



CAAR

Chamber of Auditors of
the Republic of Azerbaijan

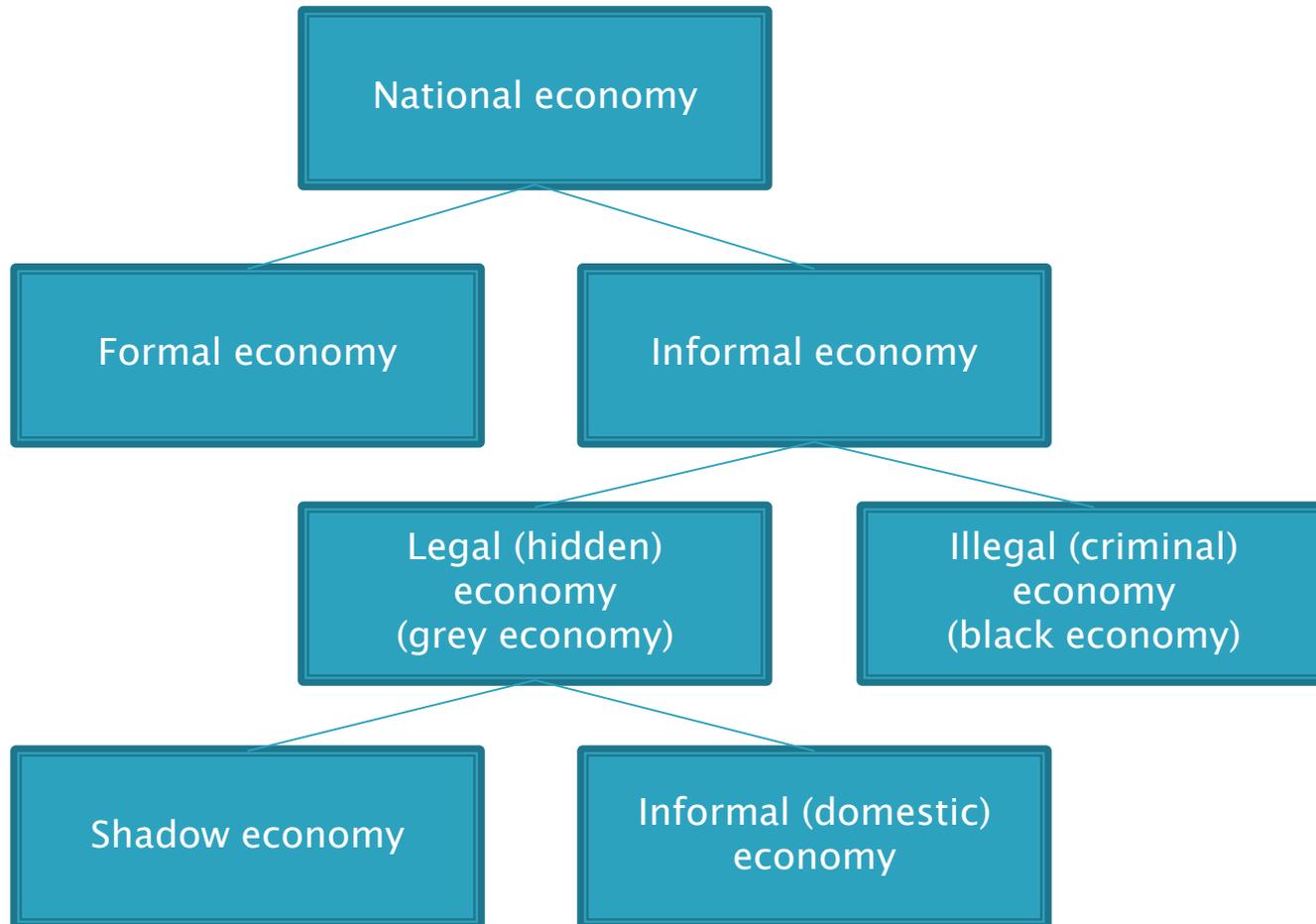
The Main Directions of the Roadmap for Reducing the Shadow Economy

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Chairman of the CAAR

Prepared for:

