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# POLICY AND ECOSYSTEM RECOMMENDATIONS FOR SUPPORTING SOCIAL ENTERPRISES IN AZERBAIJAN





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# **POLICY AND ECOSYSTEM RECOMMENDATIONS FOR SUPPORTING SOCIAL ENTERPRISES IN AZERBAIJAN**

The Report on *Policy and Ecosystem Recommendations for Supporting Social Enterprises in Azerbaijan* was developed by the Developing Innovation-Driven and Sustainable Civil Society in Azerbaijan project, which was funded by the European Union and implemented by United Nations Development Programme. The project aims to increase the capacity of civil society organisations to engage in policy-making and local development processes in Azerbaijan. The project also aims to promote social entrepreneurship in the country. This Report intends to inform policymakers, social entrepreneurs, and other social economy players about context-specific recommendations to support the development of social entrepreneurship in Azerbaijan.

The Report was prepared by international expert Lana Lovasic, and edited by Rachel Parish.

The views expressed in this Report may not reflect the opinions of the European Union and United Nations Development Programme.



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# Definitions

## Definitions

**Blended finance:** the strategic use of development or concessional finance to mobilize further commercial finance towards sustainable development and impact investment.

**Legal form:** the registered structure of a given entity or business. A legal form can be a for-profit structure, such as a limited liability company or sole proprietorship, or a non-profit structure, such as a non-governmental organization. Legal forms have certain characteristics that may enable them to carry out particular tasks under a given country's legislation.

**Social enterprise:** in general at high level, any entity, regardless of legal type, which has a primary social or environmental mission but uses some element of trade or business activities to achieve its aims. Globally, specific definitions of social enterprise vary.

**Social economy:** in general, a variety of organizations which share the objective of putting people first, positively impacting communities, and pursuing a social cause while reinvesting profits back into the organization or cause. Organizations belonging to the social economy have a participatory or democratic form of governance. The social economy usually includes cooperatives, associations and mutual societies, among others.

# Summary of Recommendations

# Summary of Recommendations

This Report provides a set of preliminary policy and ecosystem recommendations for the creation of an environment in Azerbaijan which will enable social entrepreneurship. These recommendations are based on document research, surveys and stakeholder consultations. They were developed in a highly participatory manner, with extensive input from the social enterprise (SE) ecosystem of Azerbaijan.

While the SE ecosystem of Azerbaijan is currently relatively nascent and small, it shows great promise and potential for alignment with the socioeconomic development goals of Azerbaijan.

**The high-level policy and ecosystem recommendations for supporting SE in Azerbaijan include the following:**

## **Policy**

- Formalize a working definition of SE that is inclusive and relevant.
- Create a Social Enterprise Certificate.
- Create fiscal incentives for SEs.
- Create fiscal incentives for supporters of SEs.
- Provide grants to SEs and incentivize other funders in the long term.
- Provide funding for capacity-building of SEs.
- Provide funding for research and awareness-raising.
- Increase public procurement from SEs.

## **Ecosystem**

- Establish a network for SEs and ecosystem players.
- Expand capacity-building activities and mentorship.
- Mobilize funds for SEs.
- Facilitate the performance of research and case studies on local SEs.
- Increase awareness-raising and public outreach.

This Report describes each recommendation in detail, along with its related challenges. The Report also presents a recommended road map to policy at high level.



# **Introduction and Preamble**

# Introduction and Preamble

The policy and ecosystem recommendations for social entrepreneurship in Azerbaijan presented in this Report are intended to create discussion and further engagement between the national government and key local stakeholders working in SE and related fields. These recommendations are the result of the Developing Innovation-Driven and Sustainable Civil Society in Azerbaijan project, which was funded by the European Union and implemented by the United Nations Development Programme (UNDP). The Developing Innovation-Driven and Sustainable Civil Society in Azerbaijan project is, in turn, a key deliverable of a workstream focused on building capacity and an enabling ecosystem for social entrepreneurship and social innovation in Azerbaijan.

These policy and broader ecosystem recommendations were based on both international best practices and an examination of the local context. The local context analysis involved a desktop literature review of key data available in Azerbaijan, primary research via a short survey of local SEs, and direct consultation with key stakeholders via workshops and one-on-one interviews. The process lasted from November 2021 to September 2022. The process was highly participatory in nature and local-data- and context-driven.

Although the SE ecosystem of Azerbaijan is in its preliminary stage, it has several promising characteristics and passionate social entrepreneurs and ecosystem supporters. Many of these entrepreneurs and supporters are relatively small and new, but this scale is comparable to nearby, more developed ecosystems. However, the existing regulatory framework for SE in Azerbaijan is lacking. Also, the regulatory framework uses a definition of SE which is too narrow—including only employing people with disabilities. Finally, the overall structures in place to support SEs are underdeveloped.

