

# handbook



National Confederation  
of Entrepreneurs  
(Employers')  
Organizations of  
Azerbaijan Republic



International  
Labour  
Organization

Employers' Organizations

## PRODUCTIVITY AND COMPETITIVENESS

Caucasus and Central Asia

### AZERBAIJAN

Productivity and competitiveness  
Handbook for employers





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## FOREWORD

The transition of the country economy to the market relations, the government liberal economic policy, the rapid globalization in the world raise the productivity and competitiveness issues with all due sharpness before companies and enterprises. In this case, the local enterprises can gain an opportunity to bring competitive products to the world market only through using international principles and standards.

The rapid change of socio-economic and legal environment, competitors' activity and consumer demand is forced companies to organize their activity in conformity with these changes and even to surpass them. Otherwise, companies can fail or become bankrupt at worst. All these factors require companies to be seriously engaged in productivity and competitiveness issues and approach them scientifically, i.e. comprehensively. Moreover, the developing countries, especially states which intend to become WTO members should increase the productivity level and produce competitive products and services, and, thus, strengthen the country economy. The complex solution of the all above-stated problems is possible only through introduction and application of the quality management system supporting productivity and competitiveness.

Thus, the concepts of productivity, competition, competitiveness and quality, their application were approached comprehensively in the global economic scope, including national and enterprise levels, in the present Employers' Handbook. The book included general information on productivity indicators as tools for productivity and competitiveness increase, principles of quality management (TQM, ISO, etc.). Moreover, analytical data covering international and national legislative acts on productivity and competitiveness, and extracts from these acts were highlighted in the chapters of the Handbook "Productivity and competitiveness". The single chapter was devoted to the employers' strategy and action plan on productivity and competitiveness. The findings of the survey conducted in tourism and processing industry of agricultural products, the problem revealed and their reasons, recommendations for elimination of the existing problems were submitted to the readers' attention.



We express our deep gratitude to Mr. J.F.Retournard, director of ILO ACT/EMP Office and Mr. H.Moller, project coordinator in the publication of this Handbook, the valuable present for entrepreneurs-employers, and hope, this handbook in some way will promote the successful business of entrepreneurs and support them to build up the more productive activity and produce competitive goods and services.

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# Chapter 1.

## The Concept of Productivity

The role of productivity as a major contributor to company competitiveness and national welfare is universally recognized. Generally, productivity is a measure of the quantity and quality of what is produced in relation to the resource used, both human and physical. Productivity is affected by the quality of the whole human and business environment. However, the principal area where productivity growth is created is the enterprise, as it is here that the whole range of available resources and conditions come together to produce goods and services. The effectiveness of the combined functioning of these resources in a given macroeconomic, institutional, social and natural environment is reflected in productivity<sup>1</sup>.

Conventionally, productivity has been considered as the ratio of physical output to input. This implies that productivity is simply production-oriented and concerns manufacturing activities only. In practice, however, an organization has multiple objectives and requires resources to meet them. Furthermore, objectives are seldom met as a result of one particular resource: multiple resources produce the final result through their interaction. Besides, some objectives may be achieved at the cost of others. There is, therefore, a need to have a new – more holistic and systemic – look at productivity.

Since the modern business cycle includes processes of management, supply, marketing and sales, client service and client relationships, and many others, the concept of productivity needs to be expanded to cover all of them, not only production.

Above all else, **productivity** is an attitude of mind. At the same time we understand under productivity the following ones:

- it is mentality of progress, of the constant improvement of that which exists
- it is the certainty of being able to do better today than yesterday, and less well than tomorrow
- it is the will to improve on the present situation, no matter how good it may seem, no matter how good it may really be
- it is the constant adaptation of economic and social life to changing conditions, it is the continual effort to apply new techniques and new methods; it is the faith in human progress.

<sup>1</sup> Management Consulting, A guide to the profession, Edited by Milan Kubr. Moscow, 2004



Because of the evident deficiencies in single-factor productivity measurement, the concept of multifactor productivity has emerged. Multifactor productivity is a composite measure of how effective and efficient a company is in using its labour, capital, technology, management, organization, and other factors, but even this approach is internally focused and does not refer to customers, and is therefore becoming less relevant.

Companies can also achieve higher productivity by producing goods or services that are more valuable to customers. The new paradigm shifts the focus from the input side of the productivity equation to the output side or value-added aspects of productivity.

Schematically these processes are shown in fig. 1

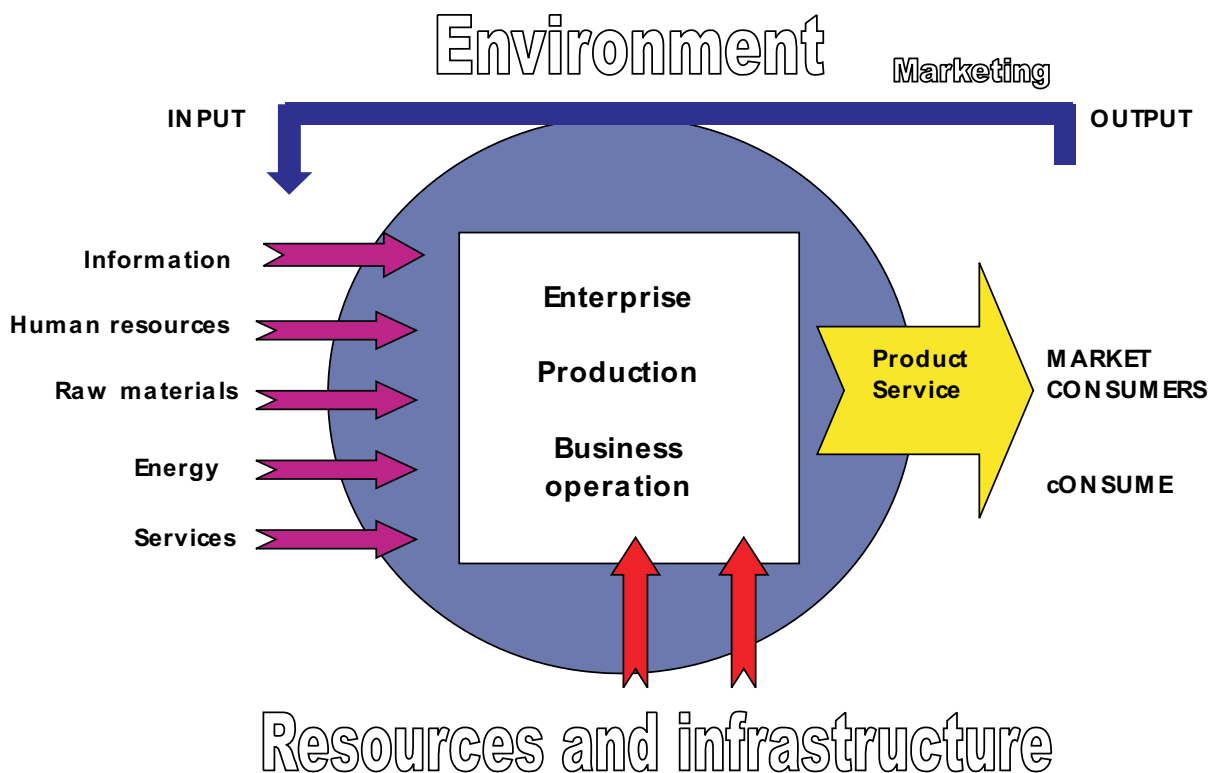


Fig. 1

The productivity should be defined from two aspects, namely

- Quantitative and
- Qualitative





The quantitative approach defines productivity as the ratio of output to input.

Productivity	=	$\frac{\text{Output}}{\text{Input}}$
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From qualitative point of view productivity is expressed as

Productivity (P) =	Right selection of product for manufacture (S) + Qualitative technological processing of product (TP) + Product customizability (PC)) + Profit (Pr)
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There are several ways of measuring productivity and it depends on what is used for the input. Examples of some partial productivity measures are:

- Labour productivity
- Material productivity
- Energy productivity
- Capital productivity

## 1.1. Total Productivity measures

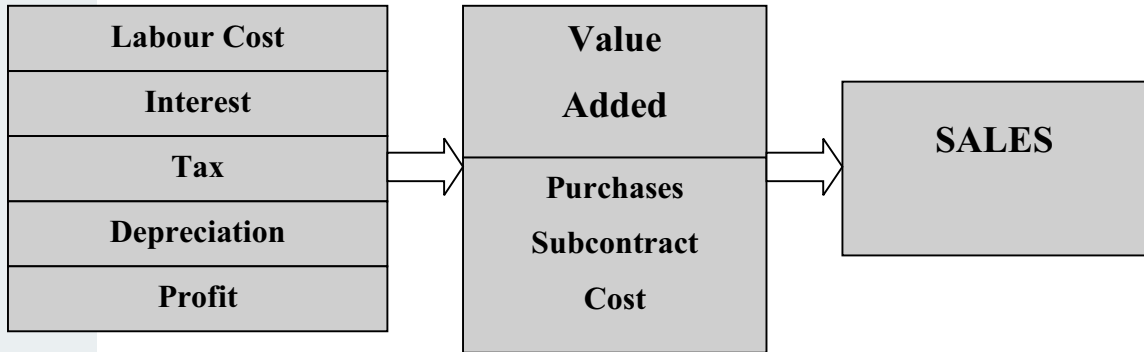
Total Factor Productivity (TFP) stands for output generated per unit of combined inputs, i.e.

TFP	=	$\frac{\text{Output}}{\text{Labour} + \text{Capital} + \text{Other expenses}}$
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As usual, other expenses mean by transport expenses, advertisement, etc. related to production cost. Some prefer to call it "Multi-Factor Productivity".



## 1.2. Value added



Value added measures the wealth created by a business enterprise.

## 1.3. Some practical partial measures of productivity

### Labour Productivity

Analyses the wealth generated by each employee in the enterprise

$$\text{Labour Productivity} = \frac{\text{Value Added}}{\text{No. of Employees}}$$

or

$$\text{Labour Productivity} = \frac{\text{Value Added}}{\text{Sales}} \times \frac{\text{Sales}}{\text{No. of Employees}}$$

### Labour Cost Competitiveness

Analyses the competitiveness of the workforce in the enterprise

$$\text{Labour Cost Competitiveness} = \frac{\text{Value Added}}{\text{Labour Cost}}$$

or

$$\text{Labour Cost Competitiveness} = \frac{\text{Value Added}}{\text{No. of Employees}} / \frac{\text{Labour Cost}}{\text{No. of Employees}}$$

### Fixed assets (capital) productivity

Analyses the enterprise's level of capital or labour intensity

$$\text{Fixed asset (capital) productivity} = \frac{\text{Value added}}{\text{Fixed assets}}$$

or

$$\text{Fixed asset (capital) productivity} = \frac{\text{Value Added}}{\text{No. of Employees}} / \frac{\text{Fixed assets}}{\text{No. of Employees}}$$

The productivity should be raised due to increase of product release and/or decrease of costs. Therefore, first of all, the sphere of interference is required to be defined, and factors impacting productivity are specified, and thus, spheres of influence for improvement and indicators for measuring improvement are chosen. These indicators should be in compliance with business, when combined in problem/potential spheres of the enterprise and easily measured. Subsidiary ratios that compliment the productivity ratios of an enterprise are as follows:

- Cost of materials / Sales
- Sales / Average merchandise inventory
- Cost of goods for resale / Sales
- Materials used in product / Total materials consumed
- Number of reject / Total number of products produced
- Electricity used / Unit of product produced
- Sales / Floor area of facilities
- Number of complaints / Total number of customers served

## Chapter 2. Competitiveness

### 2.1. Competitiveness in the global business environment<sup>2</sup>

Competitiveness improves when productivity rises relative to costs. However, when competitiveness is achieved through cost cutting alone it cannot be sustained for long. Companies and countries which rely on low-cost input find their competitive position challenged by a new low-cost competitor or a new technology. Countries can only continue to offer cheap labour by keeping living standards low. However, rising productivity keeps prices competitive and living standards high. That is why productivity, driven by high skills and advanced technology, is the main paradigm of competitiveness today. Therefore, high competitiveness is the result of the quality of national policies and institutions, which also means that nations do compete. In this context it would be useful to consider the institutional framework for national competitiveness. We will refer to the concept of systemic competitiveness developed by Esser et al. (1996).