- ▶ ‘Fight against the shadow economy as a significant factor of economic development’.
- ▶ Baku, Azerbaijan, September 13, 2019

Relationship of national economy structures



Thoughts of the President of the Republic of Azerbaijan on the Shadow Economy

- ▶ A shadow economy is a big evil and we struggle against it seriously. We struggle against a shadow economy in both administrative and institutional ways, including implementing reforms and we will go on struggling.
- ▶ There is quite a variety of methods of struggle against a shadow economy. We use and will use them all. Everyone should understand that all work in Azerbaijan must be done within legal boundaries. No lawlessness will be allowed and everyone has to draw a conclusion.
- ▶ “Our main responsibility is to eliminate the shadow economy.”

*(President Ilham Aliyev quotations)
12 January 2019*

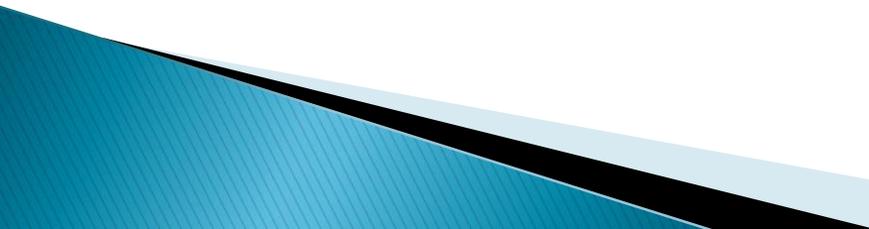
- ▶ “Fighting shadow economy is one of the main challenges for us now.”

*(Ilham Aliyev, the President of the Republic of Azerbaijan,
31 July 2019)*

Roadmap Passport

- ▶ **Name of the Roadmap** – Roadmap for reducing the shadow economy in the Republic of Azerbaijan
- ▶ **Basis for development** – Azerbaijan Economy Strategic Roadmap: Recommendations on the subject of International Scientific and Practical Conference 2017 (21–23 September) *Problems with Accountability and Transparency* (Section 9). Work Plan for 2019, Item 3.5, the Chamber of Auditors of the Republic of Azerbaijan.
- ▶ **Main developer** – the Chamber of Auditors of the Republic of Azerbaijan.
- ▶ **Objective** – Reducing the extent of the shadow economy by improving economic, institutional and administrative measures.
- ▶ **Tasks** – Arrangement of economic and organizational conditions for transition to the form of open production financial activity for legal entities and individuals.
- ▶ **Funding sources** – Funding for the Roadmap implementation is provided in the annual state budget.