Policy is integral to developing SE, but it is not the only element—broader considerations are needed. Therefore, this Report summarizes both policy and ecosystem-building recommendations at high level. Additionally, this Report is only the first step in the policy-development process. For policy to begin to take shape, there must be a government champion who will take in all the various outputs created so far and continue the process of participatory engagement with the wider community. This institution must also examine and balance necessary trade-offs depending on constraints, such as

budget and skills availability, as well as the structures of the Government of Azerbaijan. Policy must be implementable and practical to be effective, after all. The Road Map section of this Report discusses this subject in more detail.

It is recommended that before reading this Report, the reader review the two prior deliverables of the Developing Innovation-Driven and Sustainable Civil Society in Azerbaijan project, which are entitled:

- *SWOT Report*
- *Role of Social Enterprises in the Socio-Economic Development of Azerbaijan*

# Understanding the SE ecosystem

# Understanding the SE ecosystem

Building a thriving SE ecosystem requires many aspects. Some aspects can be grouped into themes, as suggested in the figure below. The figure below depicts an ecosystem-building framework. This framework was considered when conducting research and engagement. The framework indicates where policy interventions are most needed, and where there is room for the broader ecosystem to take initiative. Still, both policy and the Government of Azerbaijan can support all aspects of these themes in some way. The ecosystem-support aspects are presented in the boxes below, which serve as a frame for grouping the recommendations:



# **Key policy recommendations**

# Key policy recommendations

This Report recommends the following policy considerations for the support and growth of SEs in Azerbaijan based on the analysis of the current local ecosystem. It is recommended that the Government of Azerbaijan create an internal alignment and agreement to establish a framework and road map for how to proceed prior to implementing these recommendations. This internal process must also clearly outline what the end purpose of supporting SEs is—whether it be increasing sustainable economic activity, job creation or another goal. Different objectives will result in slightly different policy priority areas. Therefore, the internal process must clarify and state the end purpose up front.

For the following recommendations, the Government of Azerbaijan are the main intended audience and would be the implementing party:

## 1. Formalize a working definition of SE that is inclusive and relevant

The lack of a formalised regulatory framework for SEs in Azerbaijan is considered a significant hindrance, as expressed by many local stakeholders. One hindrance is the narrowness of the current definition of SE in Azerbaijan. Currently, SE in Azerbaijan is defined as an enterprise which employs people with disabilities. A new definition is needed, one which is more globally aligned and locally relevant. The definition of SE proposed here is based on the research and consultations conducted. Annex 1 details how this definition was determined, as well as some key considerations. Annex 4 presents further comments, received during the final feedback session, which should be considered during next steps.

The proposed definition for a SE in Azerbaijan is an entity:

- With a main purpose that is social or environmental in nature, which is clearly defined and documented<sup>1</sup>;
- Taking a range of legal forms—any legal form is eligible (non-governmental organisation, limited liability company, or other), but at least 25 per cent of income must come from trading (selling goods and services for money);

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<sup>1</sup> For some legal forms in Azerbaijan, such as sole proprietors, there is no required document for stating the purpose of the organisation, however, such entities can be asked to create a policy and strategy document for the purposes of acquiring the certificate.

- Where a maximum of 50 per cent of profit can be distributed to shareholders, and the rest must be reinvested in the mission or into some other social purpose or solution to an environmental or social problem;
- With a plan to monitor, measure and report impact which employs a participatory or consultative process; and
- Independent from the state—in the sense of controlled or owned by.

## **2. Create a Social Enterprise Certificate**

It is recommended that the Government of Azerbaijan create a Social Enterprise Certificate, which can be granted based on an approved definition of SE, as recommended above. Crucially, the certificate could be used to access various incentives. The Social Enterprise Certificate would be similar to the existing Startup Certificate, issued by the Small and Medium Business Development Agency. However, unlike the Startup Certificate, the Social Enterprise Certificate would not expire unless the entity no longer met the criteria, and it could be used to access incentives indefinitely. The Social Enterprise Certificate could be renewed or verified every one-to-three years.

For this process, the Government of Azerbaijan can create a specific Social Enterprise Certificate unit. The Social Enterprise Certificate unit would evaluate applications as well as annual reports submitted by SEs in order to ensure continuing compliance and eligibility. This unit would need to employ at least one member who has expertise in impact measurement and management.

The Government of Azerbaijan should create a register, or database, which contains basic information about the SEs holding the certificates, which will be part of the Social Enterprise Certificate unit. The public must be able to access the register so institutions, organisations, companies and individuals can find and potentially support the SEs.

