

Survey Analysis On The Current State of The Business Environment and Identifying Expectations

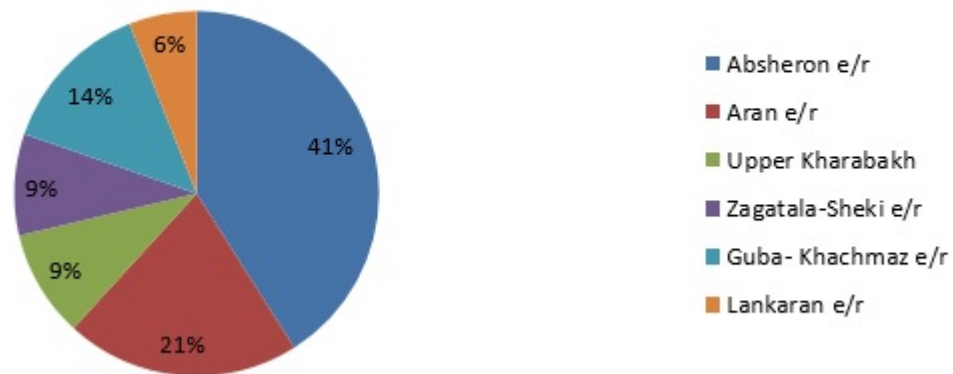
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The survey objective and scope

It is crucial to study business expectations in terms of assessing the business environment in the country and forecasting a near-term perspective. To this end, an expert group at BRI has conducted interviews with 100 entrepreneurs in august-october 2018 from six economic regions of Azerbaijan and different sectors of the economy. Because of its test nature, fewer business subjects were involved in the first survey. At the next stages, much attention will be paid to surveying a large number of businesses.

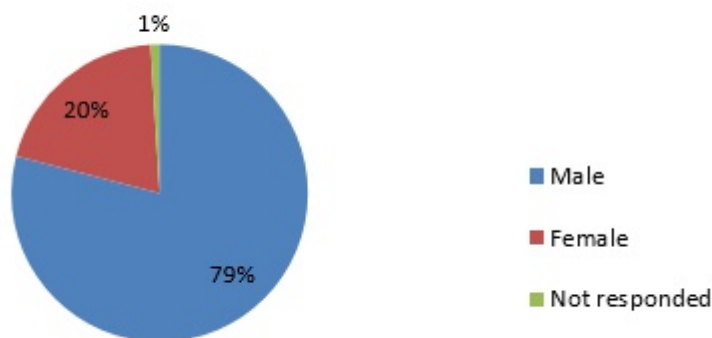
41% of respondents were entrepreneurs from the Absheron economic region, including the capital city of Baku, while 21% were from Aran, 14% Guba-Khachmaz, 9% – Upper Karabakh, 9% Sheki-Zagatala and 6% Lankaran economic regions.

Fig1 Geographical distribution of respondents



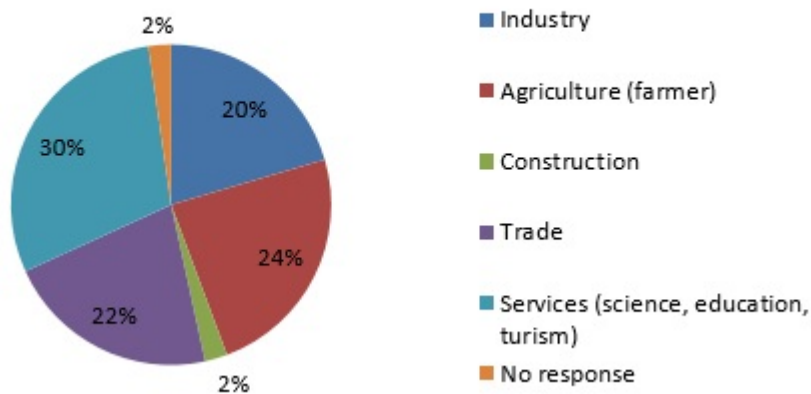
Analysis of the distribution of respondents by sex showed that male respondents were dominant (79%), while female respondents accounted for 20%. 1% of respondents did not specify the sex of either party (see Fig 2).

Fig 2 Distribution by sex



30% of respondents were engaged in industry, 24% in agriculture, 21% in services, and 22% in trade. Among the respondents, there were also entrepreneurs from the construction sector (2%), while 15% from the education, 12% tourism, and 8% from public catering sectors (see Figure 3).

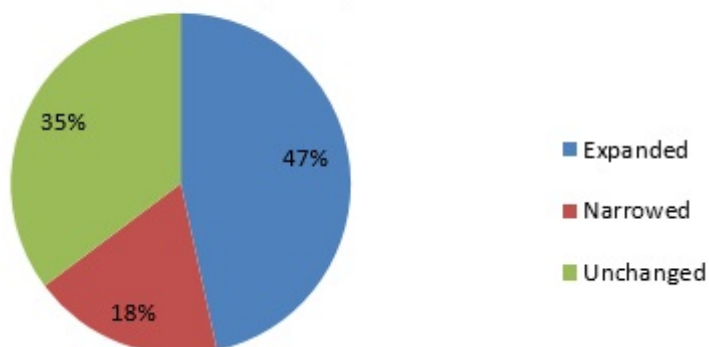
Fig 3 Respondents's sphere of activity



Analysis of survey responses

In response to the question regarding *the state of the business environment*, 47% of respondents said their business *was expanded* in 2017, while 18% claimed that their business *was narrowed*, and 35% ruled out *any change* (see Fig 4).

