

# Rapid Quality Infrastructure Market Potential Assessment for Azerbaijan

Executive summary of the scoping study on QI services for green and digitalized value chains  
Project: Quality Standards for Increased Trade in the Eastern Partnership Countries,  
PN: 2021.2236.4

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## 1 PRELIMINARY REMARKS

The European Union (EU) is working with Eastern Partnership Agreement (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, and Ukraine) to promote environmental and climate resilience and digital transformation. In this context, PTB is implementing the project "Quality Standards for Increased Trade in the Eastern Partnership Countries", PN: 2021.2236.4. This project aims to build the quality infrastructure (QI) necessary for a sustainable and digital transformation.

This study describes the potential of the QI of Azerbaijan to make a significant contribution to green and digital transformation. The QI services are crucial for an economy based on the division of labour to function efficiently and effectively. Standards, measurement, and testing ensure trust between economic actors and smooth production and distribution flow. Sustainable production methods require appropriate evidence to prevent greenwashing. The digitalisation of the economy and the QI services is also necessary here. Ultimately, QI enables EaP countries to participate in international trade and to develop their economies sustainably. The study analyses existing publications and policy documents on the country's economy, development, and quality infrastructure and interviews conducted in Autumn 2022. The research is guided by the Calidena Guide and Toolbox ([www.calidena.ptb.de](http://www.calidena.ptb.de)).

## 2 NATIONAL ECONOMY AND QUALITY INFRASTRUCTURE ASSESSMENT

Socio-economic reforms implemented in the country have ensured strengthening and modernization of the national economy. In 2021, the government outlined the main directions and priorities for sustainable development until 2030 signing a decree in February 2021 on "Azerbaijan 2030: National Priorities for Socio-Economic Development". In addition, the country is stepping up efforts to promote renewable energy and digitalization of government services. The government of Azerbaijan recognizes that sustaining strong growth will require a greener model. It has prioritized an agenda that aims to pivot the country towards a more sustainable and resilient economy, enabling it to meet its international environmental commitments. The Socio-Economic Development Strategy, recently approved by Azerbaijan's President, place green growth and clean environment among the five strategic pillars underpinning Azerbaijan's future development. Strategic Roadmap for National Economy Perspective covers short, medium, and long-term horizon and comprises economic development concept and action plan until 2020, long-term outlook by 2025, and target outlook for the period after 2025.

The digitalization of Azerbaijan as an entire country has become one of the top priorities in recent years. The Government of Azerbaijan is increasingly embracing digitalization by developing or outsourcing high-tech industrial technologies to simplify administrative tasks and enhance economic growth. The Decree of the President of the Republic of Azerbaijan "On improving governance in the field of digital transformation"



dated April 27, 2021, states that the digital transformation of the economy and society has become one of the priorities of the Republic of Azerbaijan.

According to the Global Quality Infrastructure Index (GQII) 2020 report, Azerbaijan ranked 91 from the 184 economies of the world. Metrology ranked 70, standardisation 111, and accreditation ranked 82. QI institutions of Azerbaijan are well familiar with the themes of green transformation and digitalisation outlined in the National Priorities for Socio-Economic Development of the country.

Quality infrastructure services are the part of a broader green economy innovation system and, therefore, an integral part of green technologies. In this context, quality infrastructure contributes to innovation in the green economy by creating new or improving existing services. Possibilities for green transformation are raising the quality of products and services, applying a technical regulation system and a modern product control system, adopting new standards, supporting the development of energy-saving technologies and green technologies, development of new quality infrastructure services, corresponding to the needs of the green economy. Redesign of products and services of the green economy by including the offer of QI is also needed, as well as innovations in relevant processes, standards and regulations, and gaining access for entrepreneurs to services of QI.

Limitation of the QI to significantly support a green transformation is old standards, lack of new standards, lack of certification and accreditation schemes, lack of many calibration measurements and international traceability.

### 3 QI MARKET POTENTIALS PROVIDING SERVICES FOR GREEN VALUE CHAINS

Based on the assessment of the national economy, including the government's policy development priorities and development cooperation priorities, the consultancy identifies the following value chains (products and services) that meet the following criteria:

- High importance for the country's gross domestic product and employment
- High significance for the country's foreign (export and import) or domestic trade
- Prioritisation by national development planning. Political support
- High priority for the green transformation and digitalisation
- Increased need for action around safety, health, environmental protection, and quality
- Existing support through development policy programmes and projects (GIZ and others)
- Interest from critical actors in the value chain to participate.

The selection was summarised in Table 1.

**Table 1. Matrix for the selection of the value chain**

Criteria/Products	VC 1	VC 2	VC 3
	Fruits & Vegetables (Organic)	Dry Foods and Wine	Construction Materials
Importance for GDP and employment	3	3	2
Trade relevance – export / import	3	3	1
Priority of National Development Plans, political support	3	3	2
High priority for Green Deal or digitalization	3	1	3
QI relevance / QI gaps identified	3	3	1

Existing external support (GIZ and others)	3	3	1
Interest / motivation of VC actors	3	3	2
<b>Total (max 21 points)</b>	<b>21</b>	<b>19</b>	<b>12</b>

### Fruits and vegetables

In Azerbaijan, agriculture is currently a major contributor to economic growth, employment and poverty alleviation. Even though its share in the Gross Domestic Product (GDP) is still low, special attention is given to non-oil sectors led by agriculture to diversify economic activities and to provide higher food self-sufficiency levels. In Azerbaijan, agriculture is the third contributor to the national economy after the oil and construction sectors.