## **3. Create fiscal incentives for SEs**

The tax code of Azerbaijan should recognise Social Enterprise Certificate holders' commitment to a social purpose and reinvestment of profits. This could take the form of reduced tax, in particular tax on business profits or income, whereby the reduction in tax is directly proportional to the amount reinvested into the mission or some related social purpose. The minimum threshold for reinvestment would be 50 per cent, but when a Social Enterprise Certificate holder reinvests 100 per cent of their profit into the social purpose, they would access a 100 per cent tax exemption.

Annex 4 provides additional fiscal incentive ideas from local ecosystem stakeholders.



#### **4. Create fiscal incentives for supporters of SEs**

It is recommended that the Government of Azerbaijan provide a tax deduction to any company who gives a grant to or buys from a Social Enterprise Certificate holder. The tax deduction would be for such spend (most likely against tax on profits for corporations), thus incentivising both procurement (and private sector market access) and funding of SEs.

For example, organisations offering in-kind services, such as free office space or supplies, as well as those giving direct funds, would receive confirmation from the Social Enterprise Certificate holder and thus be able to access the tax deduction.

#### **5. Provide grants to SEs and incentivise other funders in the long term**

The Government of Azerbaijan should consider how to best incentivise increased investment in SEs. Although many blended finance solutions are available which could be considered down the road, such as guarantee funds, the ecosystem in Azerbaijan is not yet at a stage to make full use of them. It is recommended that the Government of Azerbaijan give a small, one-time-only grant to any SE that applies for and receives the Social Enterprise Certificate. The SE could use the grant for whatever purpose they need. The Small and Medium Business Development Agency previously offered grants to small and medium enterprises (SMEs) in certain situations, so this type of intervention is precedented in Azerbaijan.

Additionally, the recently published *Socio-Economic Development Strategy for 2022–2026 of the Republic of Azerbaijan* mentions the creation of a new fund, the SME Development Fund. The Government of Azerbaijan could leverage this facility for SEs by ensuring that a percentage, for example 10–20 per cent, of the funding be set aside for Social Enterprise Certificate holders at any stage. This would allow the Government of Azerbaijan to leverage existing systems and streamline government resources. At the same time, special consideration may need to be made to ensure the inclusion of non-profit legal forms as well.

During feedback, a point was made that government grants can be difficult to manage and have had mixed results globally as well as present some risk of dependency. However, they could still provide value if implemented well. The Government of Azerbaijan should decide how and whether such a recommendation could be implemented. Also, further research could be carried out into similar structures. Annex 2 provides information on various blended finance approaches, for longer-term consideration.

## **6. Provide funding for capacity-building of SEs**

The Government of Azerbaijan should set aside funding to fund incubators, accelerators and other education providers who focus on the training and development of SEs and social entrepreneurs. This can also include the funding of an SE network, discussed further in the next section. A list of criteria can be developed, and capacity-builders can submit proposals to the Government of Azerbaijan for consideration for funding. This will help ensure there is increased capacity-building expertise and capacity developed in Azerbaijan focused on SEs—something that badly needed at this stage.

It should be noted that the *Socio-Economic Development Strategy for 2022–2026 of the Republic of Azerbaijan* presents several action items for SMEs which could be aligned with these SE policy recommendations. These action items include the establishment of three entrepreneur associations per year, the expansion of SME support structures, the funding of incubators, the creation of SME exhibitions, and an increase in access to trade networks, among others. All of these action items could include SEs in their implementation.

## **7. Provide funding for research and awareness-raising**

The Government of Azerbaijan could set aside funds for research and case studies on SEs, depending on the availability of funding. The results of the research and case studies could be made publicly available. The research and case studies would help build awareness and a better understanding of locally successful models and help others learn from example and experience. This money could also fund advertising campaigns for SEs and encouragement of the public to “buy social” from such entities.

It is worth noting that the *Socio-Economic Development Strategy for 2022–2026 of the Republic of Azerbaijan* presents awareness-raising and advocacy events targets specifically for social and green entrepreneurs to be implemented by the Ministry of the Economy of Azerbaijan.

## **8. Increase public procurement from SEs**

The Government of Azerbaijan should ensure that Social Enterprise Certificate holders are given priority or advantage in public procurement tenders. This could be as simple as giving additional points or weighting for Social Enterprise Certificate holders, providing that quality and service can be maintained at high level on critical items. For less strategic procurement categories, some items could provide even higher weighting and preference to Social Enterprise Certificate holders.

In addition, the Government of Azerbaijan could take special care to communicate procurement opportunities which may be particularly suitable for SEs, which could also be supported to then apply to these. An SE network, as discussed in the next section, could be useful for sharing such opportunities.

These initiatives will ensure increased public-market access for SEs, helping SEs grow and expand their services.

As the ecosystem develops and grows, the Government of Azerbaijan could enact new policies and support structures, as well as remove some. Therefore, the Government of Azerbaijan should review policy and the state of the ecosystem once every two years to see what is working, what is not working, and what could be improved.