Fig 4 The state of the business environment during the past year



Sectoral analysis of the business found that the expansion of the business was most observed in *the construction sector* (100%). More than half (52%) of *the agricultural sector* and 46% of *the service sector* said that the situation changed positively. Approximately a third of the representatives from *the industrial* (39%) and *trade sectors* (37%) shared these views (see Figure 4-1).

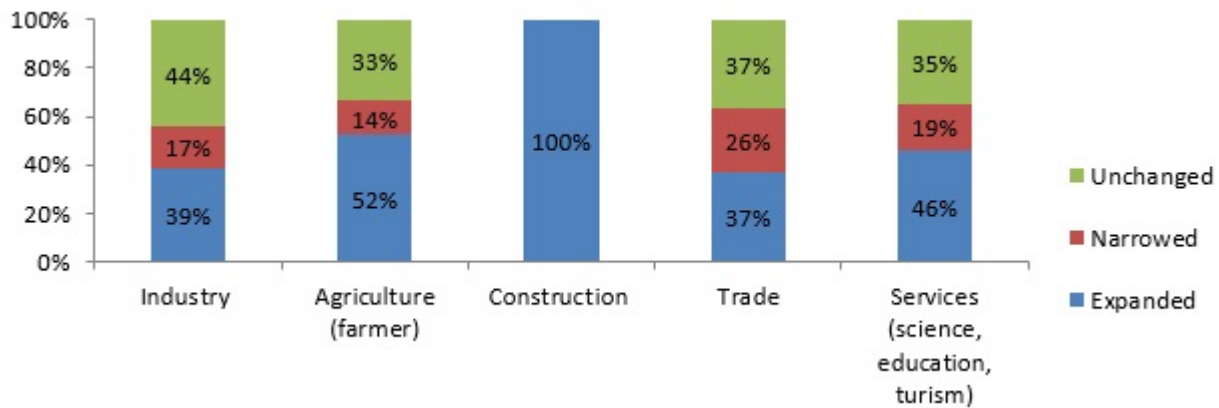
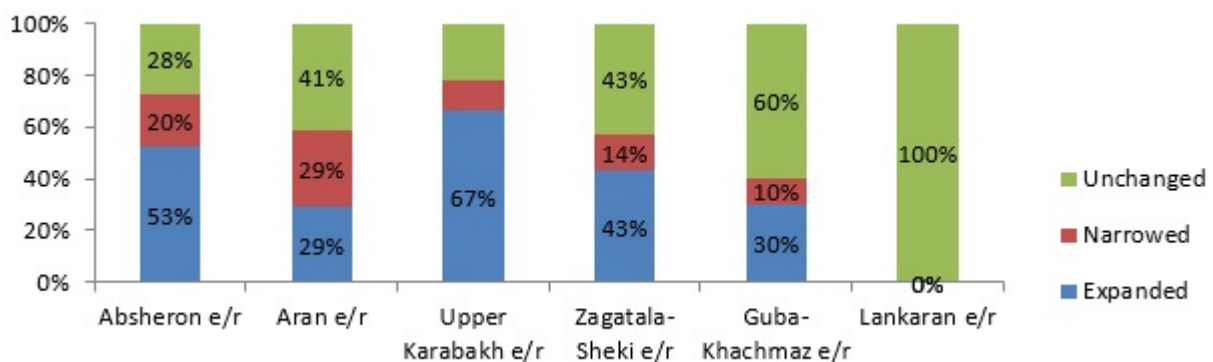


Figure 4-1. The state of the business environment by sectors during the past year

Compared to other sectors, the *trade sector* has seen more shrinking of business (26%), while decreases of 19% were observed in *the service sector*, 16% in *the industrial sector* and 14% in *the agricultural sector* in 2017 (see Figure 4-1).

The regional analysis of the survey showed that the best situation in 2017 was in the Upper Kharabakh economic region. Thus, 67% of entrepreneurs from this region reported business expansion. At the same time, 53% of respondents from the Absheron economic region shared this position. The worst situation was in the Guba-Khachmaz and Aran economic regions. About 30% of these regions saw expansion. According to the survey, 43% of those from the Zagatala-Sheki economic region expanded their business (see Figure 4-2).

