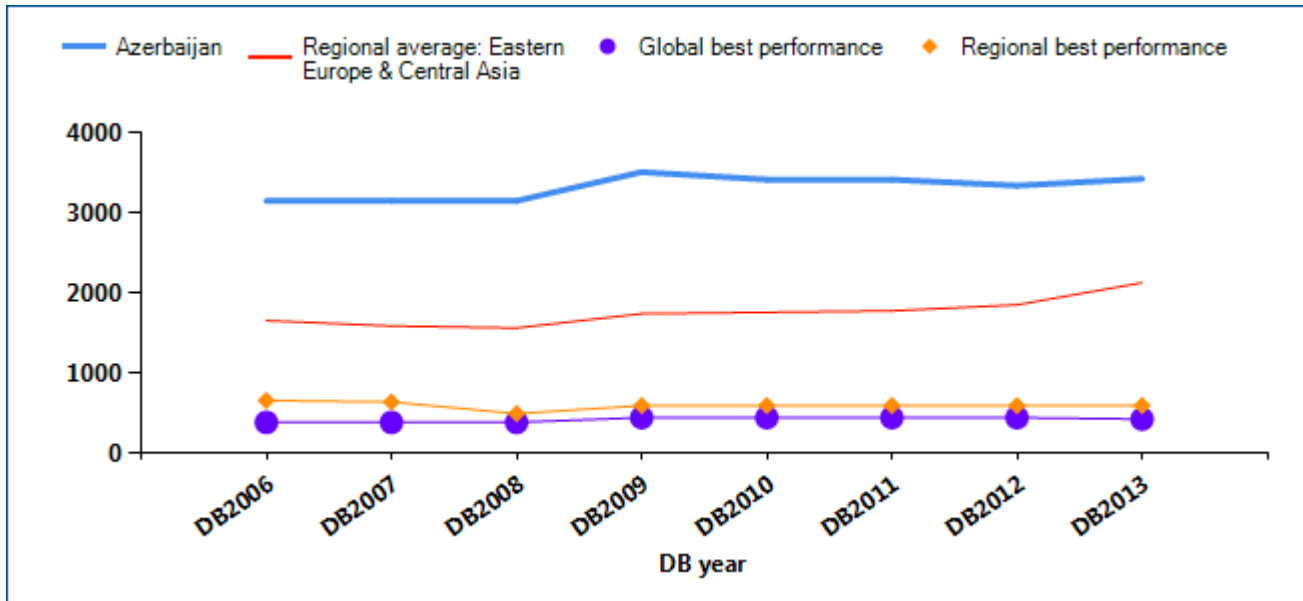


Time to export (days)

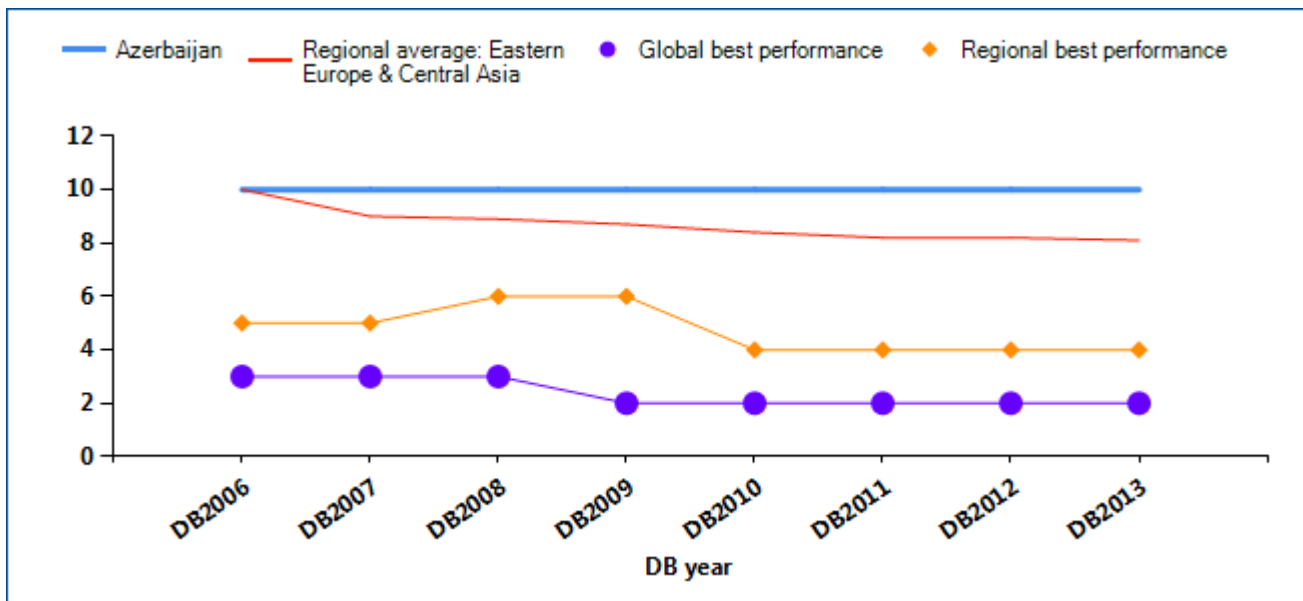


TRADING ACROSS BORDERS

Cost to export (US\$ per container)

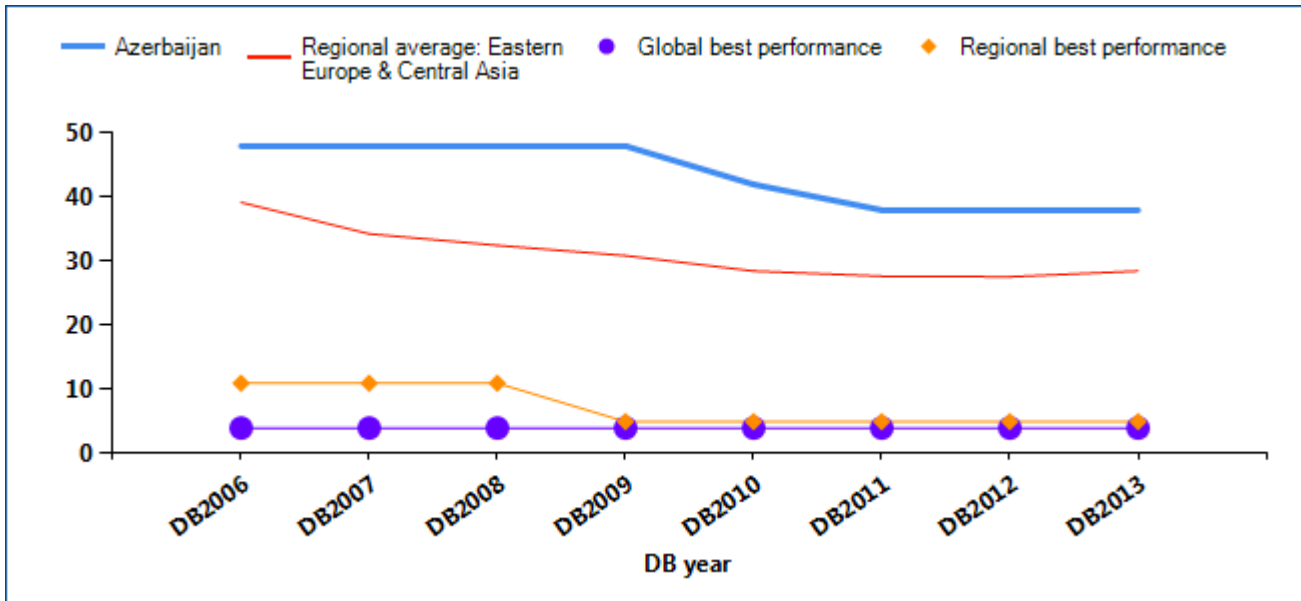


Documents to import (number)

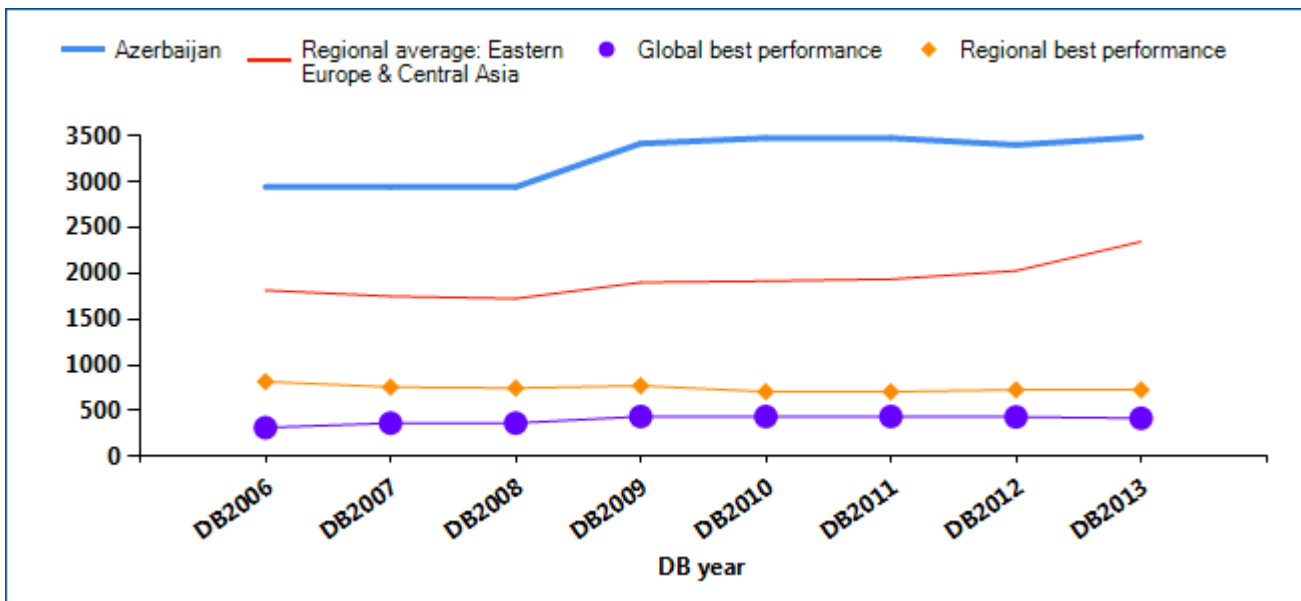


TRADING ACROSS BORDERS

Time to import (days)



Cost to import (US\$ per container)



Source: Doing Business database.