# **Key ecosystem recommendations**

# Key ecosystem recommendations

Going beyond policy, the ecosystem at large can also lead and contribute to the development of an enabling environment for SEs in Azerbaijan. The following set of recommendations are intended for stakeholders who support SEs, as well as SEs themselves, operating in Azerbaijan:

## 1. Establish a network for SEs and ecosystem players

Networks of and for SEs should be created to help promote peer learning, information-sharing, joint advocacy and overall strengthening of the ecosystem. During the workshops, participants expressed a definite interest in setting up a local SE network. Indeed, several parties indicated they might be able to start or help organize such a structure. It is highly recommend that the Government of Azerbaijan support the establishment of this network, as they can aid the policy-development process by providing a central structure to seek out key stakeholders and engagement on SE topics.

The *Socio-Economic Development Strategy for 2022–2026 of the Republic of Azerbaijan* includes a target for the establishment of three entrepreneur associations per year. One of these could be an SE network, which would allow for easy alignment.

Annex 3 contains more information on SE networks.

## 2. Expand capacity-building activities and mentorship

More focus should be placed on tailoring local capacity-building activities for SEs as well as finding and increasing the number of suitable mentors. Many in the ecosystem expressed that there are not sufficient structures and resources for this. However, an SE network could help identify gaps and coordinate capacity-building efforts.

Feedback so far indicates a pressing need for more innovation-learning and support; marketing, financial sustainability, and peer-to-peer learning; and overall leadership and business skills. In addition, more resources in the Azerbaijani language are needed, as are more online resources for self-learning. It is also important that local experts do not just teach theory, but also give practical advice and assistance.

### **3. Mobilise funds for SEs**

Some stakeholders have already attempted to engage with various investors and potential investors in the impact sector, and they should continue in these efforts. Funding SEs has great potential—in SEs, investors can help create a positive impact as well as make returns. While the Government of Azerbaijan can help draw in such investors, different types of funders and investors can also come together and create collaborative solutions across the funding spectrum which could be mutually beneficial.

For example, funders who have higher risk tolerance could use grants or concessional funding to help offset risk for more commercially oriented capital to help bring in such investment as well. Funders' networks or forums could also be helpful in this regard. The recent Impact for Breakfast events, hosted in 2022 and organised by the European Venture Philanthropy Association and Education Hub, were an excellent step in this direction.

### **4. Facilitate the performance of research and case studies on local SEs**

More work must be done to collect and collate stories of success, as well as stories of failure, of SEs. This will allow sharing of and learning from experiences. Collection of reliable data and figures will also provide a good basis for making further interventions where they will be most effective.

### **5. Increase awareness-raising and public outreach**

Educational and awareness-raising campaigns should be undertaken in order to teach the wider public of Azerbaijan about the potential of SEs. These efforts will bring in new ideas and social entrepreneurs from a wider section of society as well as garner support for the concept of SE. This could take the form of a nation-wide advertising campaign sharing interesting success stories about SEs, as well as exhibitions and showcases for SE goods and services.

# **Outline of challenge themes and linked recommendations**

## Outline of challenge themes and linked recommendations

The table below lists the key policy and ecosystem recommendations for the support and growth of SEs in Azerbaijan. The table also includes key themes—the most significant barriers and challenges to the growth of SEs in Azerbaijan—which emerged through the research. In the table, the key themes are aligned with the recommendations they informed, indicating where the key themes were used to help determine the direction of a recommendation.

Policy recommendation	Main challenges addressed
Formalise a working definition of SE that is inclusive and relevant	<ul style="list-style-type: none"> <li>• The current SE regulatory framework is underdeveloped.</li> <li>• The definition of SE in official use only includes serving people with disabilities.</li> <li>• Local SEs need support and better ways to access that support.</li> </ul>
Create a Social Enterprise Certificate	<ul style="list-style-type: none"> <li>• The current SE regulatory framework is underdeveloped.</li> <li>• SEs need a clear and simple way to access government incentives.</li> </ul>
Create fiscal incentives for SEs	<ul style="list-style-type: none"> <li>• Tax provisions for SEs are currently limited.</li> <li>• SEs face more challenges than non-SEs when starting due to their focus on helping others and creating a positive impact.</li> </ul>
Create fiscal incentives for supporters of SEs	<ul style="list-style-type: none"> <li>• The local market in Azerbaijan is small, and accessing international markets is difficult.</li> </ul>
Provide grants to SEs and incentivise other funders in the long term	<ul style="list-style-type: none"> <li>• Funding for SEs is limited, SEs face difficulties accessing grants and other finance options, receiving online payments from outside of Azerbaijan is difficult, and crowdfunding is difficult.</li> </ul>
Provide funding for capacity-building of SEs	<ul style="list-style-type: none"> <li>• SE capacity-building services are insufficient and restricted in availability, resources in Azerbaijani are limited, and Azerbaijan lacks local experts and mentors in SE.</li> <li>• Key skills are needed in impact measurement and general business skill areas.</li> </ul>