**Industrial competitiveness** is the result of complex and dynamic interactions between factors at four social and economic levels: the meta, macro, meso and micro levels.

At *meta level* are the socio-economic, cultural and political factors essential to competitiveness. These are cultural values such as the social recognition of achievement, positive work ethics, propensity to save, long-term investment in education and training, consensus on the necessity of industrial development and integration into world markets and the ability of the social actors to jointly formulate visions and strategies.

At *macro level* it is important to have a stable and predictable macroeconomic framework which creates the goods and capital markets that are essential for an effective and efficient allocation of resources.

At *meso level* there should be specific policies and institutions that help industry and create competitive advantages. Such institutions

<sup>2</sup> Joseph Prokopenko. Competition. An Agenda for the 21<sup>st</sup> century. International Labour Office, Geneva, 2000



would include National Competitiveness Boards, National Productivity Organizations, National Institutes for Management Development, organizations for small enterprise promotion, industrial associations, employers' organizations and many others.

Such meso institutions, both private and public, should offer services and support to firms and help develop human capital and technological infrastructure. Selective and targeted policies should shape and promote the competitiveness of certain sectors through industrial restructuring, trade patents, technology development and acquisition, human resource development (HRD), etc. An important element at meso level is effective communication channels and media that facilitate the flow and exchange of ideas among the key stakeholders, social groups and their institutions.

At *micro level* the main factors determining enterprise competitiveness are the organization of production, product and service development, value-chain management systems, cooperative networks and alliances, human resource management, the acquisition, development and retention of intellectual capital including entrepreneurial leadership, and other factors under the control of company management.

Thus, a systemic framework for competitiveness would make it much easier for governments and entrepreneurs, as well as other social groups, to contribute to national economic success<sup>2</sup>.

## 2.2. National competitiveness policies<sup>2</sup>

Both national and company competitiveness are the result of government policy and market factors. The necessary foundations are a set of macroeconomic, policy and infrastructure variables that determine an economy's long-term dynamic competitiveness. The critical issue for each economy is whether it is making the best use of available resources. Such resources occur naturally but they also include the ability and will to build the

There are many determinants of government policy. Short-run competitiveness can be achieved through relative cost advantage, exchange rates, and aggressive export trade development. However, relative cost or price alone does not determine long-term competitiveness. As a rule, countries that gain market share also display faster productivity growth and rapid increases in technological capability.



Similarly, competitiveness policy can be viewed as the sum of policy instruments which may induce more rapid export growth and technological upgrading at enterprise level. Such policy instruments might be tariffs, subsidies, quotas and so on. These policies emphasize free trade and non-intervention, which are not necessarily applicable in the least developed economies.

The major factors determining competitiveness are as follows:

- Economic internationalization and openness;
- The domestic economy;
- Government involvement and policies (including the legal and regulatory environment and civil institutions);
- Financial institutions, including their size and transparency;
- Physical infrastructure, including the environment and energy;
- Management competence;
- Scientific and technological capacity;
- People, including skills and access to education;
- Employment;
- Working hours;
- Welfare and social services;
- Equality of opportunity;
- Quality of life and attitudes to work.



Figure 2 illustrates the relations between these forces and factors. It shows the importance of achieving a balance between attractiveness and aggressiveness, assets and processes, globality and proximity, and risk taking and social cohesiveness in decision making.

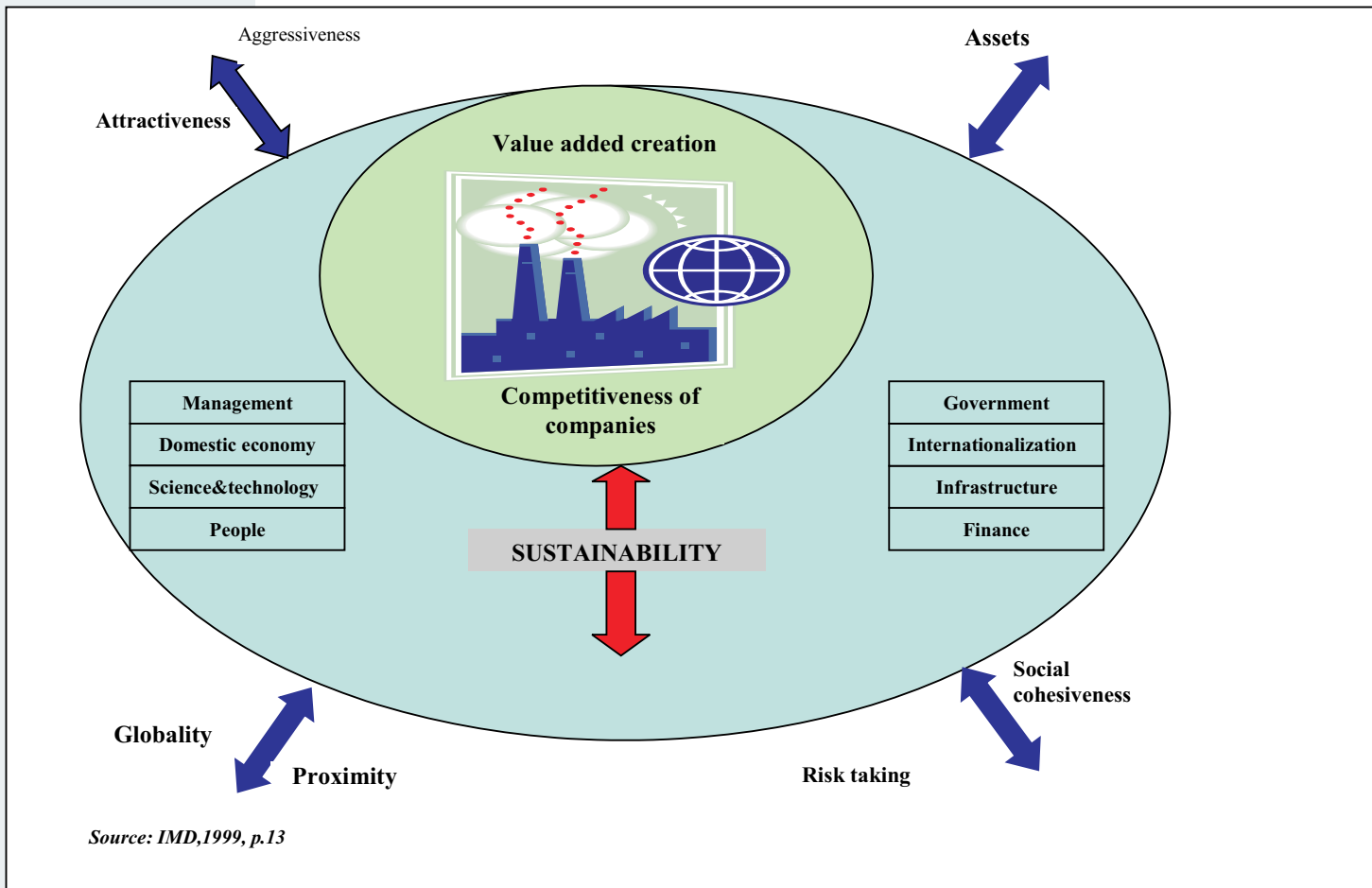
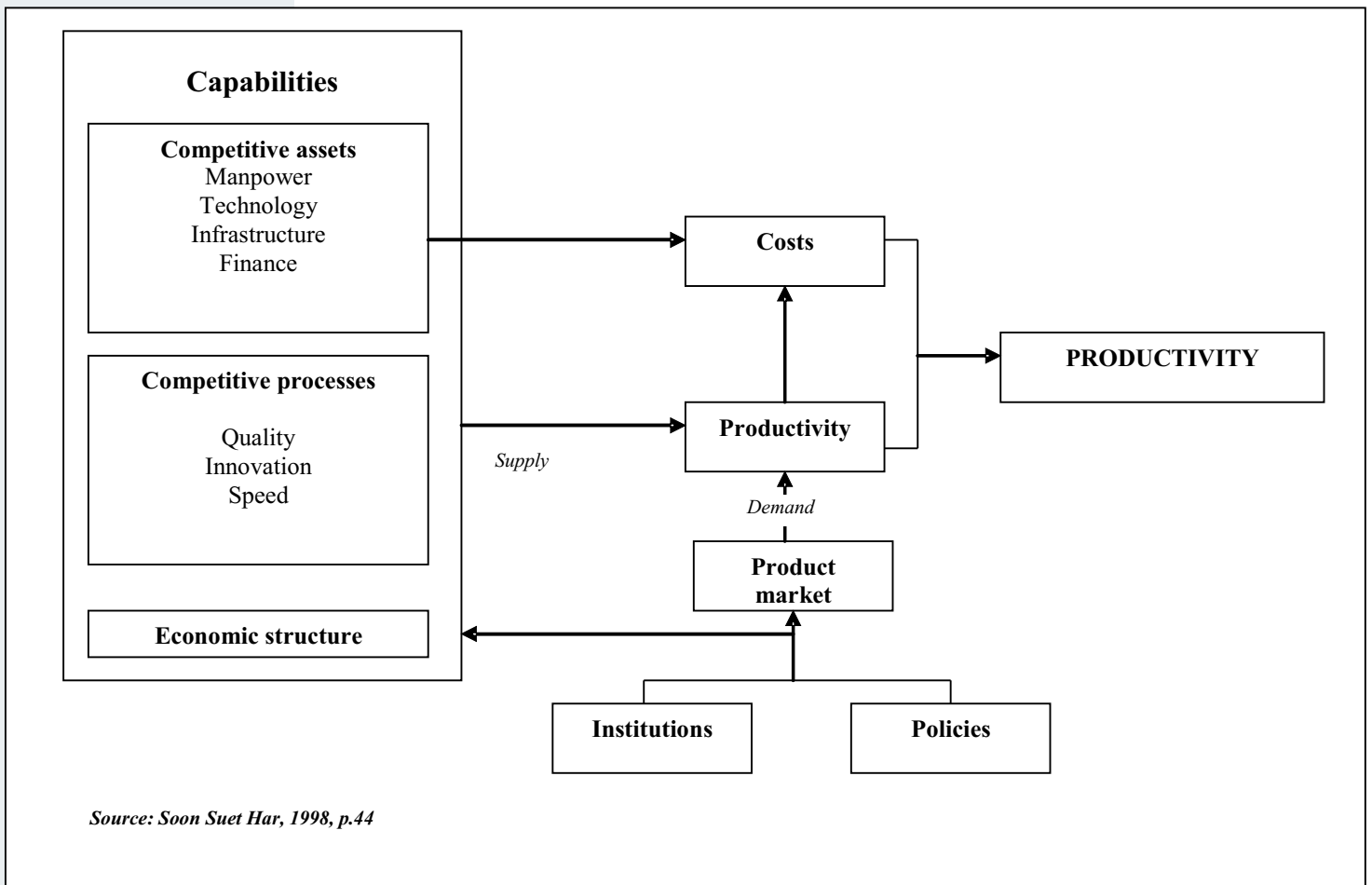


Fig. 2

The critical factors that affect competitiveness can be linked in the framework illustrated in figure 3.



Source: Soon Suet Har, 1998, p.44

Fig. 3

Concerns about competitiveness, productivity, employment and income distribution rank high on the agenda of many countries. One of the most important roles of government is to secure good macroeconomic conditions and a business-friendly environment.

The efficiency of state regulation is also assessed by the intrusiveness of government spending, taxation and regulation of the economy. It is becoming more and more evident that countries with a lower level of government spending and taxation will grow faster than countries with higher levels.

The most competitive countries are also characterized by labour market flexibility and the quality of industrial relations, since flexible labour markets, low labour taxation and harmonious industrial relations all support higher economic growth.





## 2.3. Contributing to the quality of human capital

The most vital determinant of competitiveness is the level of education and skills: true comparative advantage depends on human resources. The use of new technologies and new forms of work organization calls for more, better and new skills, as well as new behaviour and attitudes.

