

SME Landscape in Azerbaijan: Interactive Guidebook

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Introduction

Purpose of the Guidebook

This electronic guidebook is designed to help newly emerging SME owners in CICA countries develop their businesses and navigate relevant government policy measures. It offers opportunities to learn from the experiences and best practices of countries with similar levels of economic development. Through real-world examples and different approaches, the guide aims to equip business owners, policymakers, and other stakeholders with the tools and knowledge to overcome challenges and support the sustainable development of SMEs in their countries and across the CICA region.

Understanding SME Policy in Azerbaijan

- **Business Environment and Legal Framework for SMEs in Azerbaijan**

To support SME development, several government bodies and infrastructure tools have been established. Since 2018, the Small and Medium Business Development Agency (KOBIA) has been operational. It is a public legal entity under the Ministry of Economy, providing a range of services to SMEs and coordinating public services in this field.

Government mechanisms offer consulting, financial, training, tax, and customs support. The legal framework has been made more favorable through a simplified tax regime, quick business registration via “ASAN Service” and “SME Houses,” and the implementation of the e-government system. In addition, the Law on the Development of Micro, Small, and Medium Enterprises came into force on December 2, 2022.

- **Economic Overview of Azerbaijan**

In 2024, businesses, organizations, and individual entrepreneurs in the country produced 126.3 billion AZN worth of GDP, a 4.1% increase compared to 2023. GDP per capita reached 12,382.5 AZN. Investments in fixed capital amounted to 21,435.1 million AZN. Investments in the non-oil and gas sector increased by 3.3%. From January to November 2024, the average nominal monthly wage for paid employees rose by 8.0% compared to the same period in 2023, reaching 996.8 AZN. During the same period, Azerbaijani legal and physical entities conducted trade operations with partners in 176 countries, exporting to 120 and importing from 167 countries.

- **Business Environment for SMEs**

The Role of SMEs in the Azerbaijani Economy

SMEs play a critical role in the non-oil economy by increasing employment and expanding local production. Micro, small, and medium enterprises make up 99.7% of all active businesses in the country. They mainly operate in trade, hospitality, industry, agriculture, tourism, and logistics sectors.

Industrial and Economic Zones in Azerbaijan

- **Alat Free Economic Zone (AFEZ)**

Established by Presidential Decree on May 22, 2020, the AFEZ is located in the Alat settlement of Baku's Garadagh district. Its goals are to attract investments in the non-oil sector, promote export-oriented production, and enhance the country's transit and logistics potential.

Advantages:

- Tax-free environment (corporate income tax, VAT, customs duties, etc.)
- Simplified and fast registration procedures
- Infrastructure-equipped area with access to sea port, roads, and railway
- Activities governed by independent zone regulations rather than national law

- Equal rights for foreign and local investors
- Operations and development are managed by the AFEZ Management Organization

Industrial Parks – Existing Structures in Azerbaijan

To promote industrial production, regional economic development, and improve the investment environment, several industrial parks have been established. These parks offer tax and customs incentives, ready infrastructure, and organizational support.

Main Industrial Parks:

- **Sumgayit Chemical Industrial Park** – The largest and most developed, specialized in chemicals, petrochemicals, construction materials, and metallurgy.
- **Mingachevir Industrial Park** – Specialized in light industry and textiles; contributes to regional employment.
- **Pirallahi Industrial Park** – Specialized in pharmaceuticals; strategically important for localizing medicine production.
- **Hajigabul Industrial Park** – Focused on automotive and mechanical engineering sectors.
- **Aghdam Industrial Park** (established in 2021) – First industrial park in liberated territories of Karabakh; prioritizes light industry, food processing, and construction materials.
- **Araz Valley Economic Zone Industrial Park** (established in 2021) – Aims to revive liberated areas, boost Karabakh's industrial potential, support entrepreneurship, and create competitive industry based on modern technologies.
- **Qaradağ Industrial Park** (established in 2015) – Supports non-oil sector development, competitive production using modern technologies, and promotes employment in production.
- **Nakhchivan Industrial Park** (established in 2024) – Focused on fostering competitive industrial production based on innovation and high

technology, supporting entrepreneurship, and contributing to non-oil sector growth.