TRADING ACROSS BORDERS

In economies around the world, trading across borders as measured by *Doing Business* has become faster and easier over the years. Governments have introduced tools to facilitate trade—including single windows, risk-based inspections and electronic data interchange

systems. These changes help improve the trading environment and boost firms' international competitiveness. What trade reforms has *Doing Business* recorded in Azerbaijan (table 9.2)?

Table 9.2 How has Azerbaijan made trading across borders easier—or not?
By *Doing Business* report year

DB year	Reform
DB2008	No reform as measured by Doing Business.
DB2009	No reform as measured by Doing Business.
DB2010	Azerbaijan decreased the time required to clear goods and cross its borders by streamlining and regrouping various agencies behind a single customs service window.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

TRADING ACROSS BORDERS

What are the details?

The indicators reported here for Azerbaijan are based on a set of specific procedural requirements for trading a standard shipment of goods by ocean transport (see the section in this chapter on what the indicators cover). Information on the procedures as well as the required documents and the time and cost to complete each procedure is collected from local freight forwarders, shipping lines, customs brokers, port officials and banks.

LOCATION OF STANDARDIZED COMPANY

City: Baku

The procedural requirements, and the associated time and cost, for exporting and importing a standard shipment of goods are listed in the summary below, along with the required documents.

Summary of procedures and documents for trading across borders in Azerbaijan

Indicator	Azerbaijan	Eastern Europe & Central Asia average	OECD high income average
Documents to export (number)	8	7	4
Time to export (days)	38	26	10
Cost to export (US\$ per container)	3,430	2,134	1,028
Documents to import (number)	10	8	5
Time to import (days)	38	29	10
Cost to import (US\$ per container)	3,490	2,349	1,080

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

Procedures to export	Time (days)	Cost (US\$)
Documents preparation	24	405
Customs clearance and technical control	5	425
Ports and terminal handling	2	300
Inland transportation and handling	7	2,300
Totals	38	3,430

Procedures to import	Time (days)	Cost (US\$)
Documents preparation	27	465

Procedures to import	Time (days)	Cost (US\$)
Customs clearance and technical control	3	425
Ports and terminal handling	2	300
Inland transportation and handling	6	2,300
Totals	38	3,490

Documents to export
Bill of Lading
Certificate of Origin
Commercial Invoice
Convention des Marchandises Routiers - CMR (Transport document)
Customs export declaration
Packing List
Selling Contract
Transit document

Source: Doing Business database.

Documents to import
Bill of lading
Certificate of Conformity
Certificate of Origin
Certificate of Quality
Commercial invoice
Contract with supplier
Convention des Marchandises Routiers -- CMR (Transport document)
Customs import declaration
Shipping invoice
Transit document

ENFORCING CONTRACTS

Well-functioning courts help businesses expand their network and markets. Without effective contract enforcement, people might well do business only with family, friends and others with whom they have established relationships. Where contract enforcement is efficient, firms are more likely to engage with new borrowers or customers, and they have greater access to credit.

What do the indicators cover?

Doing Business measures the efficiency of the judicial system in resolving a commercial dispute before local courts. Following the step-by-step evolution of a standardized case study, it collects data relating to the time, cost and procedural complexity of resolving a commercial lawsuit. The ranking on the ease of enforcing contracts is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

The dispute in the case study involves the breach of a sales contract between 2 domestic businesses. The case study assumes that the court hears an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. To make the data comparable across economies, *Doing Business* uses several assumptions about the case:

- The seller and buyer are located in the economy's largest business city.
- The buyer orders custom-made goods, then fails to pay.
- The seller sues the buyer before a competent court.
- The value of the claim is 200% of income per capita.
- The seller requests a pretrial attachment to secure the claim.

WHAT THE ENFORCING CONTRACTS INDICATORS MEASURE

Procedures to enforce a contract through the courts (number)

Any interaction between the parties in a commercial dispute, or between them and the judge or court officer

Steps to file and serve the case

Steps for trial and judgment

Steps to enforce the judgment

Time required to complete procedures (calendar days)

Time to file and serve the case

Time for trial and obtaining judgment

Time to enforce the judgment

Cost required to complete procedures (% of claim)

No bribes

Average attorney fees

Court costs

Enforcement costs

- The dispute on the quality of the goods requires an expert opinion.
- The judge decides in favor of the seller; there is no appeal.
- The seller enforces the judgment through a public sale of the buyer's movable assets.

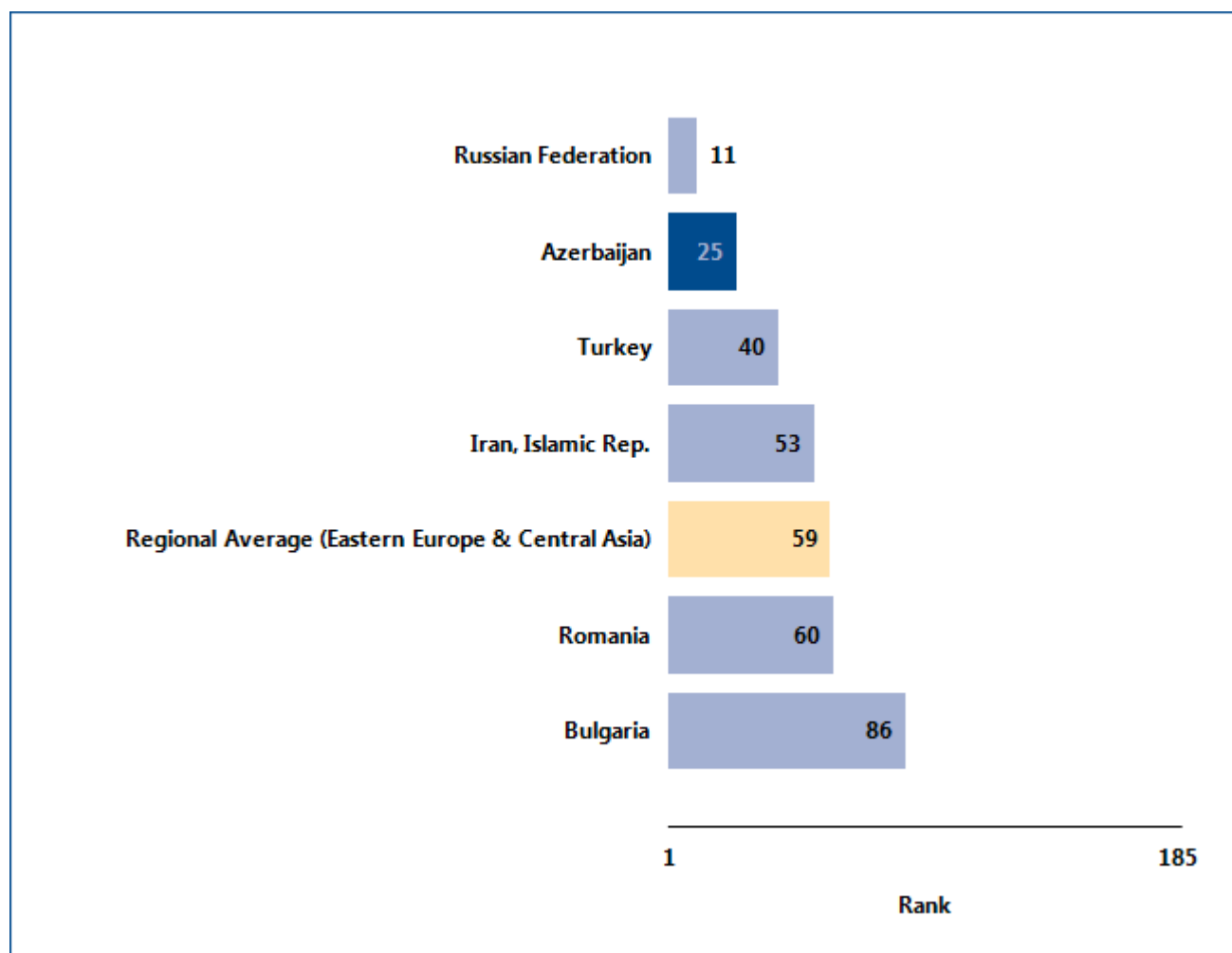
ENFORCING CONTRACTS

Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Azerbaijan? According to data collected by *Doing Business*, enforcing a contract takes 237 days, costs 18.5% of the value of the claim and requires 39 procedures (see the summary at the end of this chapter for details).

Globally, Azerbaijan stands at 25 in the ranking of 185 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Azerbaijan.

Figure 10.1 How Azerbaijan and comparator economies rank on the ease of enforcing contracts



Source: *Doing Business* database.

ENFORCING CONTRACTS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to enforce a contract in Azerbaijan today, data on the underlying indicators

over time help identify which areas have changed and where the potential for improvement is greatest (table 10.1).

Table 10.1 The ease of enforcing contracts in Azerbaijan over time

By *Doing Business* report year

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	..	..	24	25
Time (days)	267	267	267	267	267	237	237	237	237	237
Cost (% of claim)	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5
Procedures (number)	39	39	39	39	39	39	39	39	39	39

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year.