Competitive industrial development requires more demanding and deeper forms of learning. The essence of competitiveness is to move from acquiring skills to adapting and improving known techniques and developing new ones. Competitiveness improvement depends on how effectively a country allows its enterprises to master new technologies and cope with increasingly difficult learning, over time. Human capital accumulation and the acquisition of advanced technology are two necessary components of economic growth and the creation of high-quality employment opportunities.

Investment in skills is a vital pre-condition for improved export competitiveness. Investment in primary and secondary education helps develop literate, numerate production workers who are the bedrock of successful labor-intensive industrialization.

## 2.4. Competitiveness through entrepreneurship development

There is broad agreement that country competitiveness is the sum of the efficiency and dynamism of individual firms, their interaction and synergy, and the markets and institutions they draw upon. Enterprise capacity development means learning how to absorb new technologies and skills, and how to manage continuous change and upgrading. Institutional policy support is needed to help individual firms develop this capability, particularly when markets do not function efficiently.

According to the study carried out to reveal the existing situation of this sphere in Azerbaijan, totally 2571 enterprises were engaged in the industrial sector of the country in 2005, where

- state ownership enterprises accounted 605 (23%),
- non-governmental enterprises – 1966 (76%),
- including:

- private enterprises – 1758 (68%),
- joint ventures – 94 (3%),
- foreign enterprises – 114 (4%).

In this regard, the volume of industrial output accounted 9291 mln. manat was distributed as:

- state production – 2727 mln. manat (30%),
- non-governmental production – 6564 mln. manat (70%),
- including:
  - private enterprises – 1392 mln. manat (15%),
  - joint ventures – 330,5 (3%),
  - foreign enterprises – 4842 mln. manat (52).

Thus, despite the fact that private enterprises account 68% of total enterprises, their production volume makes only 15% of total output, and vice versa, when foreign enterprises account 4% of total enterprises, their production volume makes 52% of total output.

Production of oil, tobacco and foodstuffs, garments and leather goods, plastic products and furniture, reprocessing of raw materials, production and processing of agricultural products, tourism spheres take the dominant position in the private sector.

Moreover, the private enterprises employed 2,6 mln. employees, which made 68% of total employees.

During January-July, 2006 the country's foreign trade turnover accounted 5898,7 mln. USD, including export 3290,8 mln. and import 2607,9 mln. USD. The export products included 83,8% minerals, 4,9% foodstuffs, 3,5% chemical products, etc., when import products 32,8% cars and mechanisms, electrical equipment, 17,4% mineral products, 11,2% inferior metals, 10,9% foodstuffs, 8,7% land, air and water travel facilities, etc.

The Azerbaijan Republic's GDP accounted 10 296,7 mln. manat in January-August, 2006, where 76% of them fell to the share of private sector<sup>3</sup>.

As is obvious, mineral products, i.e. oil and oil products hold the decided superiority in the export structure, where the second

<sup>3</sup> Industry of Azerbaijan. Collected statistical data of the State Statistics Committee, 2006



important position falls at foodstuffs. But, as a whole, the country's export structure covers the very scanty range of goods. All these testify to what extent the productivity and competitiveness make a significant impact on the country economy, the existence of certain problems, the urgent necessity to develop and implement the national policy on productivity and competitiveness.

Thus, relevant state authorities, as Azerbaijan Chamber of Commerce and Industry, Entrepreneurship Development Department at the Ministry of Economic Development, National Fund for Support Entrepreneurship, Azerbaijan Export and Investment Promotion Foundation (AZPROMO), etc. were established to support employers and develop entrepreneurship, pursue a relevant state policy. Moreover, series of public unions, experienced associations and regional unions of entrepreneurs operate in the republic, where the most of them are the members of the National Confederation of Entrepreneurs (Employers') Organizations of Azerbaijan Republic.

## 2.5. Product quality and competitiveness<sup>4</sup>

The problem of a product quality and competitiveness in the modern world is of universal character. Much in an economic and social life of any country, practically any consumer, depends on how much successfully this problem is solved.

Competitiveness and quality are the concentrated expression of all set of opportunities of a country, any manufacturer to create, output and sell goods and services.

Quality is the synthetic parameter reflecting cumulative display of many factors - from dynamics and development level of a national economy up to a skill to organize and operate process of quality formation within the limits of any economic unit. At the same time world experience shows, namely in conditions of the open market economy, which is inconceivable without a sharp competition, there revealed factors when quality becomes survival condition of commodity producers, effectiveness criterion of their economic activities and economic well-being of the country.

Competition factor is of compulsory character, forcing manufacturers under threat of replacement from the market continually to be engaged in quality system and competitiveness of their goods as a

<sup>4</sup> Marketing. Edited by acad. Romanov A.N. Moscow, 1996



whole, where the market objectively and strictly estimates results of their activity.

Competitiveness of goods is a deciding factor of its commercial success in the developed competitive market. This is a multifold concept, meaning conformity of goods to market conditions, to specific requirements of consumers not only by their qualitative, technical, economic and aesthetic characteristics, but also by commercial and other conditions of their realization (price, delivery time, trade channels, service and advertising).

In other words, competitiveness is understood as a set of consumer and cost (price) characteristics of the goods determining their success in the market, i.e. advantage of these goods over other ones in conditions of the wide supply of similar competing goods. And since manufacturers stand for their goods it is possible soundly to speak about competitiveness of the appropriate enterprises, associations and firms.

Any goods in the market actually pass there check on a degree of satisfaction of public needs: each buyer gets goods which as much as possible satisfy his/her personal needs, but all set of buyers - those goods which most full meet public requirements, than goods competing to them. Therefore competitiveness (i.e. an opportunity of commercially favourable selling in the competitive market) of goods can be defined only when comparing goods of competitors. Thus, competitiveness is a relative concept, well-attached to the concrete market and time of sale. And as each buyer has an individual assessment criterion for satisfaction of own requirements, competitiveness becomes of an individual shade in addition.

To satisfy a need, it is not enough for buyer to get the goods. If from technical standpoint the item is sufficiently complex, the buyer should defray operation costs (to pay for fuel, lubricant oil, spare parts and repair), to pay (in case of manufacturing goods) the attendants' labour, to spend money for their training, insurance, etc. Thus, the buyer's costs consist of two parts: purchasing costs (price of goods) and consumption-related costs, called consumption price. However, this economic parameter at its all importance does not completely settle the concept of competitiveness. The number of competitiveness parameters depends on a kind and complexity of a product from technical and operational point of view, and, thus, on the required precision of estimate, the purpose of research and other external factors.

At last, competitiveness is defined only by those properties which represent appreciable interest for the buyer, and, naturally,



guarantee satisfaction of his/her needs. All characteristics of a product beyond these interests at the estimated competitiveness become disregarded in the given concrete conditions.

The product competitiveness should be studied continuously and regularly, in close binding to phases of its life cycle promptly to catch the starting point in the decrease of a competitiveness parameter and, thus, to make the appropriate proactive decisions (for example, to take goods out of production, to modernize them and transfer to another sector of the market).

At the same time, any commodity after the market entry gradually begins to spend its competitiveness potential. Such process can be slowed down and even delayed temporarily, but it is impossible to be stopped. Therefore the new product is designed according to the schedule providing its market entry to the moment when the former product significantly losses its competitiveness. In other words, competitiveness of the new goods should be outstripping and long-term enough.

However close the concepts of quality and competitiveness are, the basic distinctions between them still exist. Competitiveness of goods is an important market category reflecting one of the essential characteristics of the market, i.e. its competitive position. Quality is a category inherent not only market economy. Competitiveness of goods has more dynamical and changeable character. At an invariance of the commodity qualitative characteristics its competitiveness may vary in rather wide limits, reacting to a change of conjuncture, actions of competitors-manufacturers and competing goods, instability of prices, influences of advertising and displays of others external factors with respect to the given commodity.

In conditions of the advanced competitive market the marketing becomes effective means for solving a problem on quality and competitiveness of goods.

The central place occupied with quality and competitiveness in commodity and market policy, as a whole, defines their place in strategy of marketing and practical marketing activity. And as marketing focuses on the consumer, all work of the enterprise using principles and methods of marketing, is oriented on submission of production to the consumer's interests. By virtue of that, the problems of quality and competitiveness in marketing are not of current, tactical, but of long-term and strategic character. Hence, the long-term forecasting of volume and character of needs, perspective technological level and quality of production is aimed at



- Revealing possible requirements to product mix and quality for the perspective period of its manufacture and consumption;
- Definition of scientific, technical and economic opportunities for satisfaction of the consumer's requirements;
- Establishment of assortment and quality coefficients at development of perspective kinds of production.

High quality and competitiveness of production are provided by the whole marketing system - from designing, pilot-scale and batch production up to selling and service of maintained products, including means and methods of management and quality control, ways of transportation and storage, installation and after-sale service.

## 2.6. The role of quality management in competitiveness improvement

The improvement of productivity and competitiveness, when approached comprehensively, should be achieved through quality management, which is also called the tools for productivity and competitiveness increase. Such tools include TQM (Total Quality Management), ISO 9000:2000 (Quality Management System) and others.

The following eight principles form a basis for ISO 9000:2000 Quality Management System<sup>5</sup>:

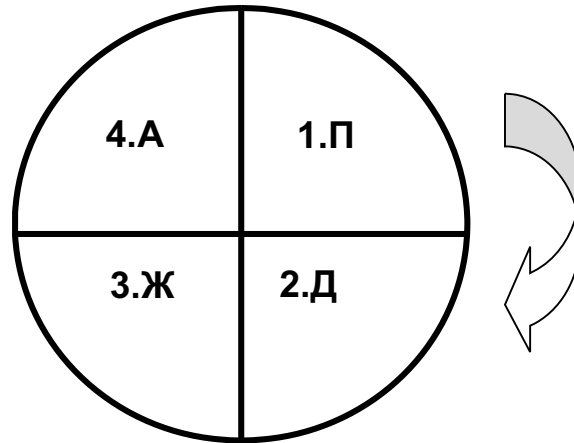
<sup>5</sup> Quality Management Systems ISO 9000:2000. General provisions and dictionary



1	Customer focus	The organizations depend on their consumers and consequently should understand their current and future needs, fulfill their requirements and aspire to surpass their expectations.
2	Leadership	Leaders provide the unity of purpose and activity spheres of the organization. They should create and support the internal environment in which employees may be completely involved in tasks solution of the organization.
3	Involvement of people	Employees of all levels make a basis of the organization, where full involvement of employees enables the organization to use their abilities with benefit. Creation of decent, safe and productive work places. Management of human resources.
4	Process approach	The desirable result is achieved more effectively when activity and appropriate resources are operated as a process.
5	System approach to management	Revealing, understanding and management of the interconnected processes as a system promote productivity and efficiency of the organization at achievement of its objectives.
6	Continual improvement	Continual improvement of the organization's activity on a whole should be considered as its constant objective.
7	Factual approach to decision making	The effective decisions are based on the data and information analysis.
8	Mutually beneficial supplier relationships	The organization and its suppliers are interdependent, and relations of mutual benefit raise ability of both parties to create values.



In the quality management system the enterprise's activity occurs in compliance with the PDCA principle.



- 1. P - Planning
- 2. D - Do
- 3. C - Check
- 4. A - Action



## Chapter 3. ILO's view on Productivity and Competitiveness<sup>6</sup>

### **International Labour Organization and entrepreneurship**

ILO is a sole institution with tripartite representation where delegates of employers, workers and governments are equal in rights and may express their views absolutely independently.

**The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy** gives the basic reference points of such policy, in particular, on issues of employment, professional training, production relations and work conditions.

**Human rights maintenance: freedom of association.** The ILO cardinal conventions cover fundamental human rights, such as freedom of association, prohibition of forced labour and employment discrimination.

**Activity on support entrepreneurs: direct technical assistance.** The technical cooperation program is of new type, directed to support creation of strong and independent entrepreneurs' organizations in the developing states and in the countries with transition economy so that they can effectively protect interests of their members and fully participate in economic and social development of their countries.