<b>Policy recommendation</b>	<b>Main challenges addressed</b>
Provide funding for research and awareness-raising	<ul style="list-style-type: none"> <li>• SE is a new and generally not well-understood concept in Azerbaijan, and there is limited local expertise on the topic.</li> <li>• The number of local case studies on SE is insufficient, these local case studies are not adequately shared, and research on SE is limited.</li> </ul>
Increase public procurement from SEs	<ul style="list-style-type: none"> <li>• The local market of Azerbaijan is small, and accessing international markets is difficult.</li> </ul>

<b>Ecosystem recommendation</b>	<b>Main challenges addressed</b>
Establish a network for SEs and ecosystem players	<ul style="list-style-type: none"> <li>• There is currently no local network for SEs in Azerbaijan, and no local coordination of the ecosystem, which leaves a gap in advocacy and support.</li> <li>• The current ecosystem generally lacks collaboration and coordination.</li> </ul>
Expand capacity-building activities and mentorship	<ul style="list-style-type: none"> <li>• SE capacity-building services are insufficient and restricted in availability, resources in Azerbaijani are limited, and Azerbaijan lacks local experts and mentors in SE.</li> <li>• Impact measurement is not being carried out sufficiently and may be difficult to perform.</li> </ul>
Mobilise funds for SEs	<ul style="list-style-type: none"> <li>• Funding for SEs is limited, SEs face difficulties accessing grants and other finance options, receiving online payments from outside of Azerbaijan is difficult, and crowdfunding is difficult.</li> </ul>
Facilitate the performance of research and case studies on local SEs	<ul style="list-style-type: none"> <li>• SE is a new and generally not well-understood concept in Azerbaijan, and there is limited local expertise on the topic.</li> <li>• The number of local case studies on SE is insufficient, these local case studies are not adequately shared, and research on SE is limited.</li> </ul>
Increased awareness-raising and public outreach	<ul style="list-style-type: none"> <li>• The number of local case studies on SE is insufficient, these local case studies are not adequately shared, and research on SE is limited.</li> </ul>

# Policy road map

## Policy road map

For an effective policy road map to be developed, it is critical that it be owned and managed by the champion of the policy or the unit of the Government of Azerbaijan responsible for it. At the same time, many best practice elements exist to form part of an effective policy-development process. For this reason, this section outlines a recommended policy road map at high level that focuses on the key elements that typically form part of such a process. The Government of Azerbaijan will need to customise the road map, work out its details, and tailor it to the unique aspects of the local regulatory environment. Officials working in the national government are best placed to understand this regulatory environment.

For comprehension of the road map, defining two terms at the outset may prove useful. These terms include:

- **green paper:** typically a document with preliminary policy direction which contains some aggregation of background information and research; it is used in a public consultation process to gather feedback on the policy.
- **white paper:** a broad statement of government strategy or policy on a given topic.

Good policy processes should have a clear champion selected to lead them, and they should also make use of extensive participatory engagement processes. The recommendations in this Report were developed with the use of participatory processes, and it is important that the Government of Azerbaijan continue using participatory process as it moves towards the final policy. Because new information will be received and priorities may shift over time, usage must be maintained. Participatory processes will also be necessary to work out the details of some of the recommendations in terms of how they will be implemented from a practical perspective.

It is also important that the Government of Azerbaijan clarify the purpose of supporting SEs—whether it be increasing sustainable economic activity, creating jobs or a different goal entirely. Different objectives will result in slightly different policy priority areas. Therefore, it is important that the Government of Azerbaijan clarifies and states the end purpose up front.

Recommended road map:

The table below shows a recommended high-level timeline in months for the development of the policy by the Government of Azerbaijan. The Government of Azerbaijan should clearly agree upon the lead government entity<sup>2</sup> of this process, and the decision should be communicated to all other departments. Other relevant departments should be brought in as stakeholders in the overall process for their input and support.

Month	Activity	Detailed description
0–1	Structure and planning	<p>The policy department lead from the Government of Azerbaijan should be decided, along with dedicated individual(s) from that department, who will lead and champion the process. As part of this, all other relevant government agencies should be identified, and a structure of key stakeholders for input and internal consultation should be listed.</p> <p>Once this is done, a more detailed policy road map should be developed with clear role assignments from within the Government.</p>
1–3	Research aggregation	<p>During this stage, which may have partly commenced already, the lead government entity should gather all information conducted to date by other parties and aggregate it into an internal document. This document should contain preliminary policy directions as well as a list of remaining questions to be answered. As part of this, a Stakeholder Map should be completed (this was done in part via the Developing Innovation-Driven and Sustainable Civil Society in Azerbaijan project, but it should be updated with further stakeholders that may have been identified in the meantime).</p> <p>Also, as part of this process, the lead government entity should consider these policy recommendations and others, generated by other parties. They should develop initial opinions on each recommendation and identify potential constraints and challenges in implementing each.</p>

<sup>2</sup> We are aware that the Ministry of Labour and Social Protection of the Population has thus far led the process relating to development of the new social enterprise law.