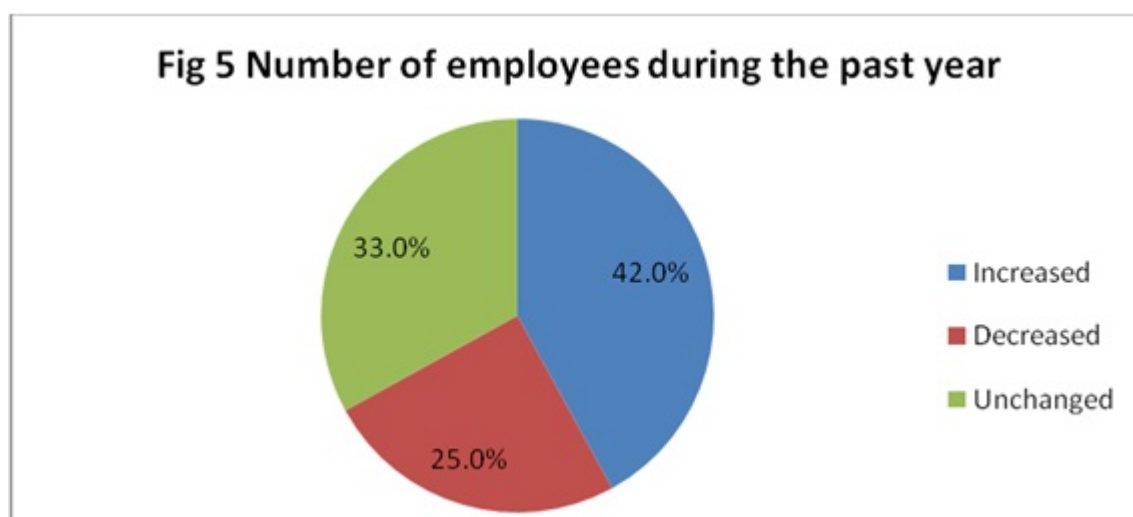


Figures 4-2. The state of the business opportunities by regions during the past year

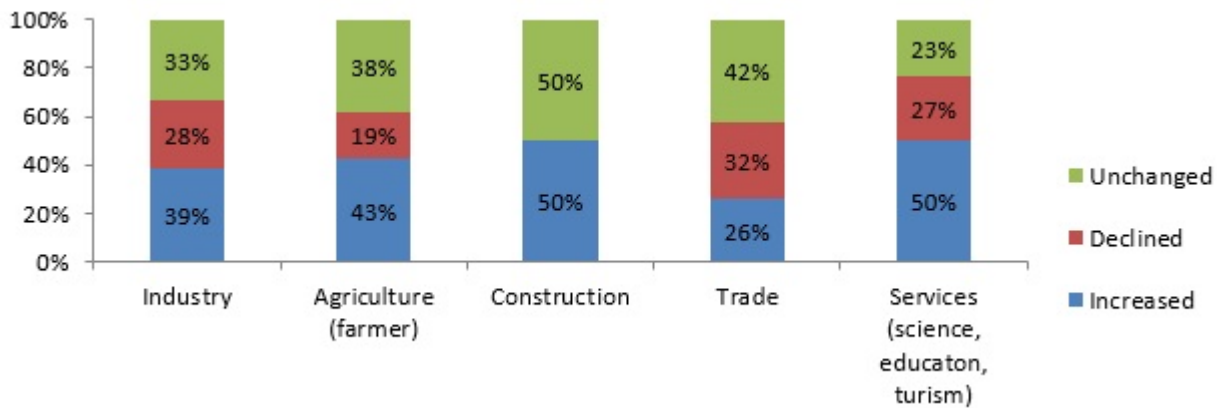
The shrinking of business was mostly recorded in the *Aran*

economic region (29%). Every fifth respondent in the *Absheron* economic district said that the business was shrinking. The answers of respondents from the *Upper Karabakh*, *Zagatala-Sheki* (14%) and *Guba-Khachmaz* regions reported business shrinkage in about 10% of entrepreneurs representing these regions. The *Lankaran* economic district respondents consider that their business has not changed at all.

And 42% of respondents said that the number of employees had increased in the past year and 25% pointed to the drop, while 33% said that the number of employees had not changed (see Figure 5).



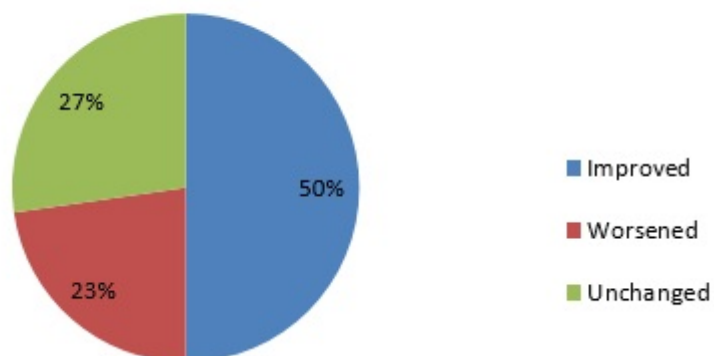
Analysis showed that the employment has increased in the *construction and services sectors* during the past year, with 39% and 43% in the *industrial and agricultural sectors*. The least growth (26%) and the highest decrease (32%) in the number of employees was observed in the *trade sphere*. There was no decline in the *construction sector*, while decreases in *industrial, agricultural and services sectors* were 28%, 19% and 27% respectively (see Fig. 6).



Figures 5-1. The state of the business environment by sectors during the past year

Analysis of the survey showed that five in ten respondents (50%) think that *the business environment has been improved* during the past year, with 23% pointing to *the worsening of the business environment*, and 27% said that there were *no changes in the business environment* (see Fig. 6).