Incentives for Industrial Parks:

- Exemption from VAT on imported machinery, technological equipment, and installations;
- In addition, residents of industrial parks are exempt from customs duties on such imported machinery, equipment, and installations for a period of 10 years.

SME House

The Small and Medium Business Houses (SMB Houses) is an organizational unit of the Small and Medium Business Development Agency responsible for coordination of services rendered by state bodies and private entities to entrepreneurs in the single space.

This is the on-stop-shop center for provision of different G2B, B2B and support services for SMEs.

In 2024 the SME House model was selected as an innovative public sector management by the of Observatory for Public Sector Innovation (OPSI) of the Organisation for Economic Co-operation and Development (OECD). The model was praised for its effective one-stop service, its role as a bridge between government and business, and its contribution to transparency and client satisfaction.

SME Friends

SME Friend networks are local focal points of KOBIA operating in more than 50 regions of the country. They are in close contact with SMEs and facilitates their access to all range of Government services and support tools.

SME Friends carry out regular site visits and arrange regional sectoral meetings in the framework of public-private cooperation platform.

Legal Framework for SMEs

The legal framework for SMEs in Azerbaijan aims to support entrepreneurship and regulate it in line with market economy requirements. The Law “On the Development of Micro, Small, and Medium Enterprises” was adopted in 2022. It governs the relations in the field of SME development and defines the forms and methods for promoting state support to micro, small, and medium enterprises. Additionally, the Tax Code and the Customs Code are the main legal documents regulating SME activities.

Government Support and Incentives

The Government of Azerbaijan implements various incentive and support mechanisms to develop SMEs. Through the Small and Medium Business Development Agency (KOBIA), entrepreneurs are provided with advisory services, training, and business development tools. Institutional and legal models such as SME Development Centers, SME Model Enterprises, and SME Friends support SME growth.

Furthermore, mechanisms such as the "Startup" certificate, "SME Cluster" certificate, investment promotion documents, and others offer tax exemptions, simplified tax regimes, and specific benefits in social contributions. Entrepreneurs are offered low-interest loans, state grants, and subsidies to help them grow and expand. Export-oriented businesses also benefit from customs duty exemptions and better access to foreign markets.

Support for Access to Large Retail Chains

KOBIA promotes the placement of locally produced goods in large retail networks. To this end, the Agency supports establishing links between entrepreneurs and retail chains, organizes product presentations and B2B meetings, and provides technical advice on packaging, labeling, and quality certification.

Free Participation in Exhibitions

KOBIA enables micro and small businesses to participate in local and international exhibitions free of charge. The goal is to help SMEs present their products and services, find business partners, and expand sales opportunities.

The Agency covers the preparation of booths, logistics, and organizational support.

Domestic Market Research

KOBIA conducts analytical research and surveys on the internal market situation, consumer demand, and the competitive environment. These studies help entrepreneurs identify new business directions and better plan their existing operations. SMEs use the results of these studies to improve their product range and sales strategies.

Startup Certificate

- Issued to legal and physical persons who are starting a business and have innovative, technology-based projects.
- Grants exemption from income tax for a period of 3 years.
- Issued via an electronic system in cooperation with the Ministry of Economy.

Public Council under KOBIA

The Public Council under the Small and Medium Business Development Agency (KOBIA) was established in 2021 and consists of representatives from 15 non-governmental organizations and business associations.

The main goal of the Council is to enhance transparency and accountability in KOBIA's operations, ensure public oversight, and contribute to the reflection of business community opinions and proposals in state policy.

Council members, representing organizations that protect entrepreneurs' interests, regularly organize thematic public discussions, business forums, and consultations. These events aim to address current challenges, develop proposals for regulatory initiatives, and strengthen the dialogue between the state and entrepreneurs.

Step-by-Step Business Guide

• Business Registration Process

In Azerbaijan, entrepreneurship can be carried out either by forming a legal entity or as an individual entrepreneur without establishing a legal entity. Electronic services are available for registering with the tax authority under the “single window” principle.

Registration links:

- For individuals: <https://www.taxes.gov.az/az/page/fiziki-sexsler-ucun>
- For legal entities: <https://www.taxes.gov.az/az/page/huquqi-sexsler-ucun>

Registration can also be completed quickly and electronically through “ASAN Service” and “SME Houses.” Currently, legal entity registration can be completed online in just one step within 20 minutes. The system does not require an electronic signature, and documents are submitted only through the online cabinet — no extra time or cost is involved.