Though an interest in organic agriculture is observed, there is a lack of awareness and knowledge in the field of organic production and cultivation.

Despite the existing Law, the organic certification system is not completed and/or not fully implemented at the national level. This makes it even more difficult to institutionalize, register or oversee inspection and certification bodies. All inspection and certification functions are taken over by foreign control bodies (CBs) with reference to the standard(s) demanded by the importing country.

The lack of competent specialists in ensuring quality standards in the production of organic agricultural products and national experts with experience in the field of certification of organic fruits and vegetables complicates the development of this area and explains the lack of qualified services from the quality infrastructure.

Accreditation center provides accreditation for local certification bodies but since the national accreditation centre is not recognized at the international level, the certificates issued by Certification body and the results of the laboratories accredited by NAB are not recognized at the international level.

The vast majority of farmers do not work according to the GAP. Not all farmers implement post harvest management practices such as adequate packaging, transporting and storing of produce.

In the transition towards a green economy, agriculture production entails a twofold challenge. The transition to organic production is important co-benefits for the environment, such as preserving biodiversity and preventing pesticide contamination. Organic farms rely on locally available natural resources and the ecosystem management rather than external inputs such as mineral fertilizers and agrochemicals. Promotion of innovation in the green economy by including quality infrastructure extends the scope of action of quality infrastructure in sustainable development.

The German Society for International Cooperation (GIZ) is going to support the Eastern Partnership Agreement (EaP) countries to promote green economy. The new project (Promoting Green Deal Readiness in the Eastern Partnership Countries) will be launched in 2023 for the development of Green Deal.

### Processed food products

Due to the amount of manufactured products industry, and the number of employed people, the food industry is in the first place among the industrial fields in Azerbaijan. Food industry has an export potential and can be exported to EU.

The service of microbiological testing of the food products can be provided locally by laboratories. But since the national accreditation centre is not recognized at the international level, the results of the accredited laboratories by NAB are not recognized at the international level.

The majority of companies have ISO certificates and food safety system certificates.

Most local standards for food products are based on old GOST standards and do not meet international standards.

### **Construction materials**

The construction materials industry is one of Azerbaijan's most promising sectors. Domestic demand for high-quality construction materials has increased steadily in recent years. Despite significant growth, the value of construction materials production remains far below its potential. The development of construction materials value chain has led to the creation of green building standards, certifications and rating systems aimed at mitigating the environmental impact of construction materials. Better standards for the construction materials require the support in developing new international standards for energy efficiency. The sector is important in terms of green transformation, circular economy, reduction of the emission of the buildings and energy efficiency. A major part of the locally produced construction materials is sold on local market, however, they face fierce competition from imported products. At the same time, some export trends are also demonstrated.

However, there are problems and gaps in the quality of infrastructure services.

The NMI does not serve the following metrology fields: measurements on photometry and radiometry, flow, organic and inorganic chemistry.

The establishment of a functional National Accreditation Body as an independent entity under the MoE is needed, that shall work in accordance with international best practices.

There is a lack of mutual recognition agreements, multilateral agreements, and relevant regional and international organizations (EA, ILAC and/or IAF).

In 2019, the Law 1669-VQ on Technical Regulation and the transition to a technical regulation system was adopted. But technical regulations corresponding to international technical regulations have not been developed.

Despite the availability of accredited laboratories for assessing the quality and safety of building materials, there are no laboratory test capacities for some tests of building materials.

The market surveillance system is being formed and during the transitional period as well. The construction of a modern system of market surveillance will strengthen control over the quality and safety of products.

Due to changes in the QI system, no organization (private or state) is currently involved in development and improvement of quality issues.

Most local standards for food products are based on old GOST standards and do not meet international standards.

Quality infrastructure services will support entrepreneurs in developing new products or making their production processes more efficient. The use of quality infrastructure services is usually not free and increases transaction costs, which can hinder innovation. (Environmental) quality requirements can also be seen by the supplier – especially an SME – as an obstacle to trade.

Quality infrastructure services are essential for the technologies needed for transformation to a green economy. Calidena will give opportunity for the development of new quality infrastructure services, corresponding to the needs of the green economy. Redesign of products and services of the green economy by including the offer of quality infrastructure is needed, as well as innovations in relevant processes, standards and regulations. Assessment of the needs for quality infrastructure services should be conducted and promoting communication and cooperation should be ensured. It is necessary to establish a regular government-business dialogue framework to solve the problems in the field of QI. As for the digitization of services provided in the field of QI, it will open up extensive opportunities for sectors of the economy to use the services of QI.

#### **4 RECOMMENDATIONS**

In order to support the QI in Azerbaijan, it is necessary to improve the coordination and communication of quality infrastructure institutions. Establishing coordination between quality infrastructure institutions will influence the development of QI services.

NAB should establish specialized technical committees or working groups for each area of accreditation in which it provides services.

The sustainability of quality infrastructure services is a prerequisite for development and response to changing conditions and new global challenges. There is a need for coordination and joint activities of quality infrastructure institutions and independent organizations (associations and specialized organizations). Partnership between QI institutions and third parties will improve interaction between consumers, producers, and QI institutions. As a part of this direction, it is necessary to ensure the support and cooperation with an independent and private organization involved in the development of quality.