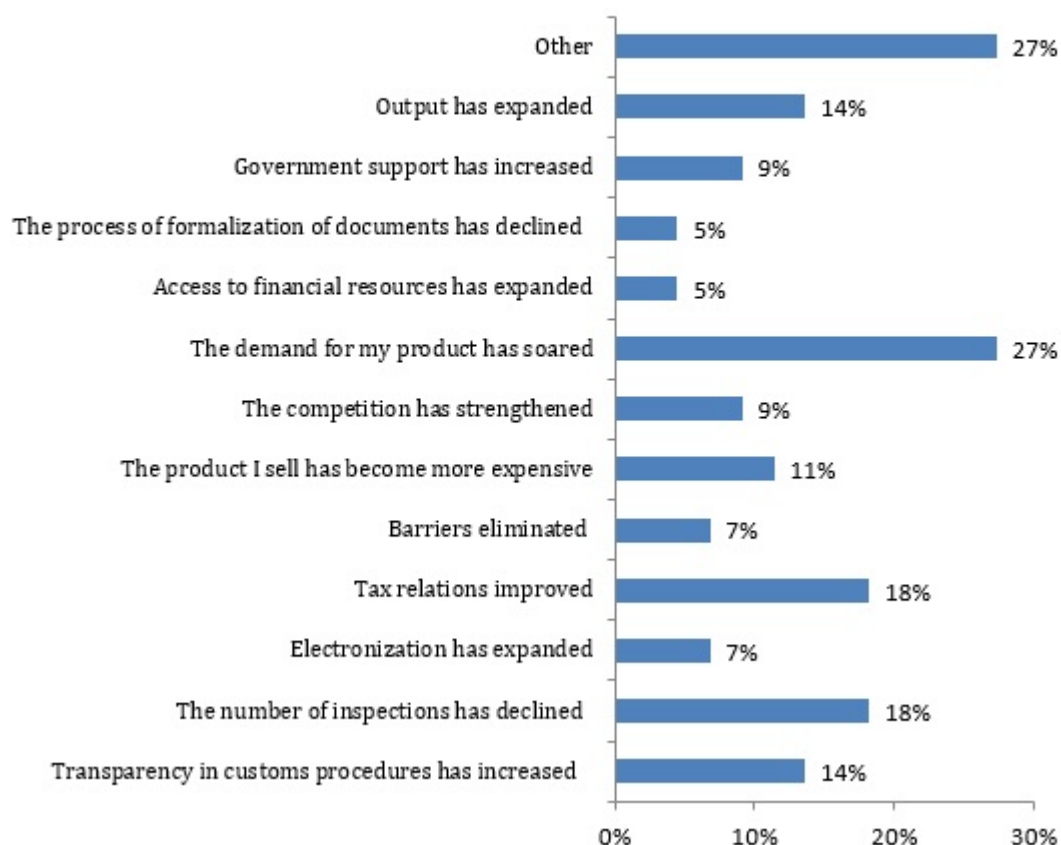
Fig 6 Changes in the business environment



Those who claim that the business environment has improved, explained it for a variety of reasons. 27% of respondents linked this improvement to the demand for products or services they sold. The second reason for this is the decline in inspections (18%) and improvement of tax relations (18%). And the responses also included – an increase in the transparency of the customs system (14%), the expansion of production (14%), the increase in the sales of goods or services (11%) as a positive step, while 9% of respondents reported a positive effect on the increase in government support and improvement of competitiveness, 7% on the e-government expansion and

elimination of barriers. A small proportion of respondents (5%) indicated improvements in the formalization of documents and easier access to lending. 27% of respondents indicated other issues, including stabilization of prices, reduction of corruption, construction boom, etc. (see Fig. 7).

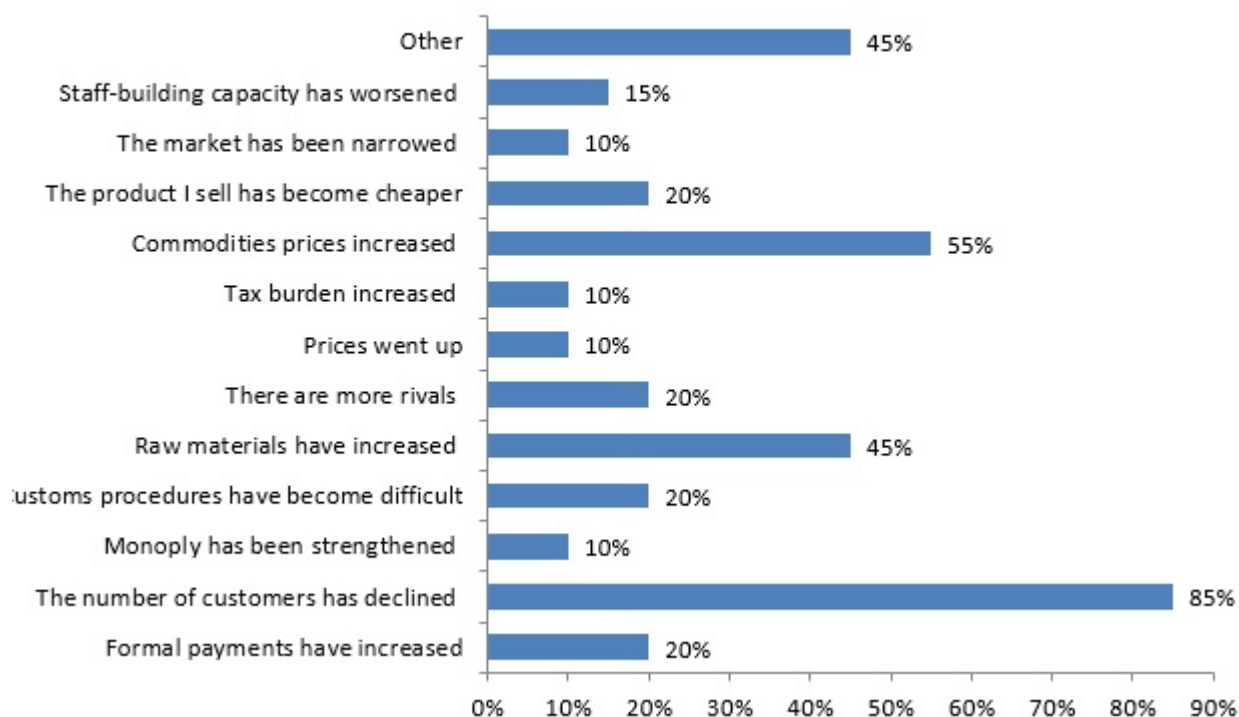
Fig 7 What improvements have been made in the business environment?