Source: *Doing Business* database.

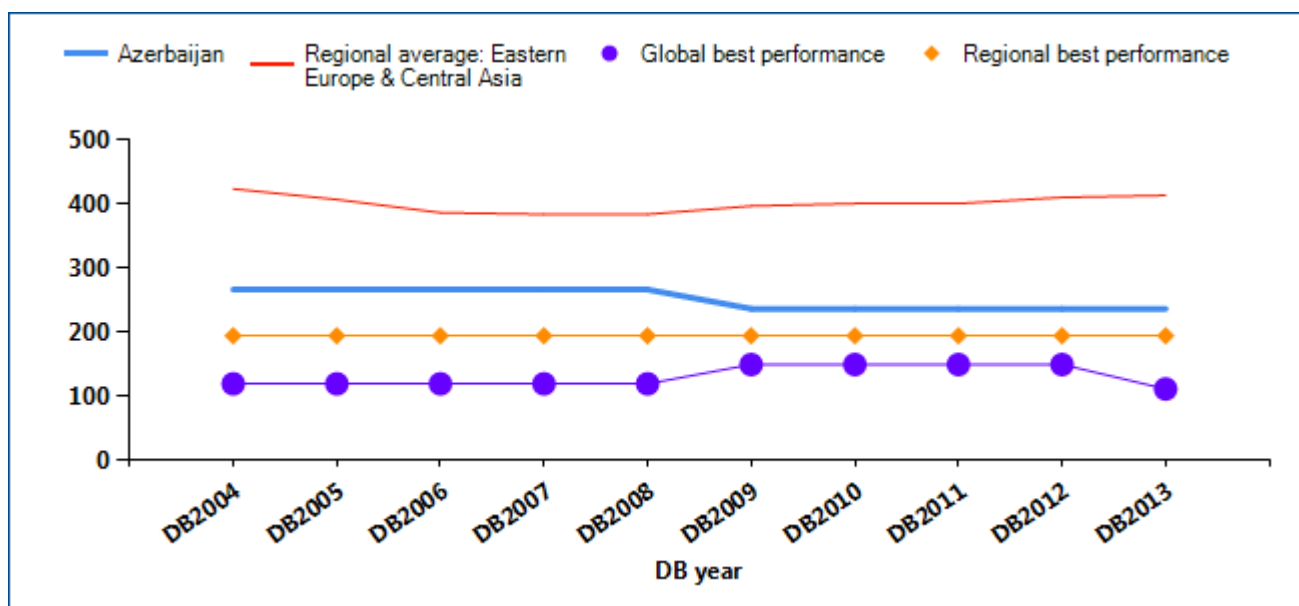
ENFORCING CONTRACTS

Equally helpful may be the benchmarks provided by the economies that over time have had the best performance regionally or globally on the number of steps, time or cost required to enforce a contract through the courts (figure 10.2). These benchmarks

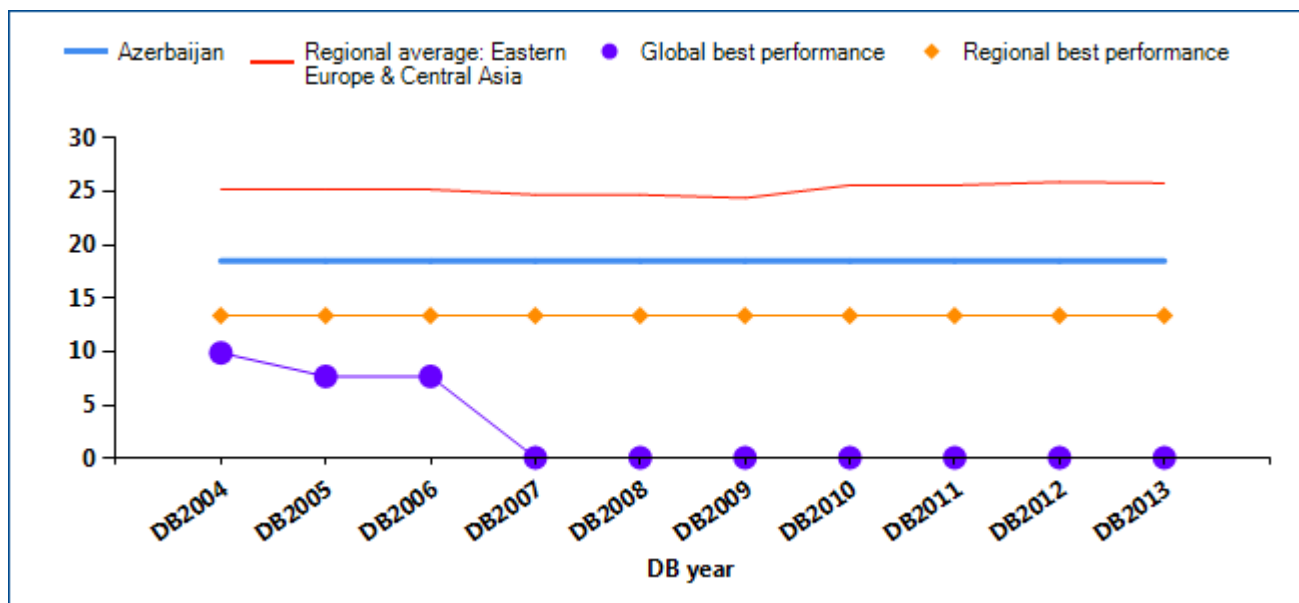
help show what is possible in improving the efficiency of contract enforcement. And changes in regional averages can show where Azerbaijan is keeping up—and where it is falling behind.

Figure 10.2 Has enforcing contracts become easier over time?

Time (days)

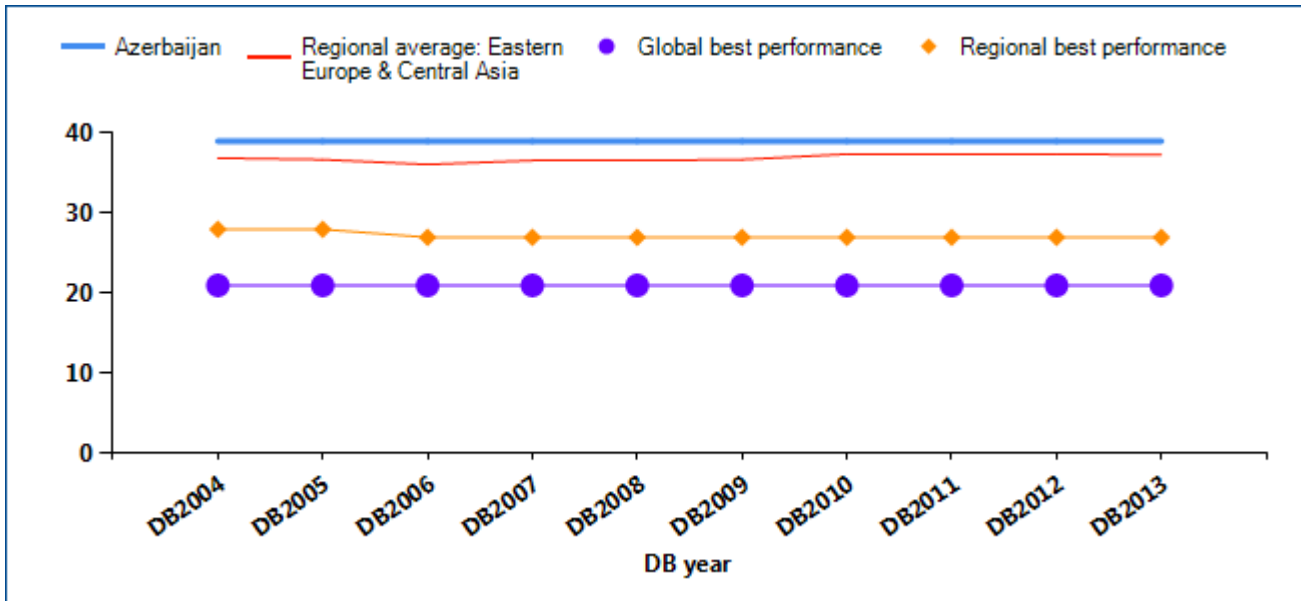


Cost (% of claim)



ENFORCING CONTRACTS

Procedures (number)



Source: Doing Business database.

ENFORCING CONTRACTS

Economies in all regions have improved contract enforcement in recent years. A judiciary can be improved in different ways. Higher-income economies tend to look for ways to enhance efficiency by introducing new technology. Lower-income economies

often work on reducing backlogs by introducing periodic reviews to clear inactive cases from the docket and by making procedures faster. What reforms making it easier (or more difficult) to enforce contracts has *Doing Business* recorded in Azerbaijan (table 10.2)?

Table 10.2 How has Azerbaijan made enforcing contracts easier—or not?

By *Doing Business* report year

DB year	Reform
DB2008	No reform as measured by Doing Business.
DB2009	Azerbaijan created a second commercial court in Baku, increasing the number of specialized judges from 5 to 9. The time to enforce a contract through the courts decreased from 267 to 237 days.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

ENFORCING CONTRACTS

What are the details?

The indicators reported here for Azerbaijan are based on a set of specific procedural steps required to resolve a standardized commercial dispute through the courts (see the section in this chapter on what the indicators cover). These procedures, and the time and cost of completing them, are identified through study of the codes of civil procedure and other court regulations, as well as through surveys completed by local litigation lawyers (and, in a quarter of the economies covered by *Doing Business*, by judges as well).

COMPETENT COURT

City: **Baku**

The procedures for resolving a commercial lawsuit, and the associated time and cost, are listed in the summary below.