Causes of Shadow Economy

- ▶ Current deficiencies in business regulation;
 - ▶ Imperfection of economic legislation and poor control over implementation of laws and regulations;
 - ▶ Administrative obstacles in business development;
 - ▶ Deficiencies in the field of taxation and customs;
 - ▶ Excessive strict state control over the financial sector;
 - ▶ Imperfection of the legislative framework in the fight against corruption and ineffective regulatory mechanism in the fight against economic crime;
 - ▶ Insufficiency of effective fight against falsification of accounting and reporting;
 - ▶ Poor implementation of banking control over cash withdrawals;
 - ▶ Low income population;
 - ▶ Poor coordination between the relevant government agencies.
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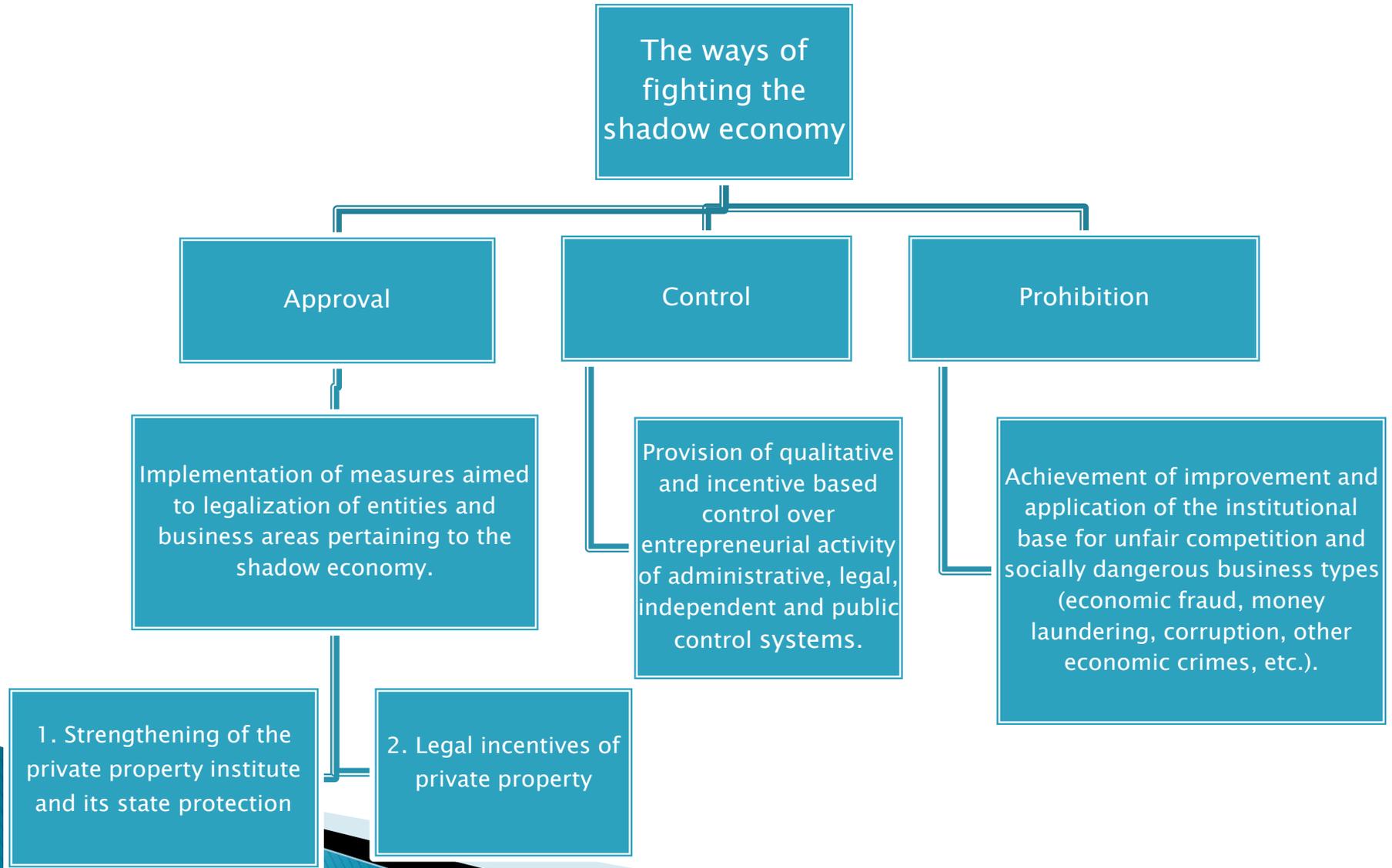
Azerbaijan Specific Features of the Shadow Economy

- ▶ Noncompliance of the level of accountability and transparency with the challenges of modern times;
- ▶ Poor application of standards on corporate governance, accounting and reporting;
- ▶ Incomplete elimination of bureaucratic factors that allow for the shadow economy to be developed in parallel with open economy;
- ▶ Wide spread of semi-secret activity in the field of financial relations within the framework of the law;
- ▶ State racket that existed mainly in the tax system until recently;
- ▶ Strengthening the struggle for influence by international organized criminals in the field of promotion of Azerbaijan goods on the international market;
- ▶ Strong various obstacle types encountered in promotion of Azerbaijan goods to world markets until recently;
- ▶ Growing number of cases of counterfeit and theft of intellectual property and intellectual products;
- ▶ Existing “opportunities” for money laundering;
- ▶ Complete elimination of corruption and bribery, and their emergence and spread of their modern types;
- ▶ Involvement of a number of officials in illegal and semi-secret business activities;
- ▶ Cases of fraud and scam that have been widely spread in customs clearance until recently.