The entrepreneurs surveyed also pointed to a negative side, along with positive aspects, indicating a number of factors causing the deteriorating business environment, with the main problem being a decline *in the number of customers* (85%) due to the deterioration of the purchasing power of the population. Respondents also reasoned *the rise in prices on the market* (55%) and the soaring prices of *raw materials* (45%) as the main deterioration. The percentage of respondents with the responses – *The difficulties with customs procedures, tightening of competition, cheapening of the products they sell to consumers and increase in competitors in the market* were the same (20%), while 15% stated that *their staffing*

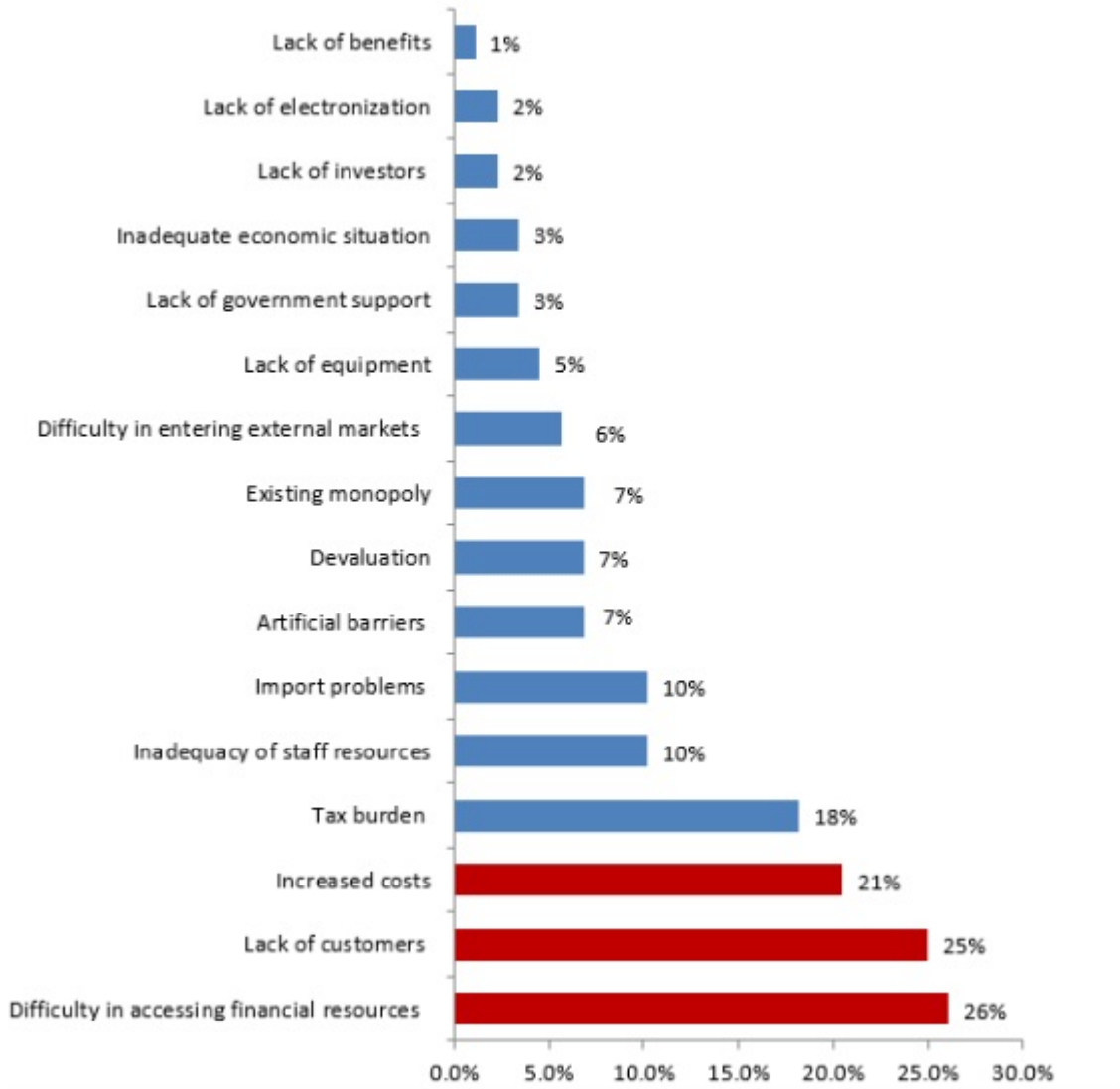
potential worsened due to layoffs. Every 10th respondent expressed concern over increased monopoly, costs, tax burden and market shrinkage. Respondents pointed to, among other factors, the reduction in goods imports, difficulties in obtaining a license, an increase in the number of obstacles, difficulty with access to foreign markets, etc. (see Fig 8).

