



REFORMING MANAGEMENT OF PUBLIC COMPANIES

As a part of institutional reforms in Azerbaijan, a new public entity, Azerbaijan Investment Holding was established pursuant to the Presidential Decree of 7 August 2020. The Holding will unify management of state-owned enterprises, including enterprises with a publicly owned stake, aiming to increase their return on investments, financial sustainability, and competitiveness. It was to be registered within three days of the Decree and appears in the register of taxpayers under number 1702893761.

The Holding will be run by a management board supervised by a council of five directors composed of the country's Prime Minister (chairman), assistants to the President of Azerbaijan on economic policy and industry matters and on economic matters and innovation policy for development, Minister of Economy, and Minister of Finance.

Besides approval of the by-laws of the Holding, appointment of directors, and decisions on its dissolution and reorganisation, all other matters incidental to the supreme body stay with the Holding itself. Such would include, among others, approval (at the level of the council) of transactions above certain thresholds and with affiliated persons of the Holding.

The Holding after three years of financing from the state budget would run at 20 per cent of net income of managed enterprises (while it can have also other legal sources of funds).

The Holding will, in coordination with, and subject to any exceptions to be defined by, the President of Azerbaijan, exercise (through its council) the functions attributable to the exclusive competence of supreme bodies of managed enterprises.

The tasks assigned to the Holding include opining on long-term business plans, making proposals on appropriate investments and increase of utilities' efficiency, examining economic and financial positions of the concerned enterprises and taking measures for the increase of their efficiency, monitoring the use of budgetary funds, loan proceeds and other funds provided to the Holding and the enterprises managed thereby.

In accomplishing its tasks, the Holding may, among others, propose bills, carry out research, set up working groups and commissions, issue binding instructions, engage independent experts and specialists, act as a founder and shareholder of business entities, and release opinions, proposals, and analyses.

By the Instructive Order of 6 November 2020, the President initiated the transfer under the Holding management of: SOCAR, AzerGold CJSC, Azerbaijan Caspian Shipping Company CJSC, and Baku International Sea Port CSJC out of the list of 21 entities designated for the transfer by another Order of 5 November 2020.

Introduction of the Holding is expected to be followed-up by amendments to the existing regulations, including, apparently, the state programme on improvement of management of state property approved on 6 June 2007.

COVID-19 BUSINESS SUPPORT PACKAGE

Presidential Instructive Order No 1950, dated 19 March 2020, proposed actions to mitigate the effect of COVID-19 on the economy, including employment and entrepreneurship/proprietorship. Under the Decree, separate working groups were set up under each of the Ministry of Economy, Ministry of Finance, Ministry of

Labour and Social Protection of Population, and the Central Bank. Among the measures to be taken by the working groups, is the approval of the list of areas of business activities and legal entities and individuals operating in these areas affected by the pandemic and preparing an action plan providing for the aid package.

Affected Sectors

Types of economic activity in the areas affected most by the pandemic do not appear defined in legal or regulatory acts, yet are available on the website of the State Tax Service under the Ministry of Economy at: https://www.e-taxes.gov.az/new/downloads/Fealiyyet_kodlari_pandemiya_yeni.xlsx

The list provides for 385 activities in total divided into four categories:

- (a) industry (production): manufacturing except for medicines, alcohol, and tobacco products;
- (b) trade and services: wholesale and retail except for crude oil and medicines;
- (c) tourism, food and similar services: hotels, motels, and similar facilities; travel agents, transportation and delivery of foodstuff and non-food products, catering; organisation of exhibitions, concerts, recreation and entertainment, cinemas, theatres, museums and concert halls, sports and health facilities, trainings (education) and professional development courses, children's clubs (out-of-school education), psychological assistance centres; beauty salons, private educational institutions (including kindergartens); and maintenance and repair of vehicles; and
- (d) transportation: domestic transportation of freight and passengers (including taxi services).

Support of Employment

The action plan approved by Resolution, dated 4 April 2020, of the Cabinet of Ministers includes programs developed to prevent redundancy and save workplaces, which programs continue to be available to businesses during the pandemic:

- up to ₼215 million for partial payment of salaries to up to 300,000 employees in the pandemic-affected sectors; and
- financial support program in the amount up to ₼80 million for up to 300,000 sole proprietors in the pandemic-affected sectors.

Procedure for applying for support is similar for payments of both salaries and financial support to sole proprietors. Applications for the relevant repayments are made by taxpayers (employers) through their personal electronic cabinets at www.e-taxes.gov.az and, subject to compliance with criteria and approval by the system, amounts due as well as a portion of social insurance premia are transferred to bank accounts of the employers/proprietors.

Salary support is calculated based on the average salary in Azerbaijan which, as of January 2020, is ₼712. Salaries of those who earn less than this amount are paid up in full while those earning more receive the threshold of ₼712 only.

Financial support within the program for proprietors is available to those proprietors who have no dues under any tax or mandatory state social and unemployment insurance payments for 2019. The minimum support amount allocated for each qualifying proprietor is ₼250 and the maximum is ₼5,000.

Payments for salaries are made in two instalments while support to sole proprietors is transferred to their bank accounts once only.

Amounts transferred as a support to those engaged in affected sectors cannot be subject to any lien or retained from the bank accounts of taxpayers for repayment of other financial liabilities that the taxpayer may have.

Lists of enterprises and individuals that receive financial support during the pandemic within the above programs are available at:

<https://www.taxes.gov.az/files/2/covid19/M28092020.pdf>

<https://www.taxes.gov.az/files/2/covid19/F28092020.pdf>

<https://www.taxes.gov.az/files/2/covid19/M228092020.pdf>

<https://www.taxes.gov.az/files/2/covid19/F228092020.pdf>

Benefits Related to Social Insurance Contributions

By a separate package, the Government introduced several incentives for businesses (including small and medium enterprises) operating, among others, in the sectors affected by the pandemic (see above):

Trade

Mandatory state social insurance contributions (premia) in the sector during the period from 1 April 2020 to 1 January 2026 are calculated at 25 per cent of the minimum monthly salary amount (AZN250). Different rates depending on a geographic region may apply.

Construction

The premia from 1 April 2020 to 1 January 2021 are calculated at 25 per cent of the minimum monthly salary amount and, from 1 January 2021 to 1 January 2026, will be limited to 50 per cent of the minimum monthly salary amount. Different rates depending on a geographic region may apply.

PLEASE CONTACT US FOR ANY QUESTIONS AND FURTHER INFORMATION AT:

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