**Employment assistance** One of the ILO main tasks is to assist countries in increase of productive and freely selected employment, having in view of full employment as an ultimate goal.

Within the framework of this general mission the main objectives of ILO activity in the specified area are:

- expansion of employment by assistance to the balanced and long-term economic growth in conjunction with a reasonable social and ecological policy;
- reduction of a poverty level through paid productive employment and availability of the basic goods and services;

<sup>6</sup> What is ILO? ILO Moscow Bureau. Moscow, 1998



- increase of work efficiency and employment quality in formal and informal sectors of economy.

## **Improvement and development of enterprises' management**

The ILO activity in this field serves for

- rendering assistance of member-states to realization of a policy and programs on development of entrepreneurship and private enterprises; to adaptation to structural changes; to creation of opportunities for productive and stable employment and to maintenance of social and equitable economic development;
- improvement of training administrative staff of various levels and branches of economy with the purpose to increase an overall performance of enterprises and their social feedback;
- rendering assistance in development and realization of programs and in creation and strengthening institutions which provide entrepreneurs and managerial personnel with vocational training, advisory services, information, financial and other support for creation and development of small and medium enterprises;
- aid to private and state enterprises to increase productivity through development and application of more effective methods of management, manufacture and improvement of quality of production.

Progress of many countries, in particular, developing ones, is held back because of low productivity and lack of qualified administrative staff. Aimed at to increase efficiency of their labour, material and financial resources, the ILO supports development of programs on training and improvement of administrative staff; managers are supported to operate in rapidly changing social and economic conditions, especially, in conditions of privatization.

Assistance to small enterprises of informal sector is oriented on increase of their productivity and competitiveness, and improvement of work conditions there.

## **ILO Conventions and Recommendations<sup>7</sup>**

<sup>7</sup> International Labour Organization. Conventions and Recommendations. International Labour Office. Geneva.



### **Convention 142 concerning Vocational Guidance and Vocational Training in the Development of Human Resources** (date of adoption: 23 June, 1975)

*According to this Convention, Each Member shall adopt and develop comprehensive and co-ordinated policies and programmes of vocational guidance and vocational training, closely linked with employment, in particular through public employment services.*

### **Recommendation 150 concerning Vocational Guidance and Vocational Training in the Development of Human Resources** (date of adoption: 04 July, 1975)

*This Recommendation applies to the vocational guidance and vocational training of young persons and adults for all areas of economic, social and cultural life and at all levels of occupational skill and responsibility.*

### **Recommendation 189 concerning Job Creation in Small and Medium-Sized Enterprises**<sup>8</sup> (date of adoption: 2-18 June, 1998)

*This Recommendation stipulates for series of fundamental elements and concepts significantly influencing the development of Small and Medium-Sized Enterprises (SME). As in other ILO Recommendations the Preamble of the Recommendation 189 highlights its political and technical conditions. The concrete policy, Recommendations and Conventions provided here can serve as initial base for all parties interested in implementation of policy and programmes concerning SMEs.*

### **Guidelines on occupational safety and health management systems (ILO-OSH 2001)**<sup>9</sup>

One of the determinatives of the decent labour condition remains to be the safe labour condition. Protection of workers against indispositions, diseases and injuries at workplaces is a part of ILO historical mandate. Diseases and injuries are not inevitable attendants of labour activity, and poverty may not excuse an inattention to safety and health of workers. The ILO primary task is to promote creation of opportunities for women and men to have a decent and productive work in conditions of freedom, equality, social security and observance of human dignity, which all can be combined into one concept that is **“decent work”**. Decent work is

<sup>8</sup> Guidelines on ILO Recommendation 189

<sup>9</sup> Guidelines on occupational safety and health management systems ILO-OSH-2001



a safe work, where safe work from its part is a positive factor of productivity increase and economic growth.

*Today both technological progress and intensive pressure of competition rapidly change work conditions, its processes and structure. The paramount value belongs to the legislation, but in itself it is insufficient to regulate these changes or to keep with new dangers and risks. The organizations also should constantly react upon challenges of occupational safety and develop effective dynamic strategies of management to rebuff them. In this respect, the ILO "Guidelines on occupational safety and health management systems" was developed to support these efforts of organizations. The Guidelines was prepared on the basis of large-scale approach with participation of ILO, its tripartite representatives of social and labour relations and other interested parties. It is based on the world-recognized principles of occupational safety determined by the appropriate international labour standards.*

*The positive influence of occupational safety and health management systems (OSH) implementation at enterprise level on both decrease of dangers and risks, and productivity, now is recognized by the governments, employers and employees.*



## Chapter 4. National Legislation on Productivity and Competitiveness

Sound competition policy and environment are both fundamental conditions and factors of efficient market economy. Constitution of Azerbaijan Republic laying the basis of legal system of the Azerbaijan Republic disapproves monopoly and unfair competition considering this obligation to be a component of state priorities regulating economy.

### Constitution of the Azerbaijan Republic

#### *Economic development and state*

- Economic development based on different forms of property serves for improvement of the people's welfare in the Azerbaijan Republic.
- The Azerbaijan State on the basis of market relations creates opportunities for economic development, guarantees free entrepreneurship, doesn't allow monopoly and unfair competition in the economic relations.

One of the indispensable conditions for the establishment of sound national economy is the efficiency and quality should cover all its activity spheres, which, first of all, should account for rational use of natural, economic and labour resources, dynamic development, requirements of mass extended reproduction, right solution of progressive structural problems arising in national economy, especially industry, quality of stocks of materials and capital equipment and their approach and compliance with the world standards and thus, competitiveness, etc.

Today the Azerbaijan government has its main task to more strengthen the achievements of macro-economic development won since 1995. Though the stability of recent years was achieved through flexible and safe use of fiscal and monetary policy, now the government is obliged to create condition for **balanced economic growth**. Therefore, the government draws special attention **to the expansion and development of entrepreneurial activity with the purpose to create opportunities for employment and acquisition of income**. At the same time, it, aimed at



**creating new jobs** and providing **regional development**, considers very important achievement of balanced economic growth and **encouragement of non-oil sector development**. From this point of view, the government approved the encouragement of creation of favourable condition for the opening new jobs, but not their direct creation to be of priority direction. The encouragement of opening new jobs is carried out by means of various tools of economic policy as *investment policy, regional development programmes, privatization, development of finance and bank sector, and small and medium-sized enterprises' (SME) development incentive*.

Laws in the legislation of the Azerbaijan Republic, impacting productivity, securing and strengthening the competitive environment in the market should be conditionally divided into 4 groups:

1. Laws securing fair competition in the market and regulating the activity of natural monopolies
2. Laws securing and regulating business environment and entrepreneurial activity
3. Laws on development of infrastructure
4. *State Programmes specifying priorities of the country's socio-economic development.*

## 4.1. Laws securing fair competition in the market and regulating the activity of natural monopolies

.....  
*The Law of the  
Azerbaijan  
Republic about  
Antimonopoly  
Activity*

It was adopted on March 4, 1993; in 1997 it was amended and supplemented.

The Law determines organizational and legal foundations for prevention, restriction and suppression of the monopoly activity. The following definitions have been accepted within the limits of the present Law:

*Market subjects* - economic subjects and administrative bodies being participants of market relationships;

*Competition* - such form of fighting for the most favourable conditions of business activity between market subjects when their independent activities restrict seriously possibilities of each of them to influence

general conditions of circulation of commodities in the market and to stimulate production of commodities which the customers need;

*Dominating position* - exceptional position of economic subject which allows using its economic potential to influence competition and, so, to restrict access of other market participants to the market. Position of the economic subject with the share in the market exceeding 35 percent or other ultimate figure specified by legislation is regarded as dominating;

*Monopoly activity* - activity of economic subjects or executive power and administrative bodies which, being in one or another form monopolistic, is directed to prevention of competition, its restriction or elimination;

*Natural monopoly* - kinds of monopolistic activity in existing conditions, in the sphere where competition is impossible or inexpedient.

The law states the following types of monopolistic activity:

- State monopoly
- Branch monopoly
- Local monopoly
- Monopoly of economic subjects
- Financial-credit monopoly
- Monopoly formed as a result of horizontal and vertical agreements of market subjects
- Natural monopoly
- Patent- licence monopoly

#### Termination of monopoly activity

If economic subjects occupying dominating position begin monopolistic activity and their actions lead to significant restriction of competition, central body of executive power implementing antimonopoly policy in the Azerbaijan Republic, whenever organizational, technological and territorial conditions allow, might make decision about their forced desegregation. In this case central body of executive power implementing antimonopoly policy, taking into account specificity of economic subjects, establishes terms of their forced desegregation in at least 6 month period.

.....  
*The Law of the  
 Azerbaijan  
 Republic about  
 Unfair  
 Competition*

It was adopted on June 2, 1995.

The present law defines organizational and legal bases for prevention and elimination of unfair competition, gives a legal guarantee for fair entrepreneurial activity and provides bringing market subjects to responsibility for use of unfair competition methods. The law gives explanations to the main concepts:

*Unfair competition* means actions of market subjects directed to win superiority through unfair methods contradicting legislation on entrepreneurial activity, and, thus, damaging the other market subjects (competitors), or their business authority;

*Illegal payments* cover material and non-material payments provided to bribe state officials, officials of political parties, employees of mass media, heads and employees of economic subjects with the purpose to win groundless (unfair) superiority in the competitive activity;

*Competitor* is a market subject capable to bring commodity to any commodity (among interchangeable commodities) market.

The law defines the following types of unfair competition:

- Imitating a competitor's economic activity;
- Undermining authority of a competitor's economic activity;
- Intrusion into a competitor's economic activity;
- Unfair entrepreneurial activity;
- Unfair business conduct;
- Confusion of consumers.

It was adopted on March 12, 1999.

The present Law determines organizational and legal principles for the state regulation related to natural monopolies in the Azerbaijan Republic and is aimed to ensure balance of interests for subjects of natural monopolies and consumers.

Basic definitions used in the present Law have the following meaning:

*Natural monopoly* - a state of commodity market when, due to technological features of production, a demand is satisfied more effectively if there is no competition and goods produced (sold) by subjects of monopoly could not be replaced by other goods;

.....  
*The Law of the  
 Azerbaijan  
 Republic on  
 Natural  
 Monopolies*





*Subject of natural monopoly* - economic subject dealing with goods production (sale) under conditions of natural monopoly;

*Consumer* - a legal or physical person acquiring goods produced (sold) by a subject of natural monopoly.

## 4.2. Laws securing and regulating business environment and entrepreneurial activity

.....  
*The Law of the  
Azerbaijan  
Republic on  
Entrepreneurship*

It was adopted in December 15, 1992.

This Law defines principles of entrepreneurship, rights and responsibilities of entrepreneurial subjects, forms and ways of their national security and approval, mutual relations of entrepreneurs and state bodies in the Azerbaijan Republic.

The Law gives opportunities to follow the principle of equality of all property forms, freely chose scope of activities and display more economic initiative and efficiency based on economic decision-making. The 1<sup>st</sup> article of the Law stipulates for the entrepreneurial activity as:

*Entrepreneurial activity (entrepreneurship) is a free initiative activity of physical and legal entities engaged in any economic activity, not prohibited by law, with the purpose to gain profit or personal income at their own risks.*

.....  
*The Law of the  
Azerbaijan  
Republic on State  
Support of Small  
Entrepreneurship*

It was adopted on June 4, 1999.

This Law is aimed to protect the right of everybody to be engaged in free entrepreneurial activity, provided in the Constitution of the Azerbaijan Republic, or any other economic activity, not prohibited by law, and defines economic, legal and organizational bases, forms and ways of state support for small entrepreneurship in the Azerbaijan Republic.

State support for small entrepreneurial subjects is implementing in the following directions:

- *organization of infrastructure for encouragement and development of small entrepreneurship;*
- *creation of favourable condition for small entrepreneurial subjects to obtain financial, material, science-technical and information resources;*



- *support small entrepreneurial subjects in training, retraining and professional development of personnel;*
- *support foreign-economic activity of small entrepreneurial subjects, including development of their production, finance-credit, trade, science-technical and information relations with foreign partners;*
- *application of simplified accounting, recording and taxation systems for small entrepreneurial subjects;*
- *carrying out of researches for development of small entrepreneurship.*

.....  
*The Law of the  
Azerbaijan  
Republic about  
Protection of  
Foreign  
Investments*

It was adopted in January 15, 1992.