Fig 8 What has deteriorated in the business environment?



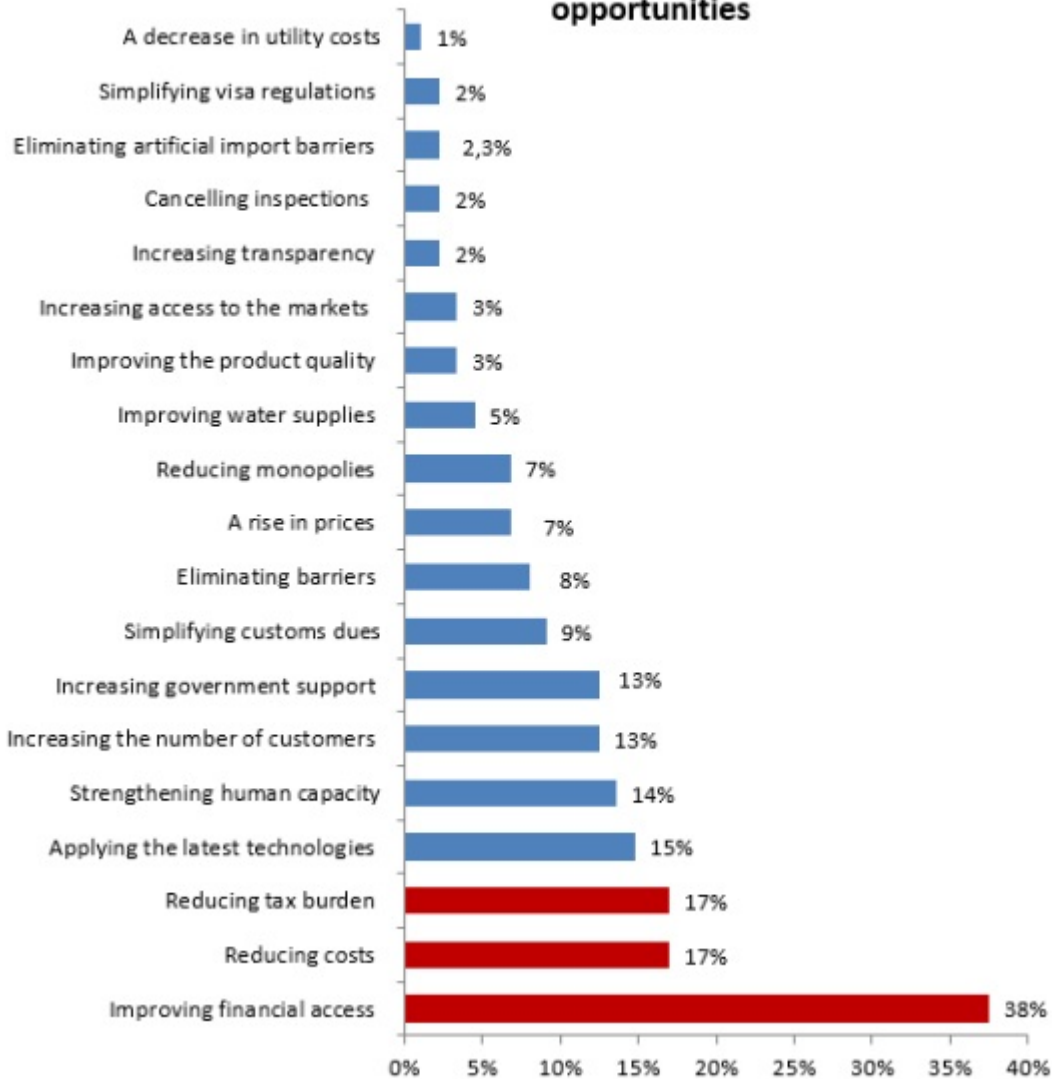
One of the survey questions regarding **three major challenges** respondents face in their current business. Analysis of the responses was as following: *difficulty in accessing financial resources* (26%), *lack of customers* (25%), *increased costs* (21%), *tax burden* (1%), *inadequacy of staff resources* (10%), *import problems* (10.2%), *devaluation, artificial barriers, existing monopoly* (7% each) and *difficulty in entering external markets* (6%) (see Fig 9).