Summary of procedures for enforcing a contract in Azerbaijan—and the time and cost

Indicator	Azerbaijan	Eastern Europe & Central Asia average	OECD high income average
Time (days)	237	414	510
Filing and service	27		
Trial and judgment	120		
Enforcement of judgment	90		
Cost (% of claim)	18.5	25.8	20.1
Attorney cost (% of claim)	16.4		
Court cost (% of claim)	1.1		
Enforcement Cost (% of claim)	1.0		
Procedures (number)	39	37	31

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

ENFORCING CONTRACTS

No.	Procedure
	Filing and service:
1	Plaintiff requests payment: Plaintiff or his lawyer asks Defendant orally or in writing to comply with the contract.
*	Plaintiff's filing of summons and complaint: Plaintiff files his summons and complaint with the court, orally or in writing.
*	Plaintiff's payment of court fees: Plaintiff pays court duties, stamp duties, or any other type of court fee.
2	Registration of court case: The court administration registers the lawsuit or court case. This includes assigning a reference number to the lawsuit or court case.
*	Assignment of court case to a judge: The court case is assigned to a specific judge through a random procedure, automated system, ruling of an administrative judge, court officer, etc.
3	Court scrutiny of summons and complaint: A judge examines Plaintiff's summons and complaint for formal requirements.
*	Judge admits summons and complaint: After verifying the formal requirements, the judge decides to admit Plaintiff's summons and complaint.
4	Plaintiff's request for service: Plaintiff makes a written request to the court that process be served on Defendant.
5	Court order for service: Upon Plaintiff's request, judge orders process be served on Defendant.
6	Delivery of summons and complaint to person authorized to perform service of process on Defendant: The judge or a court officer delivers the summons to a summoning office, officer, or authorized person (including Plaintiff), for service of process on Defendant.
*	Arrangements for physical delivery of summons and complaint: Plaintiff takes whatever steps are necessary to arrange for physical service of process on Defendant, such as instructing a court officer or a (private) bailiff.
*	Mailing of summons and complaint: Court or process server, including (private) bailiff, mails summons and complaint to Defendant.
7	First attempt at physical delivery: A first attempt to physically deliver summons and complaint to Defendant is successful in the majority of cases.
*	Proof of service: Plaintiff submits proof of service to court.
*	Application for pre-judgment attachment: Plaintiff submits an application in writing for the attachment of Defendant's property prior to judgment. (see assumption 5)
*	Decision on pre-judgment attachment: The judge decides whether to grant Plaintiff's request for pre-judgment attachment of Defendant's property and notifies Plaintiff and Defendant of the decision. This step may include requesting that Plaintiff submit guarantees or bonds to secure Defendant
8	Guarantees securing attached property: Plaintiff typically submits guarantees or bonds to secure Defendant against possible damages to attached property. (see assumption 5)

No.	Procedure
9	Pre-judgment attachment.: Defendant's property is attached prior to judgment. Attachment is either physical or achieved by registering, marking, debiting or separating assets. (see assumption 5)
10	Report on pre-judgment attachment: Court enforcement officer or (private) bailiff issues and delivers a report on the attachment of Defendant's property to the judge. (see assumption 5)
11	Hearing on pre-judgment attachment: A hearing takes place to resolve the question of whether Defendant's assets can be attached prior to judgment. This process may include the submission of separate summons and petitions. (see assumption 5)
Trial and judgment:	
*	Defendant's filing of preliminary exemptions: Defendant presents preliminary exemptions to the court. Preliminary exemptions differ from answers on the merits of the claim. Examples of preliminary exemptions are statute of limitations, jurisdictions, etc.
*	Plaintiff's answer to preliminary exemptions: Plaintiff responds to the preliminary exemptions raised by Defendant.
12	Defendant's filing of defense or answer to Plaintiff's claim: Defendant files a written pleading which includes his defense or answer on the merits of the case. Defendant's written answer may or may not include witness statements, expert statements, the documents Defendant relies on as evidence and the legal authority
13	Deadline for Plaintiff to answer Defendant's defense or answer: Judge sets the deadline by which Plaintiff will be allowed to answer Defendant's defense or answer.
14	Plaintiff's written response to Defendant's defense or answer: Plaintiff responds to Defendant's defense or answer with a written pleading. Plaintiff's answer may or may not include a witness statements or expert (witness) statements.
15	Filing of pleadings: Plaintiff and Defendant file written pleadings and submissions with the court and transmit copies of the written pleadings or submissions to one another. The pleadings may or may not include witness statements or expert (witness) statements.
16	Adjournments: Court procedure is delayed because one or both parties request and obtain an adjournment to submit written pleadings.
*	Court appointment of independent expert: Judge appoints, either at the parties' request or at his own initiative, an independent expert to decide whether the quality of the goods Plaintiff delivered to Defendant is adequate. (see assumption 6-b of this case)
17	Notification of court-appointment of independent expert: The court notifies both parties that the court is appointing an independent expert. (see assumption 6-b of this case)
*	Delivery of expert report by court-appointed expert: The independent expert appointed by the court delivers his or her expert report to the court. (see assumption 6-b of this case)
*	Setting of date(s) for oral hearing or trial: The judge sets the date(s) for the oral hearing or trial.
18	Preliminary hearing aimed at preparing for the oral hearing: The judge meets the parties to make practical arrangements for the oral hearing on the merits of the case.
*	List of (expert) witnesses: The parties file a list of (expert) witnesses with the court. (see assumption 6-a)

No.	Procedure
19	Summoning of (expert) witnesses: The court summons (expert) witnesses to appear in court for the oral hearing or trial. (see assumption 6-a)
20	Adjournments: Court proceedings are delayed because one or both parties request and obtain an adjournment to prepare for the oral hearing or trial.
21	Oral hearing (prevalent in civil law): The parties argue the merits of the case at an oral hearing before the judge. Witnesses and a court-appointed independent expert may be heard and questioned at the oral hearing.
22	Adjournments: Court proceedings are delayed because one or both parties request and obtain an adjournment during the oral hearing or trial, resulting in an additional or later trial or hearing date.
23	Closing of the evidence period: The court makes the formal decision to close the evidence period.
*	Final arguments: The parties present their final factual and legal arguments to the court either by oral presentation or by a written submission.
24	Judgment date: The judge sets a date for delivery of the judgment.
25	Notification of judgment in court: The parties are notified of the judgment at a court hearing.
26	Writing of judgment: The judge produces a written copy of the judgment.
27	Registration of judgment: The court office registers the judgment after receiving a written copy of the judgment.
28	Court notification of availability of the written judgment: The court notifies the parties that the written judgment is available at the courthouse.
29	Plaintiff's receipt of a copy of written judgment: Plaintiff receives a copy of the written judgment.
30	Appeal period: By law, Defendant has the opportunity to appeal the judgment during a period specified in the law. Defendant decides not to appeal. Judgment becomes final the day the appeal period ends.
31	Reimbursement by Defendant of Plaintiff's court fees: The judgment obliges Defendant to reimburse Plaintiff for the court fees Plaintiff has advanced, because Defendant has lost the case.
Enforcement of judgment:	
32	Plaintiff's approaching of court enforcement officer or (private) bailiff to enforce the judgment: To enforce the judgment, Plaintiff approaches a court enforcement officer such as a court bailiff or sheriff, or a private bailiff.
*	Delivery of enforcement order: The court's enforcement order is delivered to a court enforcement officer or a (private) bailiff.
33	Request to Defendant to comply voluntarily with judgment: Plaintiff, a court enforcement officer or a (private) bailiff requests Defendant to voluntarily comply with the judgment, giving Defendant a last chance to comply voluntarily with the judgment.
34	Identification of Defendant's assets for attachment by court official or Defendant: Judge, a court enforcement officer, a (private) bailiff or the Defendant himself identifies Defendant's movable assets for attachment.
35	Notification of intent to attach: A court enforcement officer or (private) bailiff notifies other creditors of the intent to attach Defendant's goods.
36	Attachment: Defendant's movable goods are attached (physically or by registering, marking or separating assets).

No.	Procedure
37	Enforcement disputes before court: The enforcement of the judgment is delayed because Defendant opposes aspects of the enforcement process before the judge.
38	Call for public auction: The judge calls a public auction by, for example, advertising or publication in the newspapers.
39	Sale through public auction: The Defendant's movable property is sold at public auction.
40	Distribution of proceeds: The proceeds of the public auction are distributed to various creditors (including Plaintiff), according to the rules of priority.

* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

RESOLVING INSOLVENCY

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Fast and cheap insolvency proceedings result in the speedy return of businesses to normal operation and increase returns to creditors. By improving the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and thereby improve growth and sustainability in the economy overall.

What do the indicators cover?

Doing Business studies the time, cost and outcome of insolvency proceedings involving domestic entities. It does not measure insolvency proceedings of individuals and financial institutions. The data are derived from survey responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems.

The ranking on the ease of resolving insolvency is based on the recovery rate, which is recorded as cents on the dollar recouped by creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. The recovery rate is a function of time, cost and other factors, such as lending rate and the likelihood of the company continuing to operate.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the case. It assumes that the company:

- Is a domestically owned, limited liability company operating a hotel.
- Operates in the economy's largest business city.

WHAT THE RESOLVING INSOLVENCY INDICATORS MEASURE

Time required to recover debt (years)

Measured in calendar years

Appeals and requests for extension are included

Cost required to recover debt (% of debtor's estate)

Measured as percentage of estate value

Court fees

Fees of insolvency administrators

Lawyers' fees

Assessors' and auctioneers' fees

Other related fees

Recovery rate for creditors (cents on the dollar)

Measures the cents on the dollar recovered by creditors

Present value of debt recovered

Official costs of the insolvency proceedings are deducted

Depreciation of furniture is taken into account

Outcome for the business (survival or not) affects the maximum value that can be recovered

- Has 201 employees, 1 main secured creditor and 50 unsecured creditors.
- Has a higher value as a going concern—and the efficient outcome is either reorganization or sale as a going concern, not piecemeal liquidation.