Existing Economic Sectors of the Shadow Economy in Azerbaijan

- ▶ Production industry;
- ▶ Construction;
- ▶ Commerce;
- ▶ Catering;
- ▶ Tourist accommodation;
- ▶ Alcoholic beverage market;
- ▶ Construction services;
- ▶ Repair works;
- ▶ Realtor services;
- ▶ Wholesale trade;
- ▶ Transport and passenger transportation;
- ▶ Social services;
- ▶ Education and individual education services;
- ▶ Apartment lease;
- ▶ Car maintenance;
- ▶ Domestic services provided to population;
- ▶ Agricultural private subsidiary farming;
- ▶ Other.

The Ways of Fighting the Shadow Economy



Targets

- ▶ Improving living standards in order to further reduce social stratification and increase of poverty for the sake of protection of social peace and public consent;
- ▶ Ensuring inadmissibility of Azerbaijan economic pattern distortion and prevention of existing inequalities in the sphere of social and economic development between the regions;
- ▶ Improvement of the required economic and legal conditions for preventing criminalization in economic activity and in the life of society;
- ▶ Ensuring the functioning of the country's economy in a large reproduction mode;
- ▶ Ensuring the stability of the financial system;
- ▶ Ensuring and improving the rational structure of foreign relations in accordance with the national interests of the country;
- ▶ Identification and implementation of the main tendencies, criteria and application deadlines for state regulation of economic processes that can ensure proper functioning of the market economy, as well as monitoring rules;
- ▶ Extension of state incentive measures for legalization of shadow revenues.

Strategic objectives

- ▶ Ensuring shaping of economy through reducing shadow turnover in all sectors of the economy and ensuring the stability of real economy;
- ▶ Involvement of informal employees in formal sectors of the economy;
- ▶ Implementation of measures aimed to reducing public expenditure and increasing the efficiency of administrative resources;
- ▶ Ensuring the security of economic activity;
- ▶ Reducing the dependence of the national monetary system on the fluctuations on the international financial and commodity markets;
- ▶ Raising long-term domestic financial resources in the field of ensuring sustainable development of the national economy;
- ▶ Prevention of bank transfers to the shadow economy and money laundering.

Sub-objectives of the Roadmap

- ▶ Shaping of economy through reduction of the shade turnover in various sectors of the economy;
- ▶ Improved financial transparency;
- ▶ Reduction of illegal trade and smuggling;
- ▶ Enhancing AML / CFT legislation;
- ▶ Enhancing transparency and integrity level in government agencies and enterprises;
- ▶ Involvement of informal employment in the formal sector of the economy;
- ▶ Increase of budget revenues;
- ▶ Elimination of gaps and shortcomings in the public finance sector;
- ▶ Increase of non-cash payments;
- ▶ Reduction in the volume of products manufactured and services provided through smuggling and infringement of other third parties' intellectual, copyright and other proprietary rights;
- ▶ Study and application of the existing world experience aimed to reducing the shadow economy.

Priorities

1. Development of effective warning system against shadow economy;
 2. Development of the social consciousness that the shadow economy contradicts moral values;
 3. Development of fair competitive environment;
 4. Enhanced involvement of civil society institutions in the fight against the shadow economy;
 5. Increasing the efficiency of public administration;
 6. Upgrading ethical norms of public and municipal service and legal basis for establishment of regulations;
 7. Achievement of a balance of interests;
 8. Increasing the authority of public and municipal services, increasing the level of state and municipal employees' benefits and remuneration system;
 9. Improvement of pension system.
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Expected Outcomes

- ▶ Establishment of favorable environment for economic development, development of fair competition, increased tax and customs duties, and attraction of more investments into the country's economy;
- ▶ Improvement of competitive environment;
- ▶ Improvement of laws and regulations, methodological and information framework in the field of state regulation of economy, tax and customs administration;
- ▶ Enhancing the effectiveness of combating economic offenses, shadow economy and corruption in the economic sphere;
- ▶ Enhancing mutual understanding between state agencies fighting economic offenses and the public;
- ▶ Decrease of level of the shadow economy compared to GDP:
- ▶ as per 2025; 2030 and subsequent periods.

**Thank you for
attention!**