• Licensing and Regulatory Requirements

A simplified licensing and permitting mechanism is in place in Azerbaijan. Currently, only 36 types of business activities require a special license (e.g., pharmaceuticals, telecommunications, banking, handling hazardous substances). Most SMEs can operate without a license by completing state registration and following general rules.

In some cases, depending on the nature of the activity, sanitary or technical permits may be required (e.g., food production, commissioning of construction facilities).

Entrepreneurs may apply online through the “Licenses and Permits” portal by filling in the required form and uploading documents (such as educational certificates, equipment lists, etc.). The application is reviewed within 10

business days, and if all conditions are met, the license is issued. Licenses are now granted indefinitely, and fees for many activities have been reduced.

Reliable importers can benefit from the “Green Corridor” system, which significantly simplifies customs procedures.

Access to Finance and Investment Opportunities

Various public instruments are used to support SME financing in Azerbaijan, including:

- **Concessional loans:** Provided through the Azerbaijan Business Development Fund (ABDF), the Agricultural Credit and Development Agency (AKIA), and the Innovation and Digital Development Agency (IDDA). Loan amounts range from 5,000 AZN to 10 million AZN. Interest rates vary between 5–7%, and grace periods are applied.
- **Loan guarantees and interest rate subsidies:** Offered by the Mortgage and Credit Guarantee Fund (MCGF) and ABDF. These guarantees and subsidies mainly target entrepreneurs operating in the non-oil sector and in the territories liberated from occupation.
- **Investment financing:** Implemented through the Innovation and Digital Development Agency and the Azerbaijan Business Development Fund (ABDF). These mechanisms are applied in the form of participation in charter capital and share acquisition.
- **Equity Investment:** Carried out through IRIA and the Azerbaijan Investment Company by participating in charter capital or acquiring shares.
- **Grant Financing:** Provided by KOBIA and IRIA for projects related to innovation, education, and business support. The maximum grant amount is 500,000 AZN from IRIA and 20,000 AZN from KOBIA.
- **Venture Capital:** Startups can receive investments through the "Caucasus Ventures" fund with the participation of IRIA.

Market Entry Strategies

• Finding Business Partners and Networks

For SMEs to enter new markets and strengthen their position in existing ones, networking, identifying partners, and understanding export procedures are essential. In Azerbaijan, several state and private initiatives support this goal:

- Business Associations and Chambers of Commerce: Through platforms such as the National Confederation of Entrepreneurs (ASK), SMEs can build connections with local and international businesses and exchange experience.
- KOBIA Initiatives: Programs like the “Exporters’ Club,” networking events at SME Houses, and regional business forums help entrepreneurs expand their networks.
- International Events and Trade Missions: Participation in exhibitions and export missions is supported by the state, often resulting in signed international cooperation agreements.
- Online Platforms and Digital Networking: Platforms like Azexport.az and other B2B resources help SMEs promote their products to foreign buyers.
- Supply Chain Integration: SMEs can secure consistent orders by becoming subcontractors to large companies.

Role of Business Councils

Business Councils play a significant role in expanding SMEs’ international relations. These platforms, supported by KOBIA, facilitate mutual business missions, meetings, and experience exchange to foster new partnerships.

• Import-Export Regulations

The Customs Code and other regulatory acts serve as the main legal documents governing import-export operations. The State Customs Committee applies customs duties and oversees tariff and non-tariff regulations. Some products are subject to export duties or benefit from customs exemptions, and import VAT and excise taxes are applicable.

To promote exports, the Azerbaijan Export and Investment Promotion Agency (AZPROMO) provides support to entrepreneurs for participation in international exhibitions, access to foreign markets, and attracting investment. Within the “Made in Azerbaijan” initiative, government subsidies and favorable programs are available for exporters. Azerbaijan has also joined several international trade and customs agreements to simplify procedures and expand exporters’ access to global markets.