Fig 9 Three major challenges facing the business community



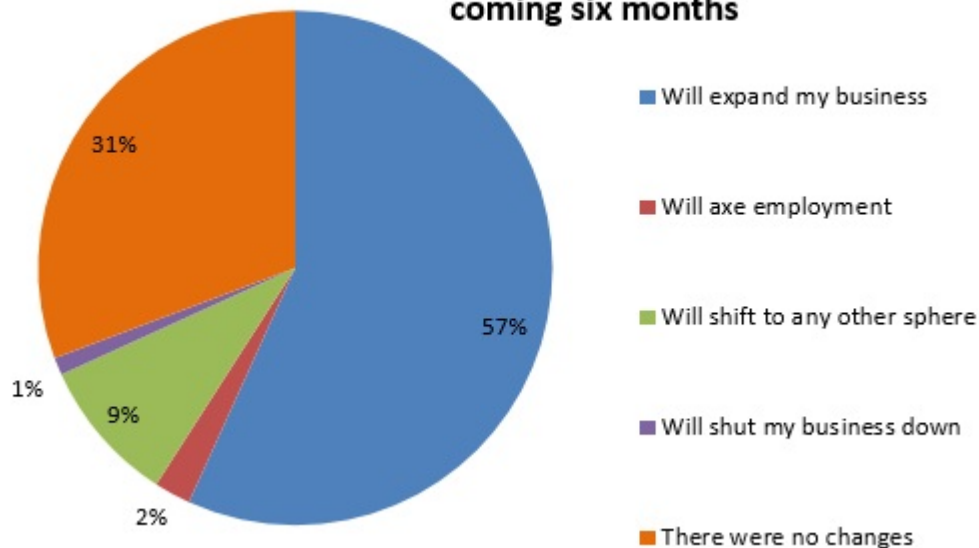
Businesses surveyed were asked to specify **three important issues in order to expand their business**. Their responses were as following: *improving access to financial resources* (38%), *reducing costs* (17%) and *reducing tax burden* (17%), *applying the latest technologies* (15%), *strengthening human capacity* (14%), and *increasing the number of customers and government support* (13%) (see Fig 10).

Fig 10 Three important issues to expand business opportunities



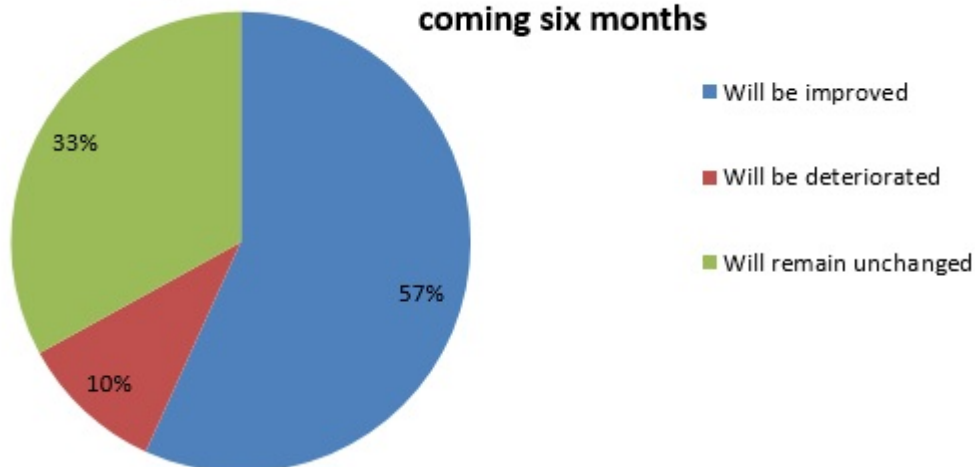
To the question regarding expectations in the coming six months, more than half of respondents surveyed (57%) said that *they are going to expand their business*, while about a third of those reported *no changes in their expectations*. Besides, 9% of businesses surveyed said that they *will shift to another sphere* and 2% *will axe employment*. Only 1% of respondents reported *shutting down their business* (see Fig 11).

Fig 11 Expectations for the business environment in the coming six months



The survey results found that respondents' average expectations in the coming six months are mainly positive. 57% of respondents surveyed believe that *the business environment will be improved over the next six months*, while a third of those think that *there will be no changes*. And approximately each 10th respondent expressed *concern over the deterioration of the business environment* (see Fig 12).

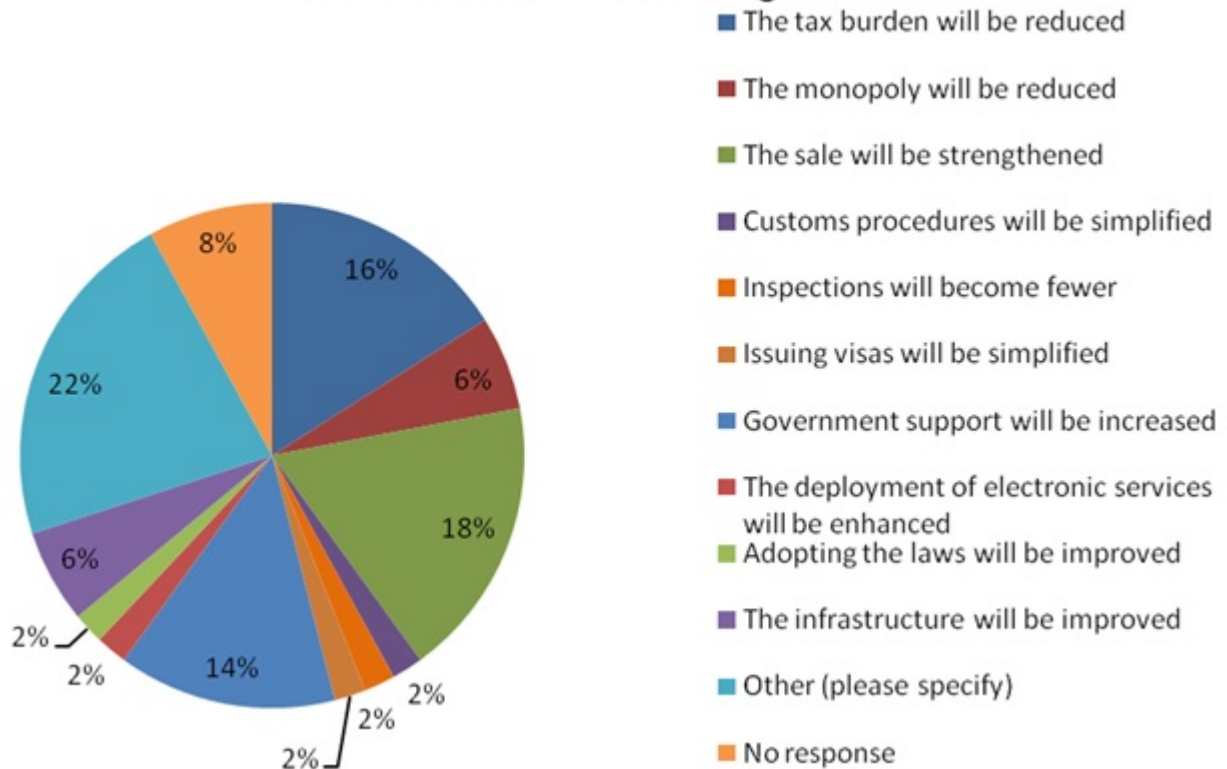
Fig 12 Expectations for the business environment in the coming six months