Month	Activity	Detailed description
		Finally, the Government of Azerbaijan should prepare an initial position paper outlining overall policy direction, which can be used in the next stage: small group consultations.
3–9	Small group consultations	<p>Small group consultations should be engagements with small groups of key stakeholders in the ecosystem, including other government departments, local and international experts, SEs, ecosystem supporters and capacity-builders, funders/investors and other relevant parties who have greater expertise in either SE or in internal government policy.</p> <p>The Government of Azerbaijan should present their current position paper and solicit feedback on key elements from the stakeholders. From there, experts on each thematic policy area (for example, tax) should be identified, and smaller working groups on key topics should be convened. The key topic groups should contain a mixture of experts on the topic and those affected by the topic so that realistic and effective solutions are proposed.</p>
9–12	Green paper	Following the small group consultations and the outcome of the thematic working groups, the lead government entity should compile a green paper containing their proposed policy direction and the reasoning for this.
12–18	Promotion and awareness-raising	Prior to public consultation on the green paper, there should be increased public awareness-raising of social entrepreneurship and its potential, along with promotion of the policy-development process to identify a wider range of interested and affected parties.
18–24	Public consultations on green paper	The wider interested public should be invited to public consultations, where the green paper will be presented and commented on. Although the consultation will be open to the public, there should be special care made to ensure that those parties most affected by the policy are present so as to provide more in-depth feedback. The public consultations could make use of surveys for wider feedback as well as smaller focus groups.

<b>Month</b>	<b>Activity</b>	<b>Detailed description</b>
24–30	White paper	Following public consultations, the policy proposals should be amended and finalised into a white paper. From there, details on policy-implementation planning should be set and finalised as well.
30 +	Policy implementation	Finally, implementation should commence. The policy should be incorporated into the regulatory framework and activities should commence. This will include the creation of a team to manage any needed certifications, report reviews, and incentives that may come about as a result of the policy.

# **Annex 1—Definition considerations**

## Annex 1—Definition considerations

Both the Government of Azerbaijan and SEs seem keen to see policies and laws put into place to support the SE space, as observed in the work on this project to date. Several stakeholders have pushed for an SE law and an SE legal form. While this may appear a good starting point, recent research from various contexts has shown that it is not generally required for a successful ecosystem and can in fact add needless bureaucracy with limited benefits. In many countries where SEs are thriving, bespoke legal forms are not being used. Even in countries where they are used, not all SEs are using them, preferring instead another type of legal form, such as a company or non-profit.

Given the nascent local context of SE in Azerbaijan, the lack of clear existing groupings and models of current SEs in the country, and the current global trend moving away from legal forms, it is not recommended that the Government of Azerbaijan create a new legal form for SEs at this time. Rather, social entrepreneurs should continue to use the variety of existing legal forms.

Instead of a dedicated legal form, it is recommended that the Government of Azerbaijan develop a characteristics-based definition which will enable an umbrella **legal status** for all SEs, regardless of which legal form they have adopted. In order to be effective, a legal status needs to offer benefits, and in order to offer benefits, a definition needs to be clear. As noted previously, the current use of Startup Certificates by the Government of Azerbaijan can be a good proxy for SEs as well. Therefore, it is recommended that the Government of Azerbaijan create a Social Enterprise Certificate<sup>3</sup> that would be managed in a similar way. As the ecosystem develops and the number of SEs grows, SEs might need a legal form or be benefited by one. If that is the case, a legal form can always be developed and put into law at that later stage.

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<sup>3</sup> <https://smb.gov.az/en/nav/startup-certificate>



In order to grant SEs a Social Enterprise Certificate, however, a definition should be created at the national level. Taking into account the outcomes of research on the local ecosystems on the nature of existing SEs, as well as comparing regional definitions, **the following definition was originally proposed (which was modified following further consultations):**

- A main purpose that is social or environmental in nature, and which is clearly defined;
- At least 25 per cent income from trading (selling goods and services for money) in the first three years and at least 50 per cent income from trading thereafter;
- A maximum of 50 per cent of profit can be distributed to shareholders, and the rest must be reinvested in the mission or into some other social purpose;
- Annual report submission (or annual impact plan if in Year 1)—comprising a component on impact measurement as well as a component on use of participatory or consultative processes to operate and measure impact—the latter requirement does not need to be reported on if the organisation is community-owned and run in a participatory manner, but then this must be clearly stated. We recognise it can be difficult to measure impact, so we suggest the creation of a reporting template based on a simple set of requirements as part of the policy.
- Independence from the state—in the sense of controlled or owned by.