RESOLVING INSOLVENCY

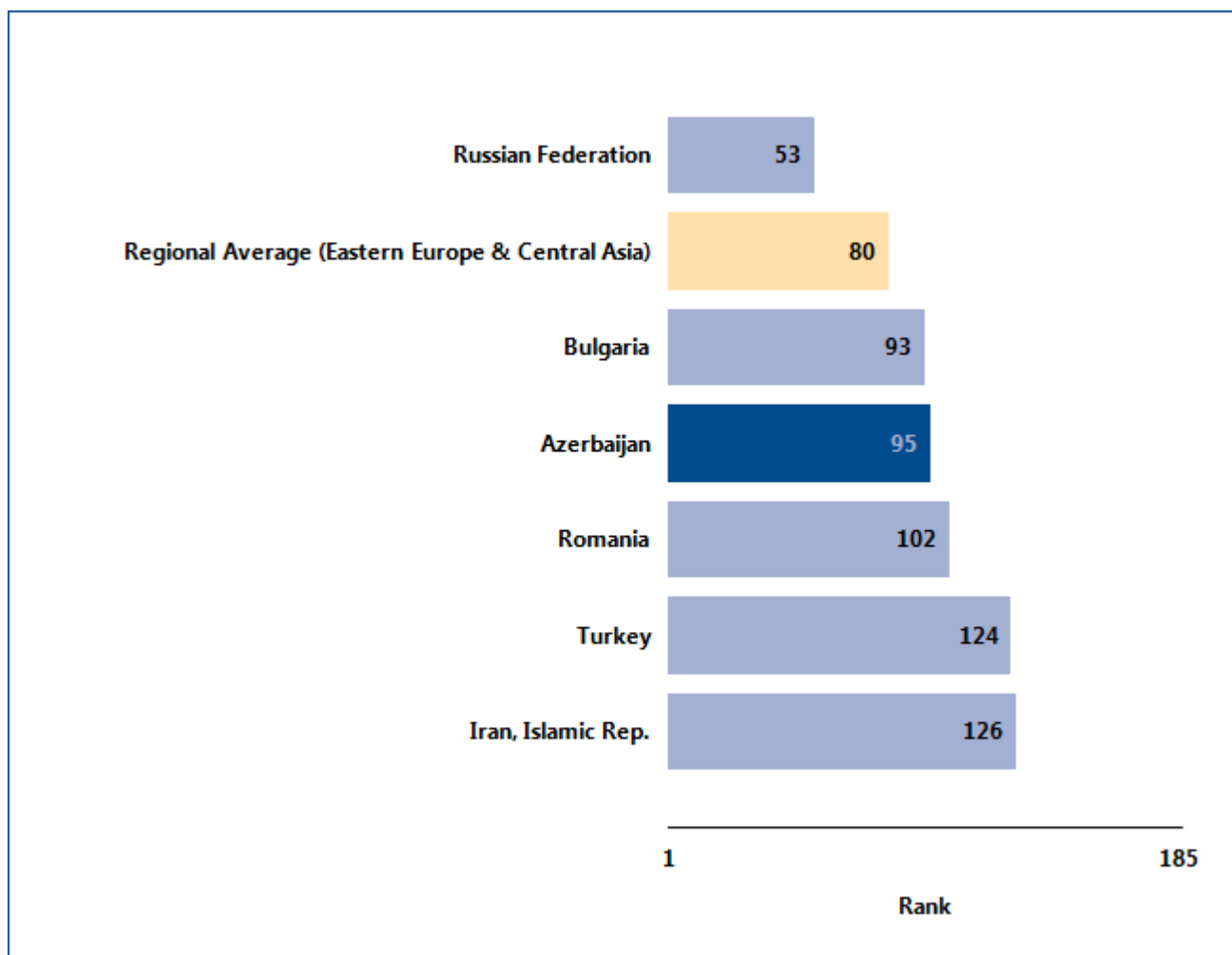
Where does the economy stand today?

Speed, low costs and continuation of viable businesses characterize the top-performing economies. How efficient are insolvency proceedings in Azerbaijan? According to data collected by *Doing Business*, resolving insolvency takes 2.7 years on average and costs 8% of the debtor's estate, with the most likely outcome being that the company will be sold as

piecemeal sale. The average recovery rate is 30.6 cents on the dollar.

Globally, Azerbaijan stands at 95 in the ranking of 185 economies on the ease of resolving insolvency (figure 11.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of insolvency proceedings in Azerbaijan.

Figure 11.1 How Azerbaijan and comparator economies rank on the ease of resolving insolvency



Source: *Doing Business* database.

RESOLVING INSOLVENCY

What are the changes over time?

While the most recent *Doing Business* data reflect the efficiency of insolvency proceedings in Azerbaijan today, data over time show where the efficiency has changed—and where it has not (table 11.1). That can help identify where the potential for improvement is greatest.

Table 11.1 The ease of resolving insolvency in Azerbaijan over time
By *Doing Business* report year

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013
Rank	..	..	..	..	..	..	..	..	99	95
Time (years)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Cost (% of estate)	8	8	8	8	8	8	8	8	8	8
Recovery rate (cents on the dollar)	33.4	33.2	33.0	32.5	31.5	30.1	30.1	28.8	29.7	30.6

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings shown are not last year's published rankings but comparable rankings for DB2012 that capture the effects of such factors as data corrections and the addition of 2 economies (Barbados and Malta) to the sample this year. "No practice" indicates that in each of the previous 5 years the economy had no cases involving a judicial reorganization, judicial liquidation or debt enforcement procedure (foreclosure). This means that creditors are unlikely to recover their money through a formal legal process (in or out of court). The recovery rate for "no practice" economies is 0.

Source: *Doing Business* database.

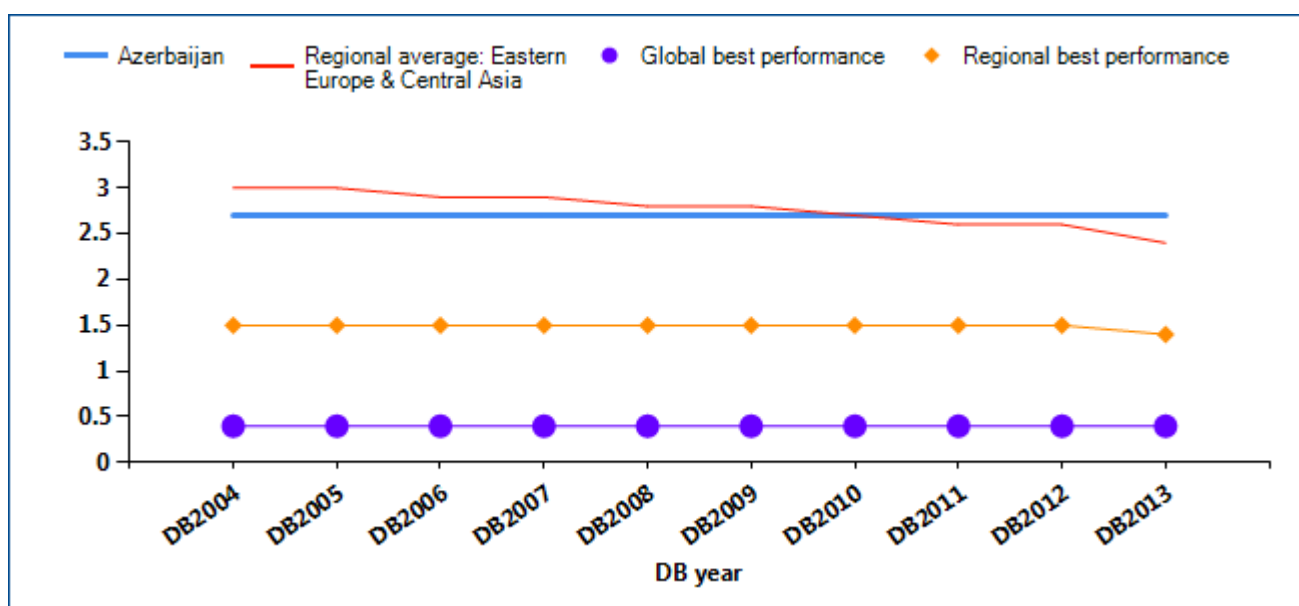
RESOLVING INSOLVENCY

Equally helpful may be the benchmarks provided by the economies that over time have had the best performance regionally or globally on the time or cost of insolvency proceedings or on the recovery rate (figure 11.2). These benchmarks help show what is