14% of respondents expecting improvements reasoned their findings on *increased government support*, while 18% on *sales volume increases*, 16% on *tax burden decline*, and 6% on *monopoly elimination and infrastructure improvement*. Besides, only 2% of respondents as positive changes reported the simplification of tax procedures and visa regulations, the

decline in the number of inspections, as well as e-service and law improvements. And 22% of respondents specified other factors, whereas 8% failed to report what improvements had been made (see Fig 13).

Fig 13 Expectations of an improvement in the business environment in the coming six months



To the question ***“What do you expect the business environment will suffer most in the coming six months?”***, ***33% of respondents*** surveyed think that goods and materials are going to get more expensive, while the national currency will be devaluated and the number of customers will be diminished, with some expecting weak goods imports and fuel price increases.

Key results of the survey

- ***About half of respondents (47%) said that their business had been expanded during the last year, with 18% and 35% reporting their business had been declined and economic indicators remained stable respectively.***
- ***Regionally analyzing, 67% of respondents from the Upper Karabakh economic region reported their business was***

expanded. This indicator for the Absheron, Sheki-Zagatala, and Guba-Khachmaz and Aran economic regions were, accordingly, 53%, 43%, and 30%.

- Looking at the survey results for sectors of the economy, the best situation can be found in the construction sector. All respondents from this sector reported they had expanded the business during the last year. This indicator for the agricultural sector was 53%, while 46% for the services sector, 39% for the industrial sector, and 37% for the trade sector.
- The decline in business was most observed in the trade sector (26% of respondents), while 19%, 17% and 14% of respondents, respectively, pointed to the services, industrial and agricultural sectors.
- The decline in business was most observed in the Aran economic region (29%), while the Absheron, Upper Karabakh and Sheki-Zagatala economic regions accounted for 20% and 14%. All respondents from the Lankaran economic region reported there were no changes in their business at all.
- A variations in the employment numbers is one of the core indicators to assess the state of the business. 42% of all respondents surveyed reported the growth rates of employment, while 25% reported a decline of the number of workers available and 33% said that there was no change.
- Analysis of the survey answers shows that the construction and service sectors saw a 50% increase in the number of employees, while increases of 39% of and 43% were observed in the industrial and agricultural sectors in 2017. Responding to the decline in the number of employees, respondents pointed a 32% decline in trade, 28% in industrial, 27% in service and 19% in agricultural sectors. There was no decline in the construction sector.
- Half of respondents believe that the business environment was improved, while 23% said it was

deteriorated but 27% ruled out any changes in the business environment.

- 27% of respondents reported an increase in demand for products or services they provide, while 18% did a decrease of inspections and improvement of tax relations, 14% an increase of transparency in the customs system, 9% increasing government support, and 6.8% scaling up e-government.
- As the main reason for the deterioration in the business environment, 85% of respondents reported the deterioration of the purchasing power of the population and, consequently, the decrease in the number of customers. At the same time, 45% of respondents indicated the increase in raw materials and materials as a factor affecting the business environment.
- More than 10% of respondents expressed concern over increased monopoly, costs and tax burden, as well as shrinking market, difficulties in obtaining licenses, and narrowing access to foreign markets. In the current period, there are three major problems facing business: shortage of access to financial resources (26%), a small number of customers (25%) and a large number of expenses (21%).
- As the most important steps to expand their business, respondents pointed to improvement of access to finance (38%), tax burden reduction, introduction of new technologies (15%) and strengthening the human resources capacity (14%).
- In response to the question regarding expectations in the business over the next 6 months, 57% of respondents said they would expand their business, while more than 30% would keep their business stable, and more than 10% would change the sphere of activity and reduce their turnover.
- According to the results of the survey, only 16% of businesses expect that the tax burden will decline in the near future, monopoly will be eliminated (6%),

customs procedures will be simplified (2%), and the cost of goods will be increased and the national currency will be devaluated (33%).