Following the creation of this initial definition, a feedback workshop was held online, and a survey was implemented, which asked for additional feedback. The comments received as part of the feedback workshop and survey included the following:

- Overall, most were happy with the basic nature of the proposed definition and its elements—however, there was some debate on the degree of social versus commercial focus, as well as to what degree there should be distribution of profits among shareholders, if at all.
- The definition should be simple and easier to understand and implement.
- It is important to link the definition to incentives—especially in tax (almost all participants seemed to agree on tax or fiscal incentives).
- There needs to be more clarification about legal forms and which would be eligible for the Social Enterprise Certificate.
- Vulnerable groups should be more clearly defined.
- There is a need to balance social aims with financial sustainability, but financial sustainability will take time.
- There was interest in procurement and bonus points, but some felt they might be too complicated to implement.

- There were concerns about misuse of incentives and potential corruption, and suggestions that such risks should be considered and evaluated as part of the process.
- Upon reviewing impact reports as a requirement, there were concerns that there would be insufficient expertise within the Government of Azerbaijan for evaluating impact reports, as evaluation may require knowledge of impact measurement and management practices.

The definition of SE was slightly redefined, taking this feedback into account. The proposed definition of SE presented in the main portion of this Report is this redefined definition. It will be impossible to satisfy all stakeholders with one definition because trade-offs must always be made. Therefore, it is important that the Government of Azerbaijan balances key goals and overall aims as well as focuses on what can have the greatest impact for the minimum input of resources at a given ecosystem stage.

## **Annex 2—Blended finance**

## Annex 2—Blended finance

Blended finance refers to a group of strategies which are used by developmental finance providers to draw more commercial investment into impact areas through various means of offsetting risk and improving outcomes. The strategies and instruments that come out of blended finance are quite varied and still evolving, as blended finance is a relatively new field. However, there is great potential to use the collaborative aspects of blended finance in nascent ecosystems to bring in capital towards SEs and early-stage businesses.

A full discussion on this topic is outside of the scope of this Report. However, blended finance could certainly be considered in the medium-to-long term by the Government of Azerbaijan.

Some examples of blended finance structures are:

- **Guarantee:** a risk insurance provided by the development funder to the private or commercial funder in the case of a default or failure of the investee.
- **Technical Assistance Grants:** grants typically provided by public or developmental funders to ensure that capacity-building occurs alongside commercial investment in order to improve outcomes and reduce risk for the commercial investor.
- **Concessional capital:** a portion of the finance provided which comes from a developmental funder, which allows the commercial funder to provide their portion at normal terms while the investee receives that capital at preferential terms due to the concessional portion.

**Further reading and useful information on blended finance can also be found below:**

Organisation for Economic Co-operation and Development:

<https://www.oecd.org/development/financing-sustainable-development/blended-finance-principles/#:~:text=Blended%20finance%20is%20the%20strategic,providing%20financial%20returns%20to%20investors>.

Global Impact Investment Market:

[https://thegiin.org/blended-finance-working-group?gclid=Cj0KCQjwxveXBhDDARIsAI0Q0x0fwLQleoa9J3P3HMu3DguTeBzH9Wpp\\_H-D75SIJ5PCkJsdI5JSTCMaArgJEALw\\_wcB](https://thegiin.org/blended-finance-working-group?gclid=Cj0KCQjwxveXBhDDARIsAI0Q0x0fwLQleoa9J3P3HMu3DguTeBzH9Wpp_H-D75SIJ5PCkJsdI5JSTCMaArgJEALw_wcB)

Convergence:

<https://www.convergence.finance/blended-finance>

# Annex 3—Networks

## Annex 3—Networks

There are many types of networks and associations globally which are linked to SE. These networks and associations can aid in building out SE ecosystems because they can influence, among other things:

- Awareness and perception of SE
- Advocacy and policy
- Peer-to-peer support
- Buying social
- Grants/funding
- Capacity-building
- Research

Networks and associations linked to SE can be started by SEs themselves, ecosystem supporters, academics, governments or others.

Some examples of current national networks in other global contexts include Social Enterprise UK (<https://www.socialenterprise.org.uk/>) and the Singapore Center for Social Enterprise (<https://www.raise.sg/>). Meanwhile, an example of a regional network in the European Union is Euclid (<https://euclidnetwork.eu/>).

SE networks can earn funds from a membership model, but they are also often supported by government funds and other external funding sources. They can also be funded by their own activities, such as consulting and events.