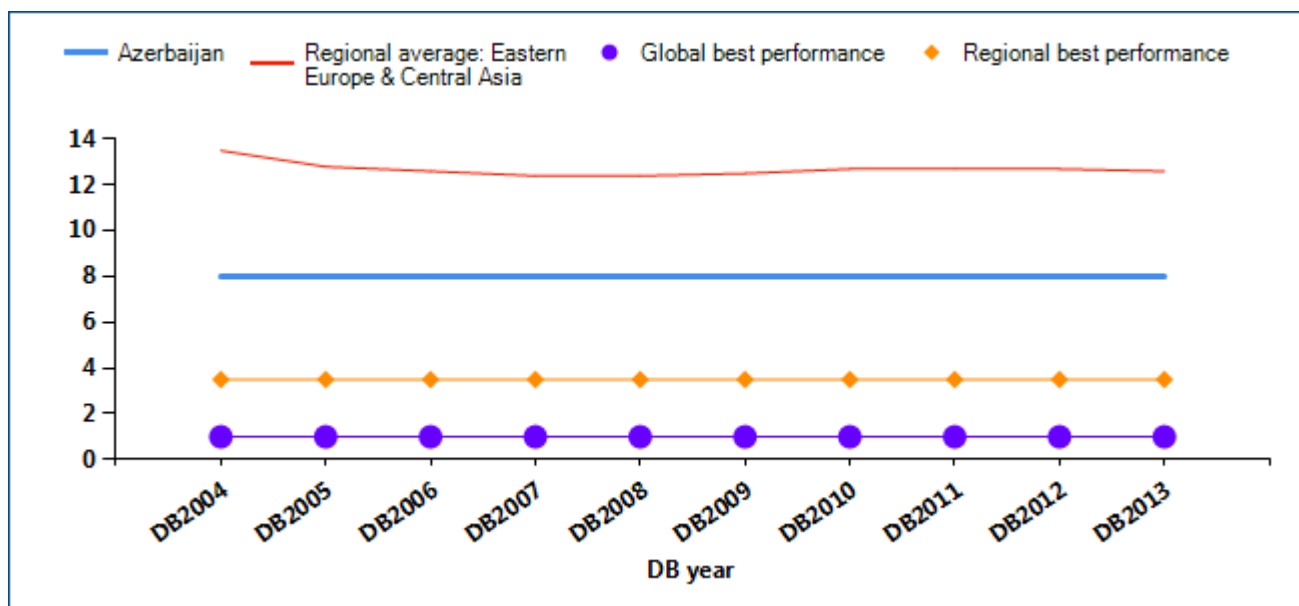
possible in improving the efficiency of insolvency proceedings. And changes in regional averages can show where Azerbaijan is keeping up—and where it is falling behind.

Figure 11.2 Has resolving insolvency become easier over time?

Time (years)

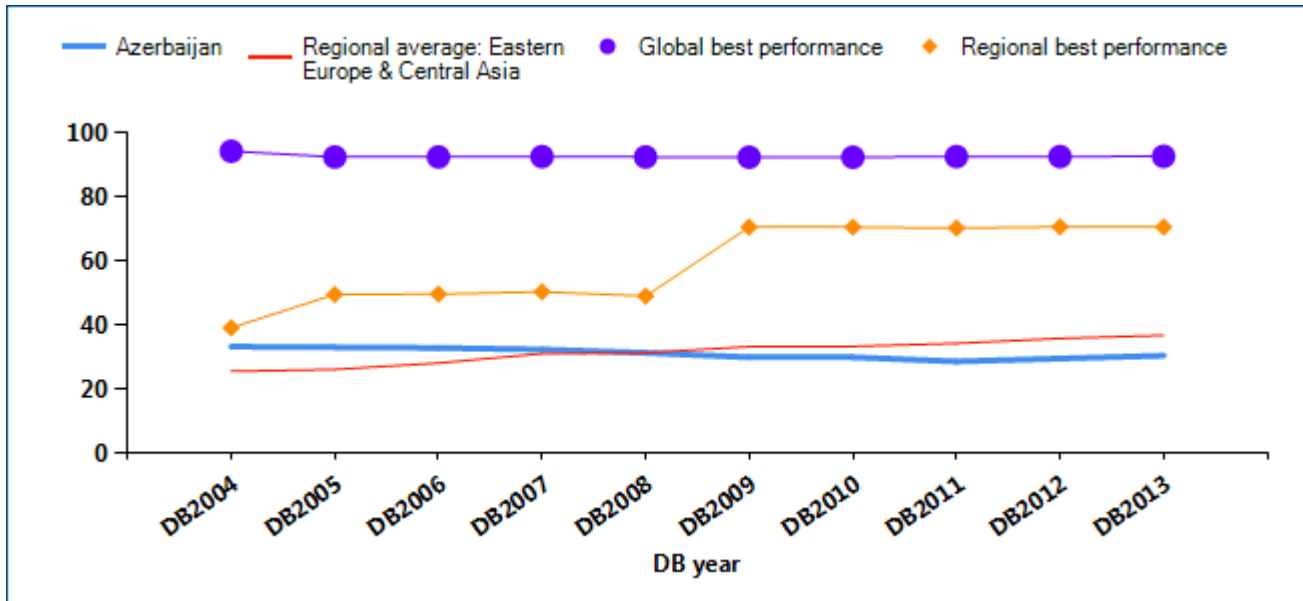


Cost (% of estate)



RESOLVING INSOLVENCY

Recovery rate (cents on the dollar)



Note: Regional averages on time and cost exclude economies with a “no practice” mark.

Source: Doing Business database.

RESOLVING INSOLVENCY

A well-balanced bankruptcy system distinguishes companies that are financially distressed but economically viable from inefficient companies that should be liquidated. But in some insolvency systems even viable businesses are liquidated. This is starting to

change. Many recent reforms of bankruptcy laws have been aimed at helping more of the viable businesses survive. What insolvency reforms has *Doing Business* recorded in Azerbaijan (table 11.2)?

Table 11.2 How has Azerbaijan made resolving insolvency easier—or not?

By *Doing Business* report year

DB year	Reform
DB2008	No reform as measured by Doing Business.
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

EMPLOYING WORKERS

Doing Business measures flexibility in the regulation of employment, specifically as it affects the hiring and redundancy of workers and the rigidity of working hours. From 2007 to 2011 improvements were made to align the methodology for the employing workers indicators with the letter and spirit of the International Labour Organization (ILO) conventions. Only 4 of the 188 ILO conventions cover areas measured by *Doing Business*: employee termination, weekend work, holiday with pay and night work. The *Doing Business* methodology is fully consistent with these 4 conventions. The ILO conventions covering areas related to the employing workers indicators do not include the ILO core labor standards—8 conventions covering the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices.

Between 2009 and 2011 the World Bank Group worked with a consultative group—including labor lawyers, employer and employee representatives, and experts from the ILO, the Organisation for Economic Co-operation and Development, civil society and the private sector—to review the employing workers methodology and explore future areas of research.

A full report with the conclusions of the consultative group is available at <http://www.doingbusiness.org/methodology/employing-workers>.

Doing Business 2013 does not present rankings of economies on the employing workers indicators or include the topic in the aggregate ranking on the ease of doing business. The report does present the data on the employing workers indicators in an annex. Detailed data collected on labor regulations are available on the *Doing Business* website (<http://www.doingbusiness.org>).

Particular data for Azerbaijan are presented here without scoring.

To make the data on employing workers comparable across economies, several assumptions about the worker and the business are used.

The worker:

- Earns a salary plus benefits equal to the economy's average wage during the entire period of his employment.
- Has a pay period that is the most common for workers in the economy.
- Is a lawful citizen who belongs to the same race and religion as the majority of the economy's population.
- Resides in the economy's largest business city.
- Is not a member of a labor union, unless membership is mandatory.

The business:

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically owned.
- Operates in the manufacturing sector.
- Has 60 employees.
- Is subject to collective bargaining agreements in economies where such agreements cover more than half the manufacturing sector and apply even to firms not party to them.
- Abides by every law and regulation but does not grant workers more benefits than mandated by law, regulation or (if applicable) collective bargaining agreement.

EMPLOYING WORKERS

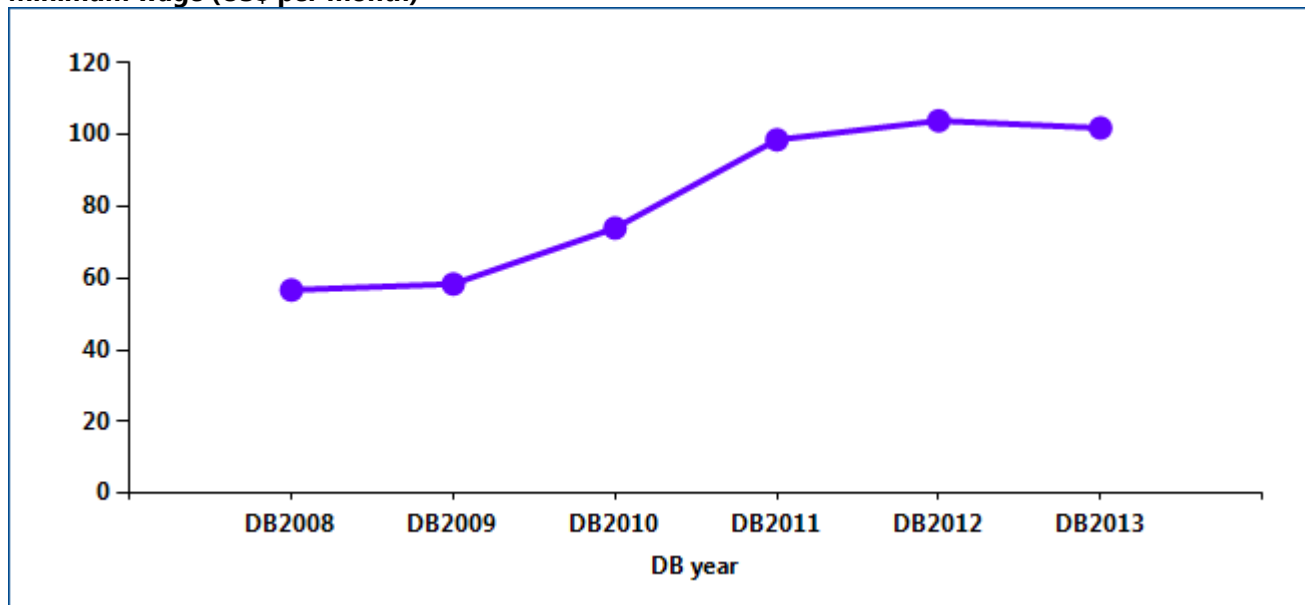
What do some of the data show?