The present Law determines legal and economic principles of realization of foreign investments at the territory of the Azerbaijan Republic. The Law is aimed to attraction and efficient use of foreign material and financial resources in the economy, modern foreign equipment and technology and managerial experience and guarantees protection of rights of foreign investors.

### 4.3. Laws on development of infrastructure

.....  
*The Law of the  
Azerbaijan  
Republic on  
Transport*

It was adopted on June 11, 1999.

The Law strengthens bases and principles of carrying out legal assurance, taxation, financing, pricing, investment and united science-technical policy of state regulation on transport field.

.....  
*The Law of the  
Azerbaijan  
Republic on  
Communication*

The fundamental principles of activity in the communication field are stated in the Law as

- *equality of physical and legal entities engaged in this sphere;*
- *securing of competition and limiting monopoly;*
- *showing preference for development of communication facilities according to achievements of advanced world science and technology.*

.....  
*The Law of the  
Azerbaijan  
Republic on  
Energy*

It was adopted on November 24, 1998.

This Law highlights general legal bases for the state regulation of oil, gas and power industries being the fundamental law among those



included into energy law package. The Law stipulates for the special rules in the other laws adopted on concrete energy spheres. The energy sphere includes exploration, extraction, production, processing, checkout, transfer, distribution and use of energy materials and products. The Law provides objectives of state regulation of energy and rules for adopting strategy programme on energy development.

The state energy policy is aimed at creating condition for effective management through creating various forms of property, long-term contracts, licensing, competitive environment, restriction of monopoly, involvement of high-performance technologies, rational use of energy resources and naturally renewal energy sources.

It was adopted on June 30, 1998.

The Law defines state policy on gas production, processing and distribution. Gas activity is carried out on the basis of special permission, which is given by appropriate executive authority.

The Law provides principles of state policy and regulation of water supply and sewage.

Design and construction of water supply and sewage systems, water supply of population and enterprises for domestic, industrial-technological and other purposes, besides, flow, transfer and neutralization of sewages, location of water supply and sewerage services are carried out according to the republic and regional schemes.

#### 4.4. State Programmes specifying priorities of the country's socio-economic development

It was adopted on February 11, 2004.

The key goal of the State Programme is to develop different branches of economy, to expand activity of manufacturing enterprises, to encourage export-oriented output of products, to improve the population's welfare through development of local entrepreneurship and to provide dynamic development of the country's economy by efficient use of potential existing in the regions. To reach all of these the following objectives were put before, namely

- Creation of new manufacturing enterprises;

.....  
*The Law of the  
Azerbaijan  
Republic on Gas  
Supply*

.....  
*The Law of the  
Azerbaijan  
Republic on  
Water Supply  
and Sewage*

.....  
*State Programme  
on  
Socio-economic  
Development of  
Regions of the  
Azerbaijan  
Republic for  
2004-2008 years*



- Efficient use of new resources;
- Providing creation and development of infrastructure required for regional development;
- Providing creation of favourable condition to attract investors to the regions;
- Encouraging creation of new jobs.



## Chapter 5. Productivity and Competitiveness in Tourism and Processing of Agricultural Products

Recent decade the economy of the Azerbaijan Republic achieved the high pace of development. The great projects of oil production and export, foreign investments, the government liberal economic policy, all provided the economic stability and created the favourable condition for that development.

Nevertheless, the country faced the danger to catch the “Holland syndrome”. Thus, the main task before government was to develop the non-oil sector. Starting with 2002 it is already adopted one after another series of State Programmes, where in each of them the spheres of tourism and production and processing of agricultural products were recorded to be the priority sectors.

State Programmes provide for development of tourism taking advantage of favourable geographical location of Azerbaijan, the availability of 9 climatic zones in the republic among 11 existing ones, rich and splendid natural resources, historical and cultural monuments, old customs and traditions of hospitality to hold a certain position in the world tourism market, to involve foreign tourists into the country, and, thus, to support employment and increase welfare of the population. Business potential and auspicious business environment prevailing in this sphere changed the tourism into attracting business sphere in the long-term perspective.

Another sphere promoting socio-economic development of the regions is especially considered to be production and processing of agricultural products. The development of this sector will encourage production of competitive agricultural products in the republic, their processing and entering the world market, and, thus, facilitate to hold the relevant market position. In this respect, the above-stated factors promoted the two sectors, viz tourism and agriculture, were selected the survey objects from view point of productivity and competitiveness.



## 5.1. An overview of tourism and processing of agricultural products<sup>10</sup>

**Tourism in the Azerbaijan Republic.** The industry of receiving guests is regarded as one of the leading industries in many countries. This sphere is highly profitable. Almost all countries are greatly interested in developing this sphere. In the world economy, tourism holds leading positions and competes with oil extraction.

Azerbaijan is rich in natural resources and a favorable geographical position in order to develop the tourism industry. Azerbaijan is situated at the intersection of two continents and two civilizations, European and Asian, in the center of the Transcaucasus transport corridor, air and sea cargo transportation connecting Europe, the Caucasus and Central Asia, and in the center of the road and railway infrastructure.

From a social point of view, tourism has a strong influence on regions. As a result of the development of tourism, hundreds of thousands of new jobs are created, communication systems are developing and the cultural level of the local population is increasing. Along with its economic importance, international tourism plays an irreplaceable role in expanding mutual understanding and belief between people of various religions and cultures.

Today tourism-business in Azerbaijan takes the path of its development. "Law on Tourism", aimed at development of tourism-business in Azerbaijan, working draft of "State Programme on Tourism Development" for 2006-2015 years reveal the great role of this sphere in the economic development of the country. Moreover, our republic became a member of World Tourism Organization in 2002.

**Processing of agricultural products.** Not long ago, in Soviet Union times, Azerbaijan possessed a leading position on production of agricultural products, including fruit-, vegetable- and wine-growing, and production of canned fruit-and-vegetable products. But, on production of early products, tomato and cucumber, citrus fruits, Azerbaijan came first. Economic decline and transition problems didn't pass by this field, where existing economies, collective and state farms (kolkhozes and sovkhozes) were annulled, lands were not planted, and tea, cotton and tobacco plantations underwent erosion because of non-operated irrigation systems. All of

<sup>10</sup> Findings of the survey conducted within the project "Capacity building of employers' organizations on productivity and competitiveness in Azerbaijan", 2005



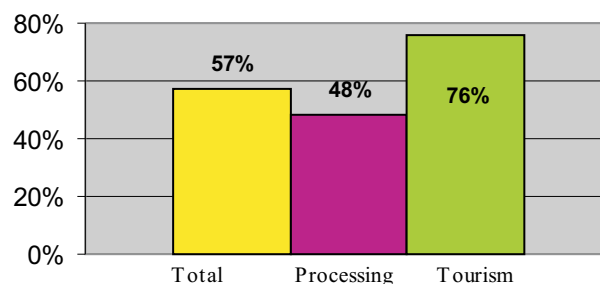
these caused significant decrease of productivity in agriculture, reduction of output of products, loss of markets in the post soviet area.

In recent years, the increasing attention of the republic's government to the non-oil sector has caused some revival, above all, in agriculture, tourism and construction. The State Programme on Development of Small and Medium Entrepreneurship in the Azerbaijan Republic for 2002-2005 years and the State Programme for the socioeconomic development of regions of the Azerbaijan Republic for 2004-2008 years led to the development of the processing industry and the agrarian-industrial complex in the regions, and thus, increase of production volume. Products produced in the agrarian-industrial complex of Azerbaijan have conquered many exhibitions in the world and are competitive in the world market.

## 5.2. Productivity and competitiveness problems in tourism and processing of agricultural products

Today the entrepreneurs-employers engaged in tourism and agrarian sector of economy in Azerbaijan face numerous problems and constraints. For example, the overwhelming majority of employers (total – 57.6 per cent, including the processing industry – 48.3 per cent and tourism – 76 per cent) complains that they cannot use credits to develop their businesses.

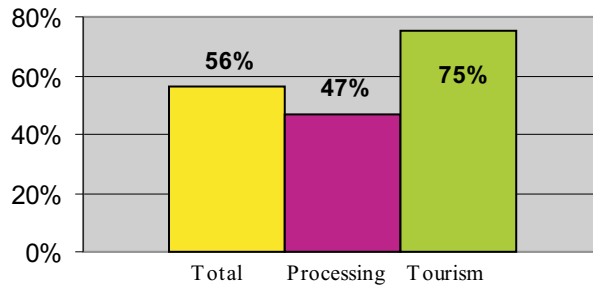
**Unavailability of credits**



Another problem in business development is the tax burden, when 56.4 per cent (including 47 per cent – processing industry and 75.3 per cent – tourism) of entrepreneurs are sure the the tax burden to be heavy.

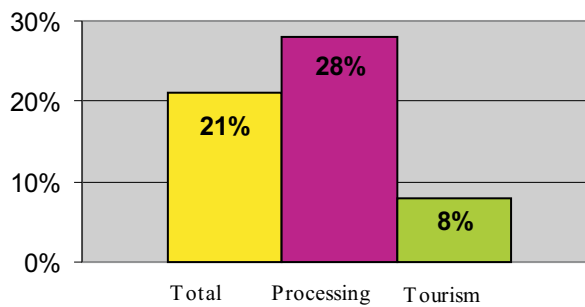


### Heavy tax burden



Of course, it is normal for government agencies to check businessmen. However, there are certain problems in this sphere. First of all, they are presented with groundless demands during the checks (total – 21.3 per cent, including 28 per cent – processing industry and 8 per cent – tourism).

### Groundless demands during the checks

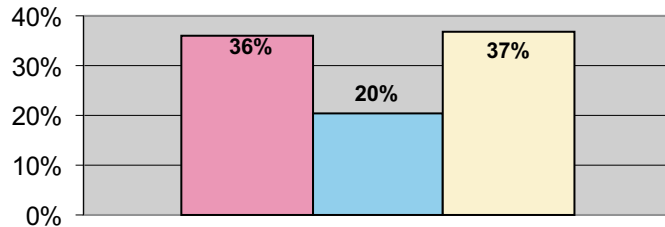


In a number of cases, entrepreneurs possess insufficient information on whether they need licenses and certificates in their business spheres or not. 36.7 per cent of entrepreneurs engaged in the processing industry are sure that they don't need certificates for their products, while 20.3 per cent have no any information about this. Moreover, 37.3 per cent of entrepreneurs engaged in tourism say they do not need a license for their businesses.





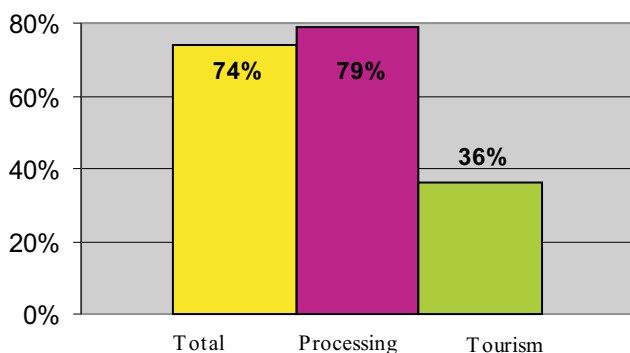
**Are your products and services required to undergo certification and licencing?**



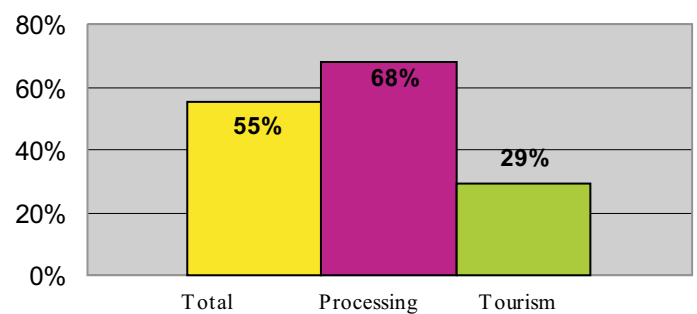
It is interesting that the majority of entrepreneurs (total – 74.2 per cent, including 79.3 per cent – processing industry and 36 per cent – tourism) say that they have carried out marketing researches in order to ensure competitiveness. However, it was revealed that marketing research is interpreted by the most entrepreneurs as to be their personal research through look into prices, products and quality parameters on the market (total – 55.3 per cent, including 68.3 per cent – processing industry and 29.3 per cent – tourism).

One of the negative factors discovered is that only 23.3 per cent of entrepreneurs (including 13.7 per cent – processing industry and 42.7 per cent – tourism) use computers and only 16.9 per cent (including 10 per cent – processing industry and 30.7 per cent – tourism) Internet.

**The necessity of marketing researches**

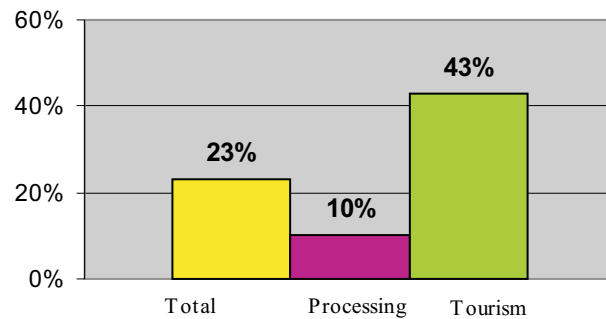


**Personal marketing researches**

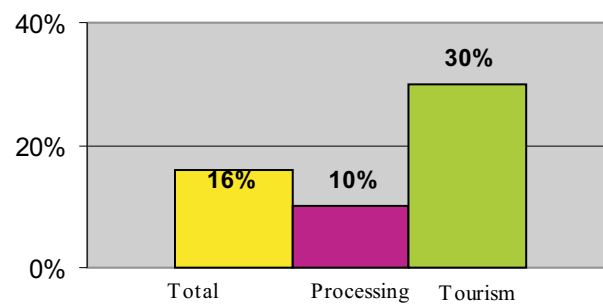




**Use of computers**



**Use of Internet**



In spite of all the shortcomings listed above, 12.9 per cent of entrepreneurs (including 15 per cent – processing industry and 8.7 per cent – tourism) assess reforms conducted by the Azerbaijan government in the sphere of the economy and entrepreneurship as **excellent**, 34.7 per cent as **good** (including 33.7 per cent – processing industry and 36.7 per cent – tourism), 37.3 per cent as **satisfactory** (including the processing industry – 34.3 per cent and tourism – 43.3 per cent) and 13.5 per cent as **unsatisfactory** (including 2 per cent – processing industry and 10.7 per cent – tourism) and only 1.6 per cent as **negative** in general (including 2 per cent – processing industry and tourism – 0.6 per cent).



	Excellent %	Good %	Satisfactory %	Unsatisfactory %
<b>Total</b>	12,9	34,7	37,3	13,5
<b>Tourism</b>	8,7	36,7	42,3	10
<b>Processing industry</b>	15	33,7	34,2	15

### 5.3. Development perspectives for productivity and competitiveness in tourism and processing of agricultural products

Information acquired as a result of researches and studies had a positive influence on purposeful steps in the sphere of productivity and competitiveness, increase the activity of employers and generation of action plan and strategy in the relevant direction and, thus, promoted development of entrepreneurship in the Azerbaijan Republic.

As a consequence of the study conducted, the more important activities required to be implemented were determined:

- To boost the capacity of entrepreneurial subjects in using sources of finance;
- To expand and regulate relationship between entrepreneurial subjects and state bodies;
- To step up awareness work for local entrepreneurs in the area of business technologies and law;
- To strive for the application of computer technologies in districts;
- To prepare certain proposals on easing the tax burden and submit them to relevant bodies;
- To train entrepreneurs on strengthening measures on occupational safety and work conditions at workplaces;
- To set up centers under public associations of employers to ensure permanent training of employers on issues of productivity and competitiveness;
- To further step up the work of employers' organizations.

## Chapter 6. The Employers' Strategy and Action Plan to Increase Productivity and Competitiveness<sup>11</sup>

In the modern times it is very important to determine and use certain principles for carrying out employers' productivity and competitiveness activities in accordance with the international standards, but not in scattered and spontaneous manner. These principles should base on both world-wide and country's local values, and take into consideration the relevant international experience, the existing real situation in the republic and positive knowledge acquired. Regarding the above-stated factors the employers activities in the medium-term perspective to obtain the concrete results should cover the following directions:

- Increasing the initiative and activity of employers in building-up of the legal ground for productivity and competitiveness. Here, creating the mechanism for revision of the existing laws, triggering the adoption of new legislative acts agreeable to the current standards of varying and developing business environment and lobbying are included. Thus, though series of laws were approved, their proper application is still retarded. Otherwise, some approved laws already become out of date and are required to be revised. The other ones submitted to the supreme legislative bodies become tardy with adoption which negatively impacts creating the favourable business environment.
- Enlarging the financial market and carrying out the dynamic activity and initiative to make it accessible. The present situation and structure of the financial market should not be considered equal to the businessmen' requirements and needs. First of all, the financial institutions should be diversified, and specialized banks financing different economic spheres, agriculture, import-export transactions, investment funds, financial organizations based on the other principles (financing high-risk projects) created. The businessmen are dissatisfied with the existing system of crediting, credit interests, term of financing, conditions of a pledge, terms of preferences offered. The preferential credit subsidies allocated by the National Fund for Support Entrepreneurship are insufficient to satisfy requirements of the growing local business. Thus, the funds from the state

<sup>11</sup> "Productivity and competitiveness". Manual for trainers, 2006



budget should be increased through this line, and the mechanisms for issue of credits revised, when created possibly simple mechanism with minimum bureaucratic defects to provide transparency and to get rid of basis for corruption.

- Expanding and developing the entrepreneurs' dataware base and variety of business consulting services. Recent years the establishment of business centers in the regions should be approvingly noted. Nevertheless, it is impossible to solve a problem on dataware and rendering professional consulting services through formal increase in the number of centers. In this respect, to find the more radical and fundamental problem solving the programme on preparation of skilled specialists at the national level is required to be developed. Moreover, creating the network of business consultants at the national level, achieving the functioning of this network on the basis of resources of business centers created in the regions; developing the business spheres as distributor, dealer and franchise activities; receipt of state support in the application of achievements of science-technological progress to business activity, carrying out of innovation projects, creation of techno-parks, business incubators, free economic zones, showing the initiative and carrying out the active work to achieve the financing through the state budget, local and foreign investment organizations, all should take a special place in the employers' strategy.
- Bringing the business education in the country to the new by quality, high level. Developing the programme on training of skilled managers, marketers, financiers for equity market, and brokers for stock exchange. With the purpose to instill business knowledge in graduates, final-year students to include the specialized trainings in the curriculum. Expanding, developing and supporting the managers' training programmes to get experience in the European countries. Inviting experienced managers, specialists to Azerbaijan from the European countries, establishment of business relations with them, study of experiences, their wide application, advocacy and support.
- Building the entrepreneurs' positive image in the society. Dissemination, propagation and application of ideas of social responsibility, protection of consumers and environment, creation of safe and decent workplaces among entrepreneurs. Providing with reliable information on goods produced and services rendered; non-admission of false and confusing advertising, dissemination and application of norms and rules of business ethics. Supporting the approval of corporate codes of ethics at the enterprises, and their observance. Maintaining the



financial and tax discipline and, thus, obviously advocating the private sector and entrepreneurs to be the economic power of the country and the leading force forming the state budget.

After identifying strategies on productivity and competitiveness the employers should include the following activities in their **action plan** to implement these strategies:

- To realize the increase and continuous improvement of productivity and competitiveness to be important and imminent, and to consider them as a philosophy of business. To develop and declare the productivity and competitiveness policy. Here, the supreme management of the company should realize its relevant responsibility;
- To identify the local environmental factors impacting the productivity and competitiveness, to study their impact mechanisms on the company's activity;
- To reveal the productivity and competitiveness indicators;
- To study the development level of manpower resources;
- To create the system on management of human resources. Here, development of criteria for the selection of service and working staff, preparation of job description, safety engineering rules for each workplace, and thus, recruitment and selection of candidates, training of employees should be included. To draw special attention to the creation of safe and decent workplaces;
- To analyze situation with accessibility of raw stock, material and energy resources;
- To determine the development level of infrastructure objects – highways, railroads, air- and waterways, to analyze situation with energy transmission lines – electric power transmission network, oil, gas, water lines, bridges and ports, accessibility of raw stock and material resources;
- To study possibility of solving problems with selection, purchasing and delivery of technologies and equipment;
- To review production spheres, their location, nearness to the raw stock and material resources, transport roads and consumers;
- To design and produce kinds and variety of goods and services bringing value added and content to buyers;
- To create marketing service. To achieve research, segmentation and continuous operation of the market;
- To keep up the competitors' conduct;



- To reveal the target segments, to determine their needs and requirements. To carry out research, test and design projects to develop the new kinds of products and services;
- To identify the marketing communications and use them efficiently;
- To develop the flexible price-formation policy;
- To select the distribution and sale channels;
- To establish advantageous relations with the customers, to carry out their management and continuous improvement;
- To develop the advertising policy.

The activities are carried out in accordance with the **PDCA** principle highlighted in the 1<sup>st</sup> chapter. First, the activity is planned, done and, then, the results are checked to analyze and assess to what extent the objectives put by were achieved. Subsequently, the action plan is corrected, and the cycle is repeated. This process continues and, thus, the permanent improvement is provided.



## Chapter 7. The Role of Employers' Organizations on Productivity and Competitiveness at National Level

As main representatives of enterprises the employers should be engaged in mutual activity, participate in regular dialogues and negotiations. Thus, in addition to lobbying and interests' protection they are required to master ways for to offer different services jointly with organizations representing private sector. They should carry out the following activities:

- To carry out mutual activity with government for the improvement of business environment;
- To continue representing the interests of private sector before the government;
- To render business services on information and trainings;
- To assist enterprises on to increase competitiveness;
- To maintain mutual relations at national, regional and international levels;
- To support business and export development by holding national, regional and international trade fairs.

Pursuing its mission on increase of the enterprises' productivity and competitiveness and for more efficient fulfillment of engagements stipulating in the tripartite General Collective Agreement the Azerbaijan Employers' Confederation was successful to establish the **Productivity and Competitiveness Center** within the Business Development Department.

The objectives of Productivity and Competitiveness Center were determined as follows:

1. To render consultative services to employers for to increase productivity and competitiveness on
  - individual,
  - enterprise
  - national and
  - international levels;





2. To perform the role of information disseminator in the line of productivity and competitiveness, collecting data and information on productivity performances and productivity improvement experiences and make these information available and easily accessible to users;
  3. To assist activity of branch, regional institutions of employers, to undertake training and consultancy activities aimed at building the skills and competencies on productivity and competitiveness;
  4. For sustained and continuing national productivity improvement efforts to build joint activity of social partners; to perform the role of a networker actively linking physical and legal entities, entrepreneurial subjects and their unions who need productivity improvement information and assistance;
  5. To pilot and demonstrate the appropriateness and efficacy of specific productivity improvement approaches and techniques; to adapt "best practices" and productivity improvement techniques and approaches to local economic and cultural environment; to undertake economic-analytical studies and analyses, to prepare proposals that could trigger socio-economic policy formulation and legislation;
  6. To define its long term objectives and clearly specify its operating philosophies for productivity improvement; depending on the socio-economic context, productivity situation obtaining in the country, national development priorities, and on the present level of competencies in the public and private sectors, to establish what its primary mandates should be; As the productivity awareness of the target groups develop and as the competencies of public and private sectors' training and consulting capabilities build-up to adjust its operating approaches and develop new programmes and activity plans relevant to the emerging needs.
- To conduct trainings on improvement of productivity and competitiveness in advanced spheres of the economy, including trainings for women-entrepreneurs and youth;
  - To render business-consulting services to entrepreneurs;
  - To organize trainings covering different spheres of business for entrepreneurs and employees of entrepreneurial subjects;
  - To render information service to entrepreneurs for the purpose to develop business relations;



- In this direction to organize Conferences, exhibitions and business forums on the regional and Republic levels;
- To develop recommendations on improvement of productivity and competitiveness for submission to Government, Parliament;
- To participate in the national policy on productivity and competitiveness;
- To implement appropriate activities for training the skilled personnel to cover personnel requirements of employers and science- technological progress.

## Appendix 1

### THE LIST OF INTERNATIONAL AND NATIONAL LEGISLATIVE ACTS ON PRODUCTIVITY AND COMPETITIVENESS

#### The ILO Conventions and Recommendations ratified by the Azerbaijan Republic

Nr. of Convention and Recommendation	Date of adoption	Name
C. 131	1970	Allocation of minimum wage
C. 135	1971	The representatives of workers
C. 140	1974	Paid leave
C. 142	1975	Development of human resources
R. 15	1921	Vocational training in agriculture
R. 83	1948	Employment service organization
R. 118	1963	Supply of machinery with protectors
R. 122	1965	Employment policy
R. 135	1970	Allocation of minimum wage
R. 150	1975	Development of human resources
R. 156	1976	Production environment
R.189	1998	Job Creation in Small and Medium-Sized Enterprises



## The national legislative acts on productivity and competitiveness

Date of adoption	Name of the law
1993	The Law of the Azerbaijan Republic about Antimonopoly Activity
1995	The law of the Azerbaijan Republic about Unfair Competition
1999	The law of the Azerbaijan Republic on Natural Monopolies
1992	The law of the Azerbaijan Republic on Entrepreneurial Activity
1999	The Law of Azerbaijan Republic on State Support of Small Entrepreneurship
1992	The Law of the Azerbaijan Republic about Protection of Foreign Investments
1999	The law of the Azerbaijan Republic on Transport
1996	The Law of the Azerbaijan Republic on Communication
1998	The Law of the Azerbaijan Republic on Energy
1998	The Law of Azerbaijan Republic on Gas Supply
1997	The Law of the Azerbaijan Republic on Water Supply and Sewage



## Appendix 2

### EXTRACTS FROM THE APPROPRIATE INTERNATIONAL AND NATIONAL LEGISLATIVE ACTS

#### ILO CONVENTIONS AND RECOMMENDATIONS

##### **ILO Convention 142 concerning Vocational Guidance and Vocational Training in the Development of Human Resources**

###### *Article 1.*

1. Each Member shall adopt and develop comprehensive and co-ordinated policies and programmes of vocational guidance and vocational training, closely linked with employment, in particular through public employment services.
2. These policies and programmes shall take due account of-
  - (b) the stage and level of economic, social and cultural development; and
  - (c) the mutual relationships between human resources development and other economic, social and cultural objectives.

###### *Article 2.*

With the above ends in view, each Member shall establish and develop open, flexible and complementary systems of general, technical and vocational education, educational and vocational guidance and vocational training, whether these activities take place within the system of formal education or outside it.

###### *Article 4.*

Each member shall gradually extend, adapt and harmonise its vocational training systems to meet the needs for vocational training throughout life of both young persons and adults in all sectors of the economy and branches of economic activity and at all levels of skill and responsibility.



## **ILO Recommendation 150 concerning Vocational Guidance and Vocational Training in the Development of Human Resources**

### **II. Policies and Programmes**

4. 1) Members should adopt and develop comprehensive and co-ordinated policies and programmes of vocational guidance and vocational training, closely linked with employment, in particular through public employment services.

- Such policies and programmes should have as objectives
  - to promote and develop creativity, dynamism and initiative with a view to maintaining or increasing work effectiveness;
  - to protect persons against occupational hazards by making high standards of teaching occupational safety and health an integral part of training for each trade or occupation.

1) With the above ends in view, Members should establish and develop open, flexible and complementary systems of general, technical and vocational education, educational and vocational guidance and vocational training, whether these activities take place within the system of formal education or outside it.

Members should aim in particular at

developing comprehensive systems of vocational training covering all aspects of productive work in all branches of economic activity.

## **ILO Recommendation 189 concerning General Conditions to stimulate Job Creation in Small and Medium-Sized Enterprises**

### **1. Definition, Purpose and Scope**

*The role of Small and Medium-Sized Enterprises in national development*

The National Labour Conference recommends, that Members should, in consultation with the most representative organizations of employers and workers, define small and medium-sized enterprises by reference to such criteria as may be considered appropriate, taking account of national social and economic conditions. Members should adopt measures which are appropriate to national conditions and consistent with national practice in order to recognize and to



promote the fundamental role that small and medium-sized enterprises can play as regards:

- the promotion of full, productive and freely chosen employment;
- greater access to income-earning opportunities and wealth creation leading to productive and sustainable employment;
- training and development of human resources;
- provision of goods and services which are better adapted to local market needs;
- access to improved quality of work and working conditions which may contribute to a better quality of life, as well as allow large numbers of people to have access to social protection;
- stimulating innovation, entrepreneurship, technology development and research;
- access to domestic and international markets.

## **2. Policy and legal framework**

*Creating an environment conducive to the growth and development of enterprises*

For creation of such conditions member-states should

- adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal economic environment (as regards, in particular, inflation, interest and exchange rates, taxation, employment and social stability);
- establish and apply appropriate legal provisions as regards, in particular, property rights, including intellectual property, location of establishments, enforcement of contracts, fair competition as well as adequate social and labour legislation;
- improve the attractiveness of entrepreneurship by avoiding policy and legal measures which disadvantage those who wish to become entrepreneurs.

### **Removal of political constraints**

It is necessary to remove constraints on a path leading to development and growth of profitable and competitive SMEs, arising, in particular, as a result of

- difficulties of access to credit and capital markets;



- low levels of technical and managerial skills;
- inadequate information;
- insufficient access to markets;
- difficulties of access to new technologies;
- lack of transport and communications infrastructure;
- insufficient support for research and development.

### **3. Development of an enterprise culture**

*Where and how the entrepreneurial environment is formulated and encouraged*

In creation of new enterprises the International Labour Conference (ILC) stipulates for the importance of socio-cultural factors impact on the entrepreneurial activity. Thus, the ILC recommends, that Members should adopt measures, drawn up in consultation with the most representative organizations of employers and workers, to create and strengthen an enterprise culture which favours initiatives, enterprise creation, productivity, environmental consciousness, quality, good labour and industrial relations, and adequate social practices which are equitable. Moreover, the awareness campaigns should be carried out to promote respect for the rule of law and workers' rights, better working conditions, higher productivity and improved quality of goods and services.

### **4. Development of an effective service infrastructure**

*Development of competitive enterprises with a view to create the greater number of workplaces and increase their quality ...*

Set of possible services of support

Access to below-mentioned services in the field of entrepreneurship development may essentially increase competitiveness of SMEs and promote their viability:

- Development of economical activity plan and measures on its performance;
- Business-incubators;
- Information services, including consultations on a public policy;
- Services in the form of consultations and scientific researches;





- Improvement of professional skill in the field of management and professional qualification;
- Access to the electric power, communication facilities and physical infrastructure, such as water and power supply, premises, travel facilities and roads, which are provided directly or through intermediaries in a private sector;
- Support of innovation and modernization;
- Consultation on technological issues;
- Consultation on effective application of information and communication technologies in business activity;
- Access to markets of capital, credits and contracting of loans guarantees;
- Consultation on issues of financial management, regulation of credit and debt relations;
- Assistance to export and creation of favorable conditions for internal and international trade;
- Support study of market, and marketing;
- Assistance in product design, and its perfection and promotion in the market;
- Quality management, including quality control and its measuring;
- Services on packing production; and
- Services on protection and rational use of environment.

### **5. Roles of organizations of employers and workers**

The employers' and workers' organizations should provide an opportunity of their participation in SMEs development covering the following directions:

- Formulating problems of SMEs and their employees for the government;
- Rendering services on direct support of vocational training, consultation, access to credits, marketing, consultation on issues of employers-employees relations and encouragement of cooperation with larger enterprises;
- Cooperation with national, regional and local institutions, including intergovernmental regional organizations which



support SMEs in such areas as vocational training consultation, start-ups and their quality control;

- Assistance in realization and participation in development of economic socio-progressive basic adjustment (for example, by means of retraining and independent employment assistance), maintaining, thus, a necessary network of social protection.

## **6. International cooperation**

Appropriate international cooperation should be encouraged in the following areas:

- establishment of common approaches to the collection of comparable data, to support policy-making;
- exchange of information on best practices in terms of policies and programmes to create jobs and to raise the quality of employment in small and medium-sized enterprises;
- creation of linkages between national and international bodies and institutions that are involved in the development of small and medium-sized enterprises, including organizations of employers and workers, in order to facilitate exchange of staff, experiences and ideas; exchange of training materials, training methodologies and reference materials; compilation of research findings and other quantitative and qualitative data, disaggregated by gender and age, on small and medium-sized enterprises and their development;
- promotion of access by small and medium-sized enterprises and their workers to national and international databases on such subjects as employment opportunities, market information, laws and regulations, technology and product standards.

## **Guidelines on occupational safety and health management systems (ILO-OSH 2001)**

### **1. Objectives**

These guidelines should contribute to the protection of workers from hazards and to the elimination of work-related injuries, ill health, diseases, incidents and deaths.

At national level, the guidelines should:



- a) be used to establish a national framework for OSH management systems, preferable supported by national laws and regulations;
- b) provide guidelines for the development of voluntary arrangements to strengthen compliance with regulations and standards leading to continual improvement in OSH performance.

At the level of the organization, the guidelines are intended to:

- a) provide guidelines regarding the integration of OSH management system elements in the organization as a component of policy and management arrangement, and
- b) motivate all members of the organization, particularly employers, owners, managerial staff, workers and their representatives, in applying appropriate OSH management principles and methods to continually improve OSH performance.

## **2) National policy**

A competent institutions or institutions should be nominated, as appropriate, to formulate, implement and periodically review a coherent national policy for the establishment and promotion of OSH management systems in organizations. This should be done in consultation with the most representative organizations of employers and workers, and with other bodies as appropriate.

## **3) The occupational safety and health management system in the organization**

Occupational safety and health, including compliance with the OSH requirements pursuant to national laws and regulations, are the responsibility and duty of the employer. The employer should show strong leadership and commitment to OSH activities in the organization, and make appropriate arrangements for the establishment of an OSH management system. The system should contain the main elements of ...

- policy
- organizing
- planning
- implementation

- evaluation
- action for improvement

## NATIONAL LEGISLATION

### **The Law of the Azerbaijan Republic about Antimonopoly Activity**

#### *Article 5. State monopoly*

Illegal actions of executive power bodies which result or might result in restriction or elimination of competition, infringement of interests of economic subjects and customers.

#### *Article 6. Branch monopoly*

Illegal actions of branch administrative bodies which result or might result in restriction or elimination of competition against interests of economic subjects and customers.

#### *Article 7. Local monopoly*

Illegal actions of local bodies of executive power (regional, city and constituent administrative-territorial formations) which result or might result in restriction or elimination of competition against interests of economic subjects and customers.

#### *Article 8. Monopoly of economic subjects*

Illegal actions of economic subjects having dominating position in the market which result or might result in restriction of competition, violation of interests of other economic subjects and customers.

#### *Article 9. Financial-credit monopoly*

Illegal actions of financial-credit organisation which result or might result in restriction of competition.

#### *Article 10. Monopoly formed as a result of horizontal and vertical agreements of market subjects*

Illegal horizontal and vertical agreements between executive power and administrative bodies, between economic subjects or between the bodies of executive power, administration and economic subjects



which become or might become the cause of restriction of competition.

#### *Article 11. Natural monopoly*

1. Antimonopoly control over activity of the administrative bodies and economic subjects which, abusing their own authority as the only monopolist in the sphere of production of one or another commodities and services, causes damage to the interests of the country, economic subjects and customers' rights, is accomplished separately.

2. List of natural monopolists is approved by the Supreme Council of Azerbaijan Republic on application of central body of executive power exercising antimonopolistic policy in the Azerbaijan Republic.

#### *Article 12. Patent-license monopoly*

Illegal actions of administrative bodies and economic subjects abusing their monopolistic right on patents and licenses with the objective of restriction or elimination of competition in some market.

#### *Article 15. Termination of monopoly activity*

If economic subjects occupying dominating position begin monopolistic activity and their actions lead to significant restriction of competition, central body of executive power implementing antimonopoly policy in the Azerbaijan Republic whenever organisational, technological and territorial conditions allow, might make decision about their forced desegregation. In this case central body of executive power implementing antimonopoly policy, taking into account specificities of economic subjects, establishes terms of their forced desegregation in at least 6 month period.

### **The Law of the Azerbaijan Republic about Unfair Competition**

#### *Article 4. Imitation of the competitor's economic activity*

The following actions imitating the competitor's economic activity are not supposed:

- Unauthorized imitation of the competitor's goods, including form, packing and external design of goods, except for those which appearance is caused by their technical function;
- Illegal use of a trade mark, geographical indications, the company name, commodity mark, and also the name of other

managing subject, except for cases when the same subject uses a specific name as the company name with addition of any distinctive mark.

#### *Article 5. Discredit of the competitor's economic activity*

The following actions resulting in discredit of the competitor's economic activity are not supposed:

- Distribution of the false and distorted data on business authority and financial condition of the other market subjects;
- Disclosure of distorted data about scientific, technical and production potentialities of the competitor.

#### *Article 6. Intervention in the competitor's economic activity*

The following actions pursuing the purpose of intervention in the competitor's economic activity are not supposed:

- Deliberate violation, failure and termination of the competitor's business relations by illegal means;
- Illegal influencing the competitor's employees with the purpose to incline them to neglect official duties.

#### *Article 7. Unfair entrepreneurial activity*

The following actions in the entrepreneurial activity are not supposed:

- Illegal obtaining, use and disclosure of data on scientific and technical, industrial or trading activity of the market subject, including its commercial secret;
- Sale of the goods with compulsory additional assortment;
- Stipulation for unreasonable unilateral advantages in contracts;
- Withdrawal of the goods from economic circulation or their non-admission to circulation before date of the planned rise in prices, or with the purpose to cause this rise.

#### *Article 10. Inadmissibility of illegal payments in the entrepreneurial activity*

Illegal payments are not supposed with the purpose to obtain unilateral advantages in a competition, namely:



- for artificial creation of a favorable environment for this or that managing subject, including for provision of favourable contracts, credits, grants, establishment of the preferential customs and a tax mode;
- for granting individual privileges at receipt of certain orders or artificial improvement of the general conditions of their receipt;

*Article 13. Withdrawal of illegally received profit and compensation of the caused losses*

The profit illegally received by the managing subject as a result of unfair competitive activity is withdrawn to the state budget under the decision of court.

The problem on the compensation paid as a result of unfair competitive activity is solved in the order stipulated by the civil legislation of the Azerbaijan Republic.

### **The Law of the Azerbaijan Republic on natural monopolies**

*Article 5. Spheres of activity of natural monopoly subjects*

Spheres of activity of natural monopoly subjects are as follows:

- Transportation of crude oil and oil products through the main pipelines;
- Services on transportation of natural gas through the pipelines, its storage and distribution;
- Services on transmission and distribution of electric and thermal power;
- Services on operation of main and branch railroads, road terminals and structures, traffic control and safety, railroad terminals and passenger stations;
- Airport services, operation of airports, runways and structures, aviation and aeronavigation services for aircrafts;
- Services to sea-ports, operation of port terminals, cargo transportation and safety;
- Services on electric and post communications in public use, operation and control over transmitters and receivers of radio and TV-stations, HV units;



- Operation of main facilities on water treatment, main pipelines, systems of water pipelines and pressure-regulation stations thereon;
- Aeration, operation of plants of mechanical cleaning, pumping units, main and rainfall run-offs in utility systems, operation of sewage lines;
- Operation of water reservoirs, canals, headers, main pipelines and dams related to irrigation and melioration systems;
- Services on heat-supply.

*Article 6. State control over the activity of natural monopolies subjects*

The following approaches might be taken for control of activity of natural monopoly subjects:

- Control of prices (tariffs) for commodities;
- Identification of customers to whom the services must be provided and (or) in cases when natural monopoly subjects are not able to satisfy in full customers' demand in commodity, identification of required minimum of said commodity.

*Article 8. State control over activity of natural monopoly subjects*

1. Relevant bodies carry out control over activity of natural monopoly subjects in accordance with this Law and other normative-legal acts of the Azerbaijan Republic. Said bodies carrying out control over activity of natural monopoly subjects in accordance with this Law and other normative-legal acts of the Azerbaijan Republic might take measures to stop or prevent actions which could have negative impact on the customers' interests, or put an obstacle to transition from the state of natural monopoly to free competition which is economically sound.

*Article 9. Authority of the bodies carrying out control over the natural monopolies*

The bodies carrying out control over the natural monopolies have the following authorities:

- to carry out control over observance of provisions of this Law within the limits of their authority;
- to carry out state registration of natural monopoly subjects;





- to establish methods of control used for each specific subject of natural monopoly.

*Article 11. Responsibilities of natural monopoly subjects and types of penalties (financial sanctions) are provided in the Law.*

## **The law of the Azerbaijan Republic on Entrepreneurial Activity**

### *Article 6. The rights of the entrepreneur*

The entrepreneur for realization of his/her activity with observance of the legislation of the Azerbaijan Republic has the right:

- To create any enterprise, to hold posts in its administrative bodies and to participate in work of these bodies;
- To employ and dismiss employees;
- To fix the prices (tariffs) for production (works, services);
- To open bank accounts for depositing money resources, realization of all kinds of accounting, credit and cash operations;
- To use freely the profit from entrepreneurial activity remaining after payment of taxes and other obligatory payments;
- To participate in the external economic relations;
- To conduct currency transactions.

### *Article 7. Duties of the entrepreneur*

The duties of the entrepreneur include:

- To conclude contracts with employed citizens;
- To contribute deductions to the State fund of social protection and other funds, created with the purpose of social protection of workers, in accordance with established procedure and size;
- To pay the taxes established by the legislation;
- To create working conditions for workers according to the current legislation and contracts;
- Led by working statutory acts to take measures on maintenance of ecological safety, occupational safety, accident prevention, industrial hygiene and sanitary, protection of architectural and other historical monuments;



- To achieve competitiveness of the produced goods (works, services).

#### *Article 9. The state support of entrepreneurship*

- The state regulates the entrepreneurial activity by means of legislative, administrative, legal, budgetary, tax and credit-and-monetary systems.
- The state does not suppose property and organizational-legal privileges and an inequality in sphere of use material, technical, financial, labour, information and natural resources.

### **The Law of the Azerbaijan Republic about Protection of Foreign Investments**

#### *Article 9. Legal protection of foreign investments*

Foreign investments at the territory of the Azerbaijan Republic enjoy full legal protection that is guaranteed by the present Law, other legislative acts and international agreements of the Azerbaijan Republic.

#### *Article 10. Guarantees against changes in legislation*

In case of future legislation of the Azerbaijan Republic will worsen investment terms, then within 10 years legislation which existed at the moment of implementation of investments will be applied thereto.

#### *Article 12. Compensation of losses to foreign investors*

Compensation paid to foreign investors should correspond to actual cost of investment at the moment of taking decision about nationalisation or requisition.

Compensation shall be paid in foreign currency and transferred abroad by the investor's request.

Foreign investors have the right for compensation of losses including loss of profits as a result of acts of state bodies or officials thereof contradicting legislation of the Azerbaijan Republic.

#### *Article 15. Guarantees for use of profits*

Profits of foreign investors obtained at the territory of the Azerbaijan Republic may be reinvested in the same currency, stored in banks of the Azerbaijan Republic, used for purchase of foreign currency in an



order and on terms determined by National Bank of the Azerbaijan Republic.

## **The Law of the Azerbaijan Republic on Transport**

### *Article 5. State regulation in the field of transport*

State regulation in the field of transport is carried out through policy of legal maintenance, taxation, financing, evaluation, investments and uniform scientific and technical policy.

Intervention of the state and municipal bodies in economic activities of transport agencies, and also attraction of operational workers of transport agencies to other works are not supposed, except for the cases stipulated by the legislation.

### *Article 6. Public administration in the field of transport*

The primary goals of the government in the field of transport are the following ones:

- Realization of economic, investment, tariff and science-technical policy in the field of transport, organization for elaboration and implementation of programs on development of separate types of transport;
- Managerial control over implementation of reforms in connection with transition of a transport complex to relations of market economy;
- Carrying out of target measures on restriction of monopoly activity and development of a transport competition, maintenance of equal conditions for all transport agencies, irrespective of a form of ownership for realization of their economic activities;
- Establishment and perfection of standards concerning functioning of a transport complex and separate types of transport;
- In case of transport problems protection of economic interests of the state, legitimate interests and rights of transport agencies and users of transport.

## **The Law of the Azerbaijan Republic on Communication**

### *Article 4. The basic principles of the communication activity*



The communication activity as well as production activity is carried out based on the following principles:

- The equality of physical persons and legal entities to be engaged in communication activity and use its results;
- Management, stability, quality and reliability control of communication networks operating according to the international and national state standards at the territory of the Azerbaijan Republic;
- Protection of competition, restriction of the unfair competition and monopoly;
- Preference of the development of communication facilities in compliance with achievements of the advanced world science and technology.

#### *Article 14. Public administration of the communication activity*

The public communication administration in the Azerbaijan Republic is exercised by the relevant executive authority.

This executive authority coordinates the activity of state or non-governmental communication networks and exercises state control to secure the users' rights and reliability of the whole communication system irrespective of the property, organizational and legal form.

#### *Article 21. Competition in communication sphere*

The equal legal regime in the communication sphere of the Azerbaijan Republic is created for all subjects irrespective of their property, organizational and legal form.

It guarantees creation of sound competitive environment for communication activity except for cases with protection of state interests, and ensuring of national safety and peace protection.

### **The Law of the Azerbaijan Republic on Energy**

#### *Article 3. Objectives of the state energy policy*

The objectives of the Energy Policy of the State are to ensure and regulate the following:

- 1) ensuring of efficient extraction, production, transport, distribution, storage, use and security;



- 2) the creation of an infrastructure to provide efficient and reliable supply of energy to all consumers as well as new jobs with taking the following into account:
  - creation of competition and minimum monopoly situation in respect of types of activities in the Energy Sector;
  - construction activities in the Energy Sector on the basis of various property types, long term agreements and special permissions;
  - creation of favourable conditions for the local enterprises producing high quality products;
  - creation of favourable conditions for the application of efficient and environmentally safe technologies;
- 3) the conservation of Energy resources, the reduction of wastes, the efficient use of energy and the use of renewable Energy Resources;
- 4) the reduction of harmful Environmental Impacts, and
- 5) in the event of energy shortage, granting of subventions to producers and consumers for the purpose to improve the efficiency of the energy sector;
- 6) creation of favourable legal and economic conditions for investments.

### **The Law of Azerbaijan Republic on Gas Supply**

#### *Article 3. General Requirements*

- 1) Gas facility's construction, assembly, operation and maintenance should meet relevant requirements.
- 2) Gas facilities should provide for the protection against gas leak into atmosphere, the compliance of its pressure, temperature, composition and other features with relevant requirements, and must be protected against harmful influence of other facilities and activities.

#### *Article 7. Activity in the Gas Field*

Activity in the gas field shall be performed on the basis of a license. The relevant executive authority shall issue the license. The application for the license shall be attached with:

- description of the established activity's main indices;
- documents on gas facilities, relevant equipment and professional qualification of the customer and his employees;
- memorandum on public safety;
- documents required by the health and safety rules for the persons performing the established activity;
- documents on the gas utilization efficiency;
- assessment report and main information on environmental impact.

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