**Annex 4— Policy  
recommendations workshop  
in Azerbaijan**

## Annex 4—Policy recommendations workshop in Azerbaijan

As part of the final steps of this process, the policy and ecosystem recommendations included in this Report were presented in person at a workshop in Baku, Azerbaijan, on 28 September 2022. During the half-day workshop, the lead consultant of the Developing Innovation-Driven and Sustainable Civil Society of Azerbaijan project presented a summarized version of the research compiled to date. They also presented a summary of the Report to a room of key SEs and ecosystem players. This was followed by small group breakout sessions, where participants were asked to provide feedback on each policy recommendation.

It should be noted that all recommendations were received favorably as a whole, and there was support and agreement for each element. The greatest number of comments were received for recommendations 1, 2, 3, 6, 7, and 8.

The table below summarizes the feedback per policy recommendation (multiple “+” means the comment was more supported):

Policy recommendation	Feedback/notes from participants
1—Formalise a working definition of SE that is inclusive and relevant*	<ul style="list-style-type: none"> <li>• Redistribution of 50 per cent of income among shareholders should cover net profit.</li> <li>• SEs should employ people from vulnerable groups.</li> <li>• The company’s board should include a representative from the vulnerable group.</li> </ul>
2—Create a Social Enterprise Certificate	<ul style="list-style-type: none"> <li>• Should be validated/resumed every year. ++</li> <li>• Audits should be carried out.</li> <li>• Certificates should be renewed once every five years. ++</li> <li>• Certification is important to enable identification of SE companies.</li> <li>• Certification is important to access privileges and preferential treatment.</li> </ul>



Policy recommendation	Feedback/notes from participants
	<ul style="list-style-type: none"> <li>• After some time, an SE may no longer meet the criteria for the certificate—in this case, the SE should be removed from the roster.</li> <li>• Certified SE should be able to obtain grants.</li> <li>• The Government of Azerbaijan is expected to manage the process.</li> <li>• Detailed and precise information should be provided as an attachment to the certificate, which describes the rights and responsibilities of social entrepreneurs and the Government of Azerbaijan.</li> </ul>
3—Create fiscal incentives for SEs	<ul style="list-style-type: none"> <li>• SEs should be exempt from income and profit tax.</li> <li>• Customs-related privileges.</li> <li>• Preferential treatment in using communal services/utilities.</li> <li>• Exemption from import-related expenses.</li> <li>• Tax breaks during the first five years.</li> <li>• Should be partially tax exempt; in cases in which a SE creates employment, should be fully tax exempt.</li> <li>• Categories and directions should be defined.</li> <li>• Tax privileges should be long-term.</li> <li>• Should be fully tax exempt in the first three years, and later should receive tax breaks.</li> </ul>
4—Create fiscal incentives for supporters of SEs	<ul style="list-style-type: none"> <li>• VAT-related and other types of tax breaks. ++</li> </ul>
5—Provide grants to SEs and incentivise other funders in the long term	<ul style="list-style-type: none"> <li>• Agree at the initial stage.</li> <li>• Agree, but creation of dependency of SEs on grant money should be avoided, and SEs should be taught skills to be sustainable.</li> <li>• Grant funds have mixed success globally and are difficult to manage. Another option could be to simply promote blended finance solutions earlier by bringing in private investors and using grants for guarantees.</li> </ul>

Policy recommendation	Feedback/notes from participants
6—Provide funding for capacity-building of SEs	<ul style="list-style-type: none"> <li>• Additional trainings/capacity-development by the Government of Azerbaijan (local, international, exchange programmes).</li> <li>• Providing access to international trainings.</li> <li>• Government of Azerbaijan should have a targeted policy in this direction, and as part of this policy it should allocate budget for capacity-building.</li> <li>• Government of Azerbaijan should allocate funding.</li> </ul>
7—Provide funding for research and awareness-raising	<ul style="list-style-type: none"> <li>• Government of Azerbaijan should have a targeted policy in this direction, and as part of this policy it should allocate budget for capacity-building.</li> <li>• There is an important role for the SE network to play.</li> <li>• Dedicated source of funding should be identified.</li> <li>• There should be a single unified platform to access available research and data.</li> <li>• Universities should offer courses on social entrepreneurship.</li> </ul>
8 – Increase public procurement from SEs	<ul style="list-style-type: none"> <li>• To have preferential treatment in public tenders.</li> <li>• To have minimum requirements from the Government of Azerbaijan.</li> <li>• To create a more enabling environment for SEs to participate in public procurement, such as exemption from participation fees, bank guarantees, bid security requirements and other related expenses.</li> <li>• To have minimum requirements in public tenders.</li> </ul>

The final version of this Report incorporates some of these comments, but no major material changes were made from the draft version of the Report to the final version. This is within expectations, as the process used to reach the draft of the Report was also participatory and solicited feedback at multiple points.



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