SME Questionnaire (Azerbaijan)

1) Criteria for identifying SME entities in Azerbaijan

By Resolution No. 556 of the Cabinet of Ministers of the Republic of Azerbaijan dated December 21, 2018, the "Criteria for the classification of micro, small, medium, and large business entities" were approved. The classification of business entities as micro, small, medium, or large is based on the number of employees and annual revenue (as shown in the table below).

Classification Criteria for Business Entities

Category of Business Entity	Average Number of Employees	Annual Revenue (thousand AZN)
Micro-enterprise	1 – 10	≤ 200
Small enterprise	11 – 50	200 < revenue ≤ 3,000
Medium enterprise	51 – 250	3,000 < revenue ≤ 30,000
Large enterprise	251 and above	> 30,000

Annual revenue includes the value of goods delivered, services rendered, and works performed during the reporting year, as well as non-sales income.

According to these criteria, the classification of a business entity as micro, small, medium, or large is based on the higher of the two indicators: “average number of employees” or “annual revenue.”

2) Number of SMEs in Azerbaijan, and their share in value added, employment, and exports

- In Azerbaijan, SMEs account for more than 99% of all business entities.
- As of 2023, there are approximately 401,149 registered SME entities.
- The share of SMEs in GDP reached 18% in 2023, and 27.2% in non-oil GDP.
- SMEs play a significant role in employment — 44% of the workforce is employed in SME enterprises.

- SMEs contribute approximately 28% to non-oil exports (according to the State Tax Service).

3) Sectors of the economy where SMEs are mainly active

In Azerbaijan, SMEs are mainly engaged in the following sectors:

- Trade, including vehicle repair
- Industry
- Transportation and warehousing
- Accommodation and food services
- Manufacturing
- Construction

4) Specialized institutions that support SME development in Azerbaijan

- Small and Medium Business Development Agency (KOBIA) – www.smb.gov.az
- Azerbaijan Entrepreneurship Development Fund (EDF) – <https://edf.gov.az>
- Mortgage and Credit Guarantee Fund (MCGF) – <https://mcgf.gov.az>
- Innovation and Digital Development Agency (IRIA) – <https://www.idda.az>
- National Confederation of Entrepreneurs (ASK) – <http://ask.org.az>
- Azerbaijan Export and Investment Promotion Agency (AZPROMO) – <https://www.azpromo.az>
- Agricultural Credit and Development Agency (AKIA) – <https://akia.gov.az>

5) Strategies and government programs for SME sector development in Azerbaijan

- Azerbaijan 2030: National Priorities for Socio-Economic Development
- "The 2022–2026 Socio-Economic Development Strategy of the Republic of Azerbaijan"
- State Programs on the Socio-Economic Development of Regions

- "2023–2027 State Program on the Socio-Economic Development of the Nakhchivan Autonomous Republic"
- "First State Program on the Great Return to the Liberated Territories of the Republic of Azerbaijan"

6) Support mechanisms that are available for SMEs in Azerbaijan

Investment Promotion Certificate:

- Introduced by Presidential decrees since 2016, the investment promotion mechanism covers projects in various economic sectors. According to the Tax Code and the Law on the Customs Tariff of the Republic of Azerbaijan, the certificate exempts legal entities and individual entrepreneurs from:
 - 50% of profit or income tax for 7 years,
 - VAT and customs duties on imported equipment and machinery,
 - Property tax on investment-based assets,
 - Land tax on relevant properties owned or used.

Concessional State Loans and Financial Support:

- Low-interest and long-term loans are provided to entrepreneurs by ABDF, AKIA, and IDDA. In addition, interest rate subsidies and guarantee mechanisms are available (through ABDF and MCGF).

SME Houses and One-Stop Services:

- SME Houses offer both public and private sector services in one place, in a fast and transparent manner. This model has been recognized by the OECD as an innovative mechanism.

Export and Investment Promotion Tools:

- Trade missions, participation in exhibitions, export promotion under the "Made in Azerbaijan" brand, and investment support programs help SMEs enter foreign markets.

Preferential Access to Public Procurement:

- SMEs are encouraged to participate in public procurement. Legal preferences are applied to support their involvement in tenders and quotation processes.

Digital and Technological Support Programs:

- Targeted projects and programs are implemented in cooperation with public and private institutions to support digitalization, access to technology, and innovation potential of SMEs.