One of the employing workers indicators is the difficulty of hiring index. This measure assesses, among other things, the minimum wage for a 19-year-old

worker in his or her first job. *Doing Business* data show the trend in the minimum wage applied by Azerbaijan (figure 12.1).

Figure 12.1 Has the minimum wage for a 19-year-old worker or an apprentice increased over time?

Minimum wage (US\$ per month)



Note: A horizontal line along the x-axis of the figure indicates that the economy has no minimum wage.

Source: *Doing Business* database.

EMPLOYING WORKERS

Employment laws are needed to protect workers from arbitrary or unfair treatment and to ensure efficient contracting between employers and workers. Many economies that changed their labor regulations in the

past 4 years did so in ways that increased labor market flexibility. What changes did Azerbaijan adopt that affected the *Doing Business* indicators on employing workers (table 12.1)?

Table 12.1 What changes did Azerbaijan make in employing workers in 2012?

Reform
No reform as measured by Doing Business.

Source: *Doing Business* database.

EMPLOYING WORKERS

What are the details?

The data on employing workers reported here for Azerbaijan are based on a detailed survey of employment regulations that is completed by local

lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

Rigidity of employment index

The rigidity of employment index measures 3 areas of labor regulation: difficulty of hiring, rigidity of hours and difficulty of redundancy.

Difficulty of hiring index

The difficulty of hiring index measures whether fixed-term contracts are prohibited for permanent tasks; the maximum cumulative duration of fixed-term contracts; and the ratio of the minimum wage for a trainee or first-time employee to the average value added per

worker. (The average value added per worker is the ratio of an economy's gross national income per capita to the working-age population as a percentage of the total population.)

Difficulty of hiring index	Data
Fixed-term contracts prohibited for permanent tasks?	No
Maximum length of a single fixed-term contract (months)	60 uninterrupted months (Article 45.5), after expiration of which the contract is turning into an indefinite-term contract .
Maximum length of fixed-term contracts, including renewals (months)	60
Minimum wage for a 19-year old worker or an apprentice (US\$/month)	101.9
Ratio of minimum wage to value added per worker	0.17

Source: *Doing Business* database.

EMPLOYING WORKERS

Rigidity of hours index

The rigidity of hours index has 5 components: whether there are restrictions on night work; whether there are restrictions on weekly holiday work; whether the workweek can consist of 5.5 days or is more than 6 days; whether the workweek can extend to 50 hours or more (including overtime) for 2 months a year to

respond to a seasonal increase in production; and whether the average paid annual leave for a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is more than 26 working days or fewer than 15 working days.

Rigidity of hours index	Data
Standard workday in manufacturing (hours)	8 hours
50-hour workweek allowed for 2 months a year in case of a seasonal increase in production?	Yes
Maximum working days per week	6.0
Premium for night work (% of hourly pay) in case of continuous operations	40%
Premium for work on weekly rest day (% of hourly pay) in case of continuous operations	150%
Major restrictions on night work in case of continuous operations?	Yes
Major restrictions on weekly holiday in case of continuous operations?	No
Paid annual leave for a worker with 1 year of tenure (in working days)	15.0
Paid annual leave for a worker with 5 years of tenure (in working days)	17.0
Paid annual leave for a worker with 10 years of tenure (in working days)	19.0
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	17.0

Source: *Doing Business* database.

EMPLOYING WORKERS

Difficulty of redundancy index

The difficulty of redundancy index has 8 components: whether redundancy is disallowed as a basis for terminating workers; whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; whether the employer needs to notify a third party to terminate a group of 9 redundant workers; whether the employer needs approval from a third party to terminate 1 redundant

worker; whether the employer needs approval from a third party to terminate a group of 9 redundant workers; whether the law requires the employer to reassign or retrain a worker before making the worker redundant; whether priority rules apply for redundancies; and whether priority rules apply for reemployment.

Difficulty of redundancy index	Data
Dismissal due to redundancy allowed by law?	Yes
Third-party notification if 1 worker is dismissed?	No
Third-party approval if 1 worker is dismissed?	No
Third-party notification if 9 workers are dismissed?	No
Third-party approval if 9 workers are dismissed?	No
Retraining or reassignment obligation before redundancy?	No
Priority rules for redundancies?	Yes
Priority rules for reemployment?	No

Source: *Doing Business* database.

EMPLOYING WORKERS

Redundancy cost

The redundancy cost indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. The average value of

notice requirements and severance payments applicable to a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is used to assign the score.

Redundancy cost indicator	Data
Notice period for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	8.7
Notice period for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	8.7
Notice period for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)	8.7
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	8.7
Severance pay for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	13.0
Severance pay for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	13.0
Severance pay for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)	13.0
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	13.0

Source: Doing Business database.

DATA NOTES

The indicators presented and analyzed in *Doing Business* measure business regulation and the protection of property rights—and their effect on businesses, especially small and medium-size domestic firms. First, the indicators document the complexity of regulation, such as the number of procedures to start a business or to register and transfer commercial property. Second, they gauge the time and cost of achieving a regulatory goal or complying with regulation, such as the time and cost to enforce a contract, go through bankruptcy or trade across borders. Third, they measure the extent of legal protections of property, for example, the protections of investors against looting by company directors or the range of assets that can be used as collateral according to secured transactions laws. Fourth, a set of indicators documents the tax burden on businesses. Finally, a set of data covers different aspects of employment regulation.

The data for all sets of indicators in *Doing Business 2013* are for June 2012.²

Methodology

The *Doing Business* data are collected in a standardized way. To start, the *Doing Business* team, with academic advisers, designs a questionnaire. The questionnaire uses a simple business case to ensure comparability across economies and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Questionnaires are administered through more than 9,600 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements. These experts have several rounds of interaction with the *Doing Business* team, involving conference calls, written correspondence and visits by the team. For *Doing Business 2013* team members visited 24 economies to verify data and recruit respondents. The data from questionnaires are subjected to numerous rounds of verification, leading to revisions or expansions of the information collected.

² The data for paying taxes refer to January – December 2011.

ECONOMY CHARACTERISTICS

Gross national income per capita

Doing Business 2013 reports 2011 income per capita as published in the World Bank's *World Development Indicators 2012*. Income is calculated using the Atlas method (current US\$). For cost indicators expressed as a percentage of income per capita, 2011 gross national income (GNI) in U.S. dollars is used as the denominator. GNI data were not available from the World Bank for Afghanistan; Australia; The Bahamas; Bahrain; Barbados; Brunei Darussalam; Cyprus; Djibouti; Guyana; the Islamic Republic of Iran; Kuwait; Malta; New Zealand; Oman; Puerto Rico (territory of the United States); Sudan; Suriname; the Syrian Arab Republic; Timor-Leste; West Bank and Gaza; and the Republic of Yemen. In these cases GDP or GNP per capita data and growth rates from the International Monetary Fund's World Economic Outlook database and the Economist Intelligence Unit were used.

Region and income group

Doing Business uses the World Bank regional and income group classifications, available at <http://data.worldbank.org/about/country-classifications>. The World Bank does not assign regional classifications to high-income economies. For the purpose of the *Doing Business* report, high-income OECD economies are assigned the "regional" classification *OECD high income*. Figures and tables presenting regional averages include economies from all income groups (low, lower middle, upper middle and high income).

Population

Doing Business 2013 reports midyear 2011 population statistics as published in *World Development Indicators 2012*.

The *Doing Business* methodology offers several advantages. It is transparent, using factual information about what laws and regulations say and allowing multiple interactions with local respondents to clarify potential misinterpretations of questions. Having

representative samples of respondents is not an issue; *Doing Business* is not a statistical survey, and the texts of the relevant laws and regulations are collected and answers checked for accuracy. The methodology is inexpensive and easily replicable, so data can be collected in a large sample of economies. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. Finally, the data not only highlight the extent of specific regulatory obstacles to business but also identify their source and point to what might be reformed.

Information on the methodology for each *Doing Business* topic can be found on the *Doing Business* website at <http://www.doingbusiness.org/methodology/>.

Limits to what is measured

The *Doing Business* methodology has 5 limitations that should be considered when interpreting the data. First, the collected data refer to businesses in the economy's largest business city (which in some economies differs from the capital) and may not be representative of regulation in other parts of the economy. To address this limitation, subnational *Doing Business* indicators were created (see the section on subnational *Doing Business* indicators). Second, the data often focus on a specific business form—generally a limited liability company (or its legal equivalent) of a specified size—and may not be representative of the regulation on other businesses, for example, sole proprietorships. Third, transactions described in a standardized case scenario refer to a specific set of issues and may not represent the full set of issues a business encounters. Fourth, the measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median values of several responses given under the assumptions of the standardized case.

Finally, the methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing a procedure may take longer if the business lacks information or is unable to follow up promptly. Alternatively, the business may choose to disregard some burdensome procedures. For both reasons the time delays reported in *Doing Business*

2013 would differ from the recollection of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

Subnational *Doing Business* indicators

This year *Doing Business* completed subnational studies for Indonesia, Kenya, Mexico, the Russian Federation and the United Arab Emirates. Each of these countries had already asked to have subnational data in the past, and this year *Doing Business* updated the indicators, measured improvements over time and expanded geographic coverage to additional cities or added additional indicators. *Doing Business* also published regional studies for the Arab world, the East African Community and member states of the Organization for the Harmonization of Business Law in Africa (OHADA).

The subnational studies point to differences in business regulation and its implementation—as well as in the pace of regulatory reform—across cities in the same economy. For several economies subnational studies are now periodically updated to measure change over time or to expand geographic coverage to additional cities. This year that is the case for all the subnational studies published.

Changes in what is measured

The ranking methodology for paying taxes was updated this year. The threshold for the total tax rate introduced last year for the purpose of calculating the ranking on the ease of paying taxes was updated. All economies with a total tax rate below the threshold (which is calculated and adjusted on a yearly basis) receive the same ranking on the total tax rate indicator. The threshold is not based on any economic theory of an “optimal tax rate” that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through

taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). Giving the same ranking to all economies whose total tax rate is below the threshold avoids awarding economies in the scoring for having an unusually low total tax rate, often for reasons unrelated to government policies toward enterprises. For example, economies that are very small or that are rich in natural resources do not need to levy broad-based taxes.

Data challenges and revisions

Most laws and regulations underlying the *Doing Business* data are available on the *Doing Business* website at <http://www.doingbusiness.org>. All the sample questionnaires and the details underlying the indicators are also published on the website. Questions on the methodology and challenges to data can be submitted through the website's "Ask a Question" function at <http://www.doingbusiness.org>.

Ease of doing business and distance to frontier

Doing Business 2013 presents results for 2 aggregate measures: the aggregate ranking on the ease of doing business and the distance to frontier measure. The ease of doing business ranking compares economies with one another, while the distance to frontier measure benchmarks economies to the frontier in regulatory practice, measuring the absolute distance to the best performance on each indicator. Both measures can be used for comparisons over time. When compared across years, the distance to frontier measure shows how much the regulatory environment for local entrepreneurs in each economy has changed over time in absolute terms, while the ease of doing business ranking can show only relative change.

Ease of doing business

The ease of doing business index ranks economies from 1 to 185. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the 10 topics included in the index in *Doing Business 2013*: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting

investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. The employing workers indicators are not included in this year's aggregate ease of doing business ranking. In addition to this year's ranking, *Doing Business* presents a comparable ranking for the previous year, adjusted for any changes in methodology as well as additions of economies or topics.³

Construction of the ease of doing business index

Here is one example of how the ease of doing business index is constructed. In Finland it takes 3 procedures, 14 days and 4% of annual income per capita in fees to register a property. On these 3 indicators Finland ranks in the 6th, 16th and 39th percentiles. So on average Finland ranks in the 20th percentile on the ease of registering property. It ranks in the 30th percentile on starting a business, 28th percentile on getting credit, 24th percentile on paying taxes, 13th percentile on enforcing contracts, 5th percentile on trading across borders and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Finland's percentile rankings on all topics is 21st. When all economies are ordered by their average percentile rankings, Finland stands at 11 in the aggregate ranking on the ease of doing business.

More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly identical to the simple average used by *Doing Business*.⁴ Thus, *Doing Business* uses the simplest method: weighting all topics equally and,

³ In case of revisions to the methodology or corrections to the underlying data, the data are back-calculated to provide a comparable time series since the year the relevant economy or topic was first included in the data set. The time series is available on the *Doing Business* website (<http://www.doingbusiness.org>). Six topics and more than 50 economies have been added since the inception of the project. Earlier rankings on the ease of doing business are therefore not comparable.

⁴ See Simeon Djankov, Darshini Manraj, Caralee McLiesh and Rita Ramalho, "Doing Business Indicators: Why Aggregate, and How to Do It" (World Bank, Washington, DC, 2005). Principal components and unobserved components methods yield a ranking nearly identical to that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.

within each topic, giving equal weight to each of the topic components.⁵

If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a “no practice” mark. Similarly, an economy receives a “no practice” or “not possible” mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a “no practice” mark puts the economy at the bottom of the ranking on the relevant indicator.

The ease of doing business index is limited in scope. It does not account for an economy’s proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders and getting electricity), the strength of its financial system, the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions.

Variability of economies’ rankings across topics

Each indicator set measures a different aspect of the business regulatory environment. The rankings of an economy can vary, sometimes significantly, across indicator sets. The average correlation coefficient between the 10 indicator sets included in the aggregate ranking is 0.37, and the coefficients between any 2 sets of indicators range from 0.19 (between dealing with construction permits and getting credit) to 0.60 (between starting a business and protecting investors). These correlations suggest that economies rarely score universally well or universally badly on the indicators.

Consider the example of Canada. It stands at 17 in the aggregate ranking on the ease of doing business. Its ranking is 3 on starting a business, and 4 on both resolving insolvency and protecting investors. But its ranking is only 62 on enforcing contracts, 69 on dealing with construction permits and 152 on getting electricity.

Variation in performance across the indicator sets is not at all unusual. It reflects differences in the degree of priority that government authorities give to particular areas of business regulation reform and the

ability of different government agencies to deliver tangible results in their area of responsibility.

Economies that improved the most across 3 or more Doing Business topics in 2011/12

Doing Business 2013 uses a simple method to calculate which economies improved the most in the ease of doing business. First, it selects the economies that in 2011/12 implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year’s ease of doing business ranking.⁶ Twenty-three economies meet this criterion: Benin, Burundi, Costa Rica, the Czech Republic, Georgia, Greece, Guinea, Kazakhstan, Korea, the Lao People’s Democratic Republic, Liberia, Mongolia, the Netherlands, Panama, Poland, Portugal, Serbia, the Slovak Republic, Slovenia, Sri Lanka, Ukraine, the United Arab Emirates and Uzbekistan. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

Selecting the economies that implemented regulatory reforms in at least 3 topics and improved the most in the aggregate ranking is intended to highlight economies with ongoing, broad-based reform programs.

Distance to frontier measure

A drawback of the ease of doing business ranking is that it can measure the regulatory performance of economies only relative to the performance of others. It does not provide information on how the absolute quality of the regulatory environment is improving over time. Nor does it provide information on how large the gaps are between economies at a single point in time.

The distance to frontier measure is designed to address both shortcomings, complementing the ease of doing business ranking. This measure illustrates the distance of an economy to the “frontier,” and the change in the measure over time shows the extent to which the economy has closed this gap. The frontier is a score derived from the most efficient practice or highest score achieved on each of the component indicators in 9 *Doing Business* indicator sets (excluding

⁵ A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (<http://www.doingbusiness.org>).

⁶ *Doing Business* reforms making it more difficult to do business are subtracted from the total number of those making it easier to do business.

the employing workers and getting electricity indicators) by any economy since 2005. In starting a business, for example, New Zealand has achieved the highest performance on the time (1 day), Canada and New Zealand on the number of procedures required (1), Slovenia on the cost (0% of income per capita) and Australia and 90 other economies on the paid-in minimum capital requirement (0% of income per capita). Calculating the distance to frontier for each economy involves 2 main steps. First, individual indicator scores are normalized to a common unit: except for the total tax rate. To do so, each of the 28 component indicators y is rescaled to $(\max - y)/(\max - \min)$, with the minimum value (min) representing the frontier—the highest performance on that indicator across all economies since 2005. For the total tax rate, consistent with the calculation of the rankings, the frontier is defined as the total tax rate corresponding to the 15th percentile based on the overall distribution of total tax rates for all years. Second, for each economy the scores obtained for individual indicators are aggregated through simple averaging into one distance to frontier score. An economy's distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.

The difference between an economy's distance to frontier score in 2005 and its score in 2012 illustrates the extent to which the economy has closed the gap to the frontier over time. And in any given year the score measures how far an economy is from the highest performance at that time.

The maximum (max) and minimum (min) observed values are computed for the 174 economies included in the *Doing Business* sample since 2005 and for all years (from 2005 to 2012). The year 2005 was chosen as the baseline for the economy sample because it was the first year in which data were available for the majority of economies (a total of 174) and for all 9 indicator sets included in the measure. To mitigate the effects of extreme outliers in the distributions of the rescaled data (very few economies need 694 days to complete the procedures to start a business, but many need 9 days), the maximum (max) is defined as the 95th percentile of the pooled data for all economies and all years for each indicator. The exceptions are the getting credit, protecting investors and resolving insolvency indicators, whose construction precludes outliers.

Take Ghana, which has a score of 67 on the distance to frontier measure for 2012. This score indicates that the economy is 33 percentage points away from the frontier constructed from the best performances across all economies and all years. Ghana was further from the frontier in 2005, with a score of 54. The difference between the scores shows an improvement over time.

The distance to frontier measure can also be used for comparisons across economies in the same year, complementing the ease of doing business ranking. For example, Ghana stands at 64 this year in the ease of doing business ranking, while Peru, which is 29 percentage points from the frontier, stands at 43.

RESOURCES ON THE *DOING BUSINESS* WEBSITE

Current features

News on the *Doing Business* project
<http://www.doingbusiness.org>

Rankings

How economies rank—from 1 to 185
<http://www.doingbusiness.org/rankings/>

Data

All the data for 185 economies—topic rankings, indicator values, lists of regulatory procedures and details underlying indicators
<http://www.doingbusiness.org/data/>

Reports

Access to *Doing Business* reports as well as subnational and regional reports, reform case studies and customized economy and regional profiles
<http://www.doingbusiness.org/reports/>

Methodology

The methodologies and research papers underlying *Doing Business*
<http://www.doingbusiness.org/methodology/>

Research

Abstracts of papers on *Doing Business* topics and related policy issues
<http://www.doingbusiness.org/research/>

***Doing Business* reforms**

Short summaries of DB2013 business regulation reforms, lists of reforms since DB2008 and a ranking simulation tool
<http://www.doingbusiness.org/reforms/>

Historical data

Customized data sets since DB2004
<http://www.doingbusiness.org/custom-query/>

Law library

Online collection of business laws and regulations relating to business and gender issues
<http://www.doingbusiness.org/law-library/>
<http://wbl.worldbank.org/>

Contributors

More than 9,600 specialists in 185 economies who participate in *Doing Business*
<http://www.doingbusiness.org/contributors/doing-business/>

NEW! Entrepreneurship data

Data on business density for 130 economies
<http://www.doingbusiness.org/data/exploretopics/entrepreneurship>

More to come

Coming soon—information on good practices and data on transparency and on the distance to frontier



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