

## THE ASSESSMENT OF THE ROLE OF SOCIAL INNOVATIONS IN IMPROVING WELFARE IN AZERBAIJAN

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### Original Article



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### ABSTRACT

The priority of the socio-economic policy in each country is to improve welfare, to better meet the increasing material and moral needs of the population, as well as to ensure social justice and social development. In recent years, the role of social innovations in solving social problems and improving welfare has been increasing in Azerbaijan. Expansion of digitalization, social applications in the social sphere, formation of social entrepreneurship are the examples of it. In this direction, the activity of the Agency for the Sustainable and Operative Social Security (DOST) and ASAN (State Agency for Public Service and Social Innovations) Service Centers are especially commendable. DOST centers offer centralized 159 services, 110 of them have been fully digitized, while others have been partially digitized. The qualitative and quantitative research methods have been used in this study. The aim is to evaluate the role of social innovations in improving well-being in Azerbaijan and the possibilities of increasing it will be determined. As a result of the research, it was determined that the application of social innovations in Azerbaijan will have a positive effect on reducing poverty, improving welfare, and overall social development. However, in addition to the mentioned positive trends, the role of social innovations in improving well-being is not sufficient. The results of the research can be used in the implementation of social innovations, and in the improvement of the welfare of state during reforms in Azerbaijan.

**Key words:** *social innovation, social welfare, social entrepreneurship, living*

### 1. INTRODUCTION

In recent years, a number of international organizations and governments have combined their efforts to solve social problems in the world. Reducing poverty, improving welfare and quality of life, ensuring social development and social justice, as well as inclusion are among the priorities of the socio-economic policy of both international organizations and governments.

It is no coincidence that the Declaration recognizing the inclusion of social strategy in economic planning was adopted in the «World Conference on Social Development» held with the participating of representatives of 186 countries, including 177 heads of

state in 1995 in Copenhagen. In this Declaration, the countries of the world were called for a fairer distribution of wealth and income. The special session of the UN General Assembly held in Geneva in 2000 gave a new impetus to initiatives to promote social justice and welfare in the global economy.

At the historic UN Summit held in September 2015, member states joined the implementation of the new global Sustainable Development Goals, which include 17 goals and 169 targets for 2016-2030. While technology and innovation are a recognized key facilitator in achieving all related targets, innovation is a specific policy target in its own right (United Nations, 2015).

In order to achieve these goals, governments are constantly trying to innovate their social policies. Of course, the continuous increase of social problems or needs also affects the increase of financial resources to be spent on their solution. It is predicted that the mobilization of entrepreneurs, partners and resources will be achieved by 2030 to reach the social goals set in the “Sustainable Development: 2030” concept. The report on the implementation of the “Sustainable Development: 2030” Agenda shows that more resources are currently required to achieve these Goals than predicted. The report notes that financing needs for the Sustainable Development Goals are about \$6 trillion annually or \$90 trillion over 15 years. In addition, new social needs are also emerging, the solution of which requires additional financial resources.

Azerbaijan is also undergoing reforms in the direction of achieving the Sustainable Development Goals. The UNO and its partners are working towards achieving the Sustainable Development Goals (SDGs) in Azerbaijan. As a result of this partnership, Azerbaijan prioritized 17 SDGs, 88 targets and 119 indicators covering economic, social and environmental aspects of sustainable development. Our country submitted two Voluntary National Review (VNR) reports in 2017 and 2019. Thus, Azerbaijan was the first country among the Commonwealth Independent States to present two VNRs by 2019 (United Nations Azerbaijan).

In order to achieve the SDGs in Azerbaijan, a number of measures have been taken in recent years in the direction of reducing poverty and improving welfare, State Programs and strategies have been adopted. In recent years, efforts have been made to solve social problems, improve welfare, and ensure social development through the application of social innovations in the world, especially in European countries.

The application of social innovations in Azerbaijan has had a positive effect on reducing poverty, strengthening social protection, improving welfare, and overall social development. Thus, if the poverty level was 49% in 2006, it decreased to 5.5% in 2022 in Azerbaijan. The population's income increased by 3 times, the average monthly salary increased by 2.5 times, the average monthly amount of pensions increased by 3.3 times, and the amount of benefits increased by 4 times in 2023 compared to 2010. However, in addition to the mentioned positive trends, the role of social innovations in improving well-being is not sufficient. In this study, the role of social innovations in improving well-being in Azerbaijan will be evaluated and the possibilities of increasing it will be determined.

## 2. LITERATURE REVIEW

In recent years, social innovations have played an important role in solving social problems, improving welfare and increasing income in the world. «Social innovation» as a term was the object of discussion in the 60s and 70s of the last century and new views were put forward over time. **Social innovation** is the process of developing and im-

plementing of effective solutions to complex and systematic social and environmental problems for supporting social progress. *A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals* (James, A.P., Jr., Kriss Deiglmeier & Dale T. Miller, 2008).

In the 70s of the last century, J.Taylor (1970) valued social innovation as a new method of social intervention. K. McGowan, F. Westley, O. Thornbo (2017) note in their research that, researchers focused more on what social innovation is and how it works, leading it from a mere descriptive term to a scientific concept until the 90s. As a continuation of the conducted research, researchers such as D. Cooperrider and V. Pasmore (1991), H. Henderson (1993) put forward the concept of social innovation in the 90s. However, this was not unequivocally accepted by the scientific community. Only from the mid-2000s, social innovations began to be widely used in society, especially in European countries. Since then, social innovation has become more prevalent in scientific articles, policy reports, policy discussions, social sector discussions, and even in business and management journals and moved from formal theory to practice.

Specialists of the «Social Innovation Academy» summarize numerous approaches to the term «social innovation» and distinguish its features:

- Open rather than closed when it comes to knowledge-sharing and the ownership of knowledge
- Multi-disciplinary and more integrated with problem solving than the single-department or single-profession solutions of the past
- *Participative and empowering of citizens and users*
- *Tailored rather than mass-produced*
- *Demand-led rather than supply-driven* (Social Innovation Trends Report, 2020).

Currently, social innovation is viewed as a new product or service aimed at better solving social needs and problems, thereby creating new or improved opportunities for people, and affecting the improvement of well-being.

A favorable supportive environment created for the emergence of social innovation encourages people to create new value and increases inclusion in the country. Currently, business entities are trying to come up with solutions to better meet social needs by creating new services and products with social innovations. Social innovations refer to new social and ecological practices, new processes, new rules, new methods, and their benefits are manifested not only in individuals, but in society as a whole (Social Innovation Index, 2016).

Of course, the specificity of social innovation requires a more serious support mechanism compared to other business innovations. Because, as in all areas of the economy and social life, new ideas and new solutions proposed or applied in the social sphere are considered risky. From this point of view, it is necessary to support innovative ideas aimed at solving social problems in society, increasing employment and improving people's welfare by the state and private sector. Social innovation lasts long and has a large-scale impact. It can be implemented by both the government and private institutions (Accept Mission, 2021). In recent years, large-scale measures related to the development of social innovations have been implemented and large companies provide social benefits by creating social innovations in the world, especially in European countries.

Social innovations can come from anywhere, designed and implemented by individuals, organizations or institutions from different backgrounds and sectors. Social innovation projects can be: processes (e.g. reorganized care pathways); products (e.g. mobile phone applications); market mechanisms (e.g. social finance instruments); role and behavioral practices (e.g. peer-to-peer services); or new paradigms and policies ([Social innovation in health, 2022](#)).

In fact, states, private sector, and public organizations have carried out numerous activities related to solving social problems and improving welfare till today. However, the specificity of social innovations lies in the use of new methods and techniques, new technology in solving social problems. As a result of it, the concept of «digital social innovations» has emerged in recent years. For example, the mobile phone is a product of innovation, but not a social innovation. However, it can be used as a tool to help diagnosing diseases and solving other social problems by incorporating new applications into it. A new application added at this time is considered a digital social innovation.

Social innovation empowers people and creates new patterns of social relationships and cooperation in addition to meeting social needs and solving social problems. Social innovation is a component of social services that are constantly challenged by changes in social conditions and the emergence of new social risks. Currently, social and digital social innovations are widely applied in the fields of education, trade, culture, tourism, etc.

Social innovation is innovative response to social problems and needs that are not successfully addressed or neglected by the state or the market. Social innovation is necessary because many social problems are not appropriate to traditional approaches to solving them. They require new approaches and ingenuity. *“Social innovation refers to a new way of doing things, an innovative element in a given context. It represents a breaking away from the usual solutions offered and provides a creative response to social and economic problems that cannot be solved by the market or state. It thus improves individual and collective well-being”* ([Social Solidarity Economy](#)).

Participants and new forms of cooperation among them bring together different types of experience, skills, and tangible and intangible assets. Therefore, the main goal of social innovation is to solve complex social problems in innovative ways.

Social innovation as a new response to an unsatisfactory social situation focuses on the well-being of people and communities; defines itself as action and long-term change aimed at improving individuals, areas or businesses. Innovation for inclusive growth is also defined as the development and implementation of new ideas that seek to create opportunities that enhance social and economic well-being for disenfranchised members of society ([George, McGahan, & Prabhu, 2012](#)).

One of the most common examples of social innovation is social entrepreneurship in recent years. Social entrepreneurship is interpreted as a type of economic activity that works with market rules and aims to develop and finance solutions to social, cultural and environmental problems and ensure the sustainability. The prominence of the social mission (i.e. solving social and environmental problems with innovative ideas) is the main aspect that distinguishes this type of entrepreneurship from others ([Development of social entrepreneurship in Azerbaijan, 2022](#)).

Let's also note that the idea of social innovation can be transformed to a social entrepreneurship subject as a startup. In recent years, a large number of startups as it by operating as social entrepreneurship subjects have made a great contribution to soci-



ety. According to [K. Kurin \(2014\)](#), “while a social entrepreneur focuses on solving a problem through business, a social innovator tries to solve a problem through a number of different means”. Almost all of these have been achieved by using digital technologies. The largest companies of the world also play an important role in this process.

In recent years, the development of ICT, meeting the social needs of the population using new technologies, creating a favorable technological environment for the realization of new ideas, etc. have created a lot of opportunities for the development of social innovations. Many social innovations operate on the basis of modern technologies. The leading technology companies of the world also do important work in the field of social innovation and provide great support for solving social and environmental problems with social innovation.