Domestic Market Research:

- Sectoral market demand, market gaps, and sales opportunities are analyzed by professional research companies engaged by KOBIA, and the results are shared with entrepreneurs.

Startup Certificate:

- Issued to innovative micro and small businesses, this certificate grants exemption from income tax for three years.

SME Cluster Certificate:

- Provided to enterprises cooperating in industrial and service sectors, granting access to shared infrastructure, technology, and promotional support.

Access to Large Retail Chains:

- KOBIA supports entrepreneurs in placing their products in supermarket chains and promotes the expansion of sales channels.

Grant Program:

- Grants up to 20,000 AZN are provided for projects focused on education, awareness, research, and business support. The aim is to strengthen entrepreneurial culture and knowledge.

Industrial and Free Economic Zones in Azerbaijan

• Alat Free Economic Zone (AFEZ)

Established by Presidential Decree on May 22, 2020, and located in Alat settlement, Garadagh district, Baku, the goal of AFEZ is to attract investment in the non-oil sector, promote export-oriented production, and boost transit-logistics capacity.

Key Advantages:

- Tax-free environment (income tax, VAT, customs duties, etc.)
- Simplified and fast registration procedures
- Well-equipped infrastructure and broad logistics options (proximity to sea port, road, and rail)
- Activities regulated by special zone law independent of national legislation
- Equal rights for domestic and foreign investors
- AFEZ Management Organization oversees operations and development

Industrial Parks – Existing Structures in Azerbaijan

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Incentives for Industrial Parks:

- Exemption from VAT on imported machinery, technological equipment, and installations;
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7) Existing service infrastructure for SMEs in Azerbaijan

SME Houses:

- SME Houses are created to provide business entities with access to both public and business-related services in a single location, without barriers, bias, or bureaucracy.
- Currently, SME Houses operate in Baku, Yevlakh, and Khachmaz. A service point also operates in the State Services Center in Shusha, and an additional service office functions in Khudat under the Khachmaz SME House.

- These centers provide services for every stage of business—from planning to management—such as full business registration, licensing, tax and regulatory reporting, import/export processing, logistics and infrastructure access, and more. Several banks are also represented in SME Houses.

SME Development Centers:

- These regional centers offer training, consulting, information, and legal services to entrepreneurs, aiming to improve their knowledge and skills.
- Incubation and Acceleration Centers
- Designed to support the development of business ideas and the growth of startups, these centers provide mentoring, investment attraction, business model development, and networking opportunities.

Startup Development Centers:

- These centers offer technical and consulting support for turning innovative ideas into real businesses. Facilities include labs, coworking spaces, and training programs for young entrepreneurs.
- E-Government Services (e.g., ASAN Service, e-tender, e-customs)
- Ensure transparent and fast delivery of digital public services related to entrepreneurship such as tax registration, tender applications, and customs declarations.

SME Model Enterprise:

- A joint initiative of government, the private sector, and universities, this model helps improve management processes, reduce waste, and implement modern organizational innovations in businesses.

8) Tax incentives for SMEs in Azerbaijan

According to changes to the Tax Code that came into force in 2024:

- Individual entrepreneurs classified as micro-businesses (with at least 3 employees and no overdue social insurance payments) are exempt from income tax on 75% of their business income.

- In certain service sectors, micro-entrepreneurs with an annual turnover (excluding expenses) of up to 45,000 AZN are eligible for the same 75% income tax exemption without additional conditions.

Eligible sectors include: software development, design and decoration, translation, advertising, research, education, culture, sports, legal, audit, accounting, financial consulting, journalism, market research, valuation, delivery (excluding cargo transportation), and tour guiding.

- VAT and Customs Exemptions for Innovation and Export Activities
- Entrepreneurs engaged in innovation and export-oriented activities may benefit from VAT and customs duty incentives. These include exemptions on imported technological equipment and application of zero-rate VAT on export operations. The aim is to support the development of innovative products and access to foreign markets.

9) Mechanisms and concessional financing opportunities for SMEs in Azerbaijan

- Concessional Loans via the Entrepreneurship Development Fund (EDF), including credit guarantees and interest subsidies for businesses in liberated territories
- Loan Guarantees and Subsidies from the Mortgage and Credit Guarantee Fund (MCGF)
- Funding through IRIA: loans, investments, venture capital, and grants
- Concessional Agricultural Loans via the Agricultural Credit and Development Agency (AKIA)
- Project Investments via the Azerbaijan Investment Company (AIC)
- Grants provided by the Small and Medium Business Development Agency (KOBIA)

10) Main laws and regulations governing the SME sector in Azerbaijan

The key legal documents regulating SME activities in Azerbaijan include:

- The Law “On the Development of Micro, Small, and Medium Enterprises”
- The Law “On Entrepreneurial Activity”

- The Tax Code of Azerbaijan Republic
- The Customs Code of Azerbaijan Republic

11) Institutional and technical mechanisms that protect SME interests and resolve disputes in Azerbaijan

Commercial Courts:

- Specialized in handling commercial disputes between business entities.

Small and Medium Business Development Agency (KOBIA):

- Actively reviews appeals related to the protection of SME interests.

National Confederation of Entrepreneurs (ASK):

- Coordinates the activities of entrepreneurs and protects their legal and economic interests.

Independent Consulting and Legal Services:

- Available for SMEs needing professional advice and legal support.

Mediation Institutions:

- Specialized organizations operating in the field of dispute resolution.

12) SME participation in public procurement in Azerbaijan

The Law “On Public Procurement” of the Republic of Azerbaijan provides several benefits for SMEs:

- According to Article 38.3, the performance guarantee is set at 10% of the contract value. For micro and small enterprises, it is reduced to 5%.
- According to Article 38.10, if subcontractors are involved, at least 20% of the subcontracted amount must be awarded to local micro, small, or medium enterprises.
- According to Article 39.1, if the procuring authority includes advance payment in the tender conditions, the advance shall not exceed 30% of the contract amount. For micro and small enterprises, this limit is increased to 50%.

Article 48.2 stipulates that for quotation requests:

- If the estimated value is up to 30,000 AZN — only micro and small enterprises may participate.

- If the estimated value is between 30,000 and 100,000 AZN — micro, small, and medium enterprises are eligible.

13) Projects and tools that support youth and women entrepreneurship in Azerbaijan

- “SME Volunteers” and mentorship programs for young entrepreneurs
- Business development initiatives and promotion of women entrepreneurship
- Special grants provided by startup and innovation centers

14) SME digitalization and green transition in Azerbaijan

SME Digitalization Program

- Launched in 2024 by KOBIA and the Innovation and Digital Development Agency.
- Initiatives like “digiMATE” platform and “DIGI30” provide practical support.
- Digitalization efforts are also backed by grants and other financial tools.

Green Business Initiatives and ESG Principles

- In March 2024, KOBIA joined the UN Global Compact.
- Within the “Year of Solidarity for a Green World” and COP29, KOBIA launched the “Baku Climate Coalition Declaration for SMEs' Green Transition.”
- A Unified ESG Platform (ESGhub.az) has been created and a National Standard adopted.

15) Startup development in Azerbaijan

State Support for Startups in Azerbaijan

1. Startup Development Center (Baku SME House)

- Created for early-stage startups under KOBIA.
- Provides access to 3D printers and scanners, laser cutting tools, CNC robots, cameras, and other equipment.

- Offers design, engineering, expert, and mentoring support.

2. SME Development Centers (KOBIMs)

Located across regions, these centers provide:

- Trainings and seminars by professional experts
- Individual and group consulting services
- Networking, access to international programs, and funding
- Support for women, youth, and persons with disabilities
- Support for family businesses and innovation-driven initiatives

These efforts aim to strengthen the startup ecosystem and promote innovation across regions.

Tax Incentives and Financial Support for Startups

1. Startup Certificate and Tax Benefits

- According to a 2021 Cabinet decision, micro and small businesses may receive a “Startup Certificate.”
- Holders are exempt from profit and income tax on innovation income for three years.
- Eligible sectors include fintech, e-commerce, digital marketing, edtech, e-payments, and logistics.

2. Grant Support

- Grants up to 20,000 AZN are available for education, science, research, and support-focused projects.
- These grants aim to help bring innovative solutions to market.

3. Training and Mentorship Support

- Free training, consulting, and mentorship services are provided by KOBIA’s regional development centers.
- Services are delivered by experts to support innovation-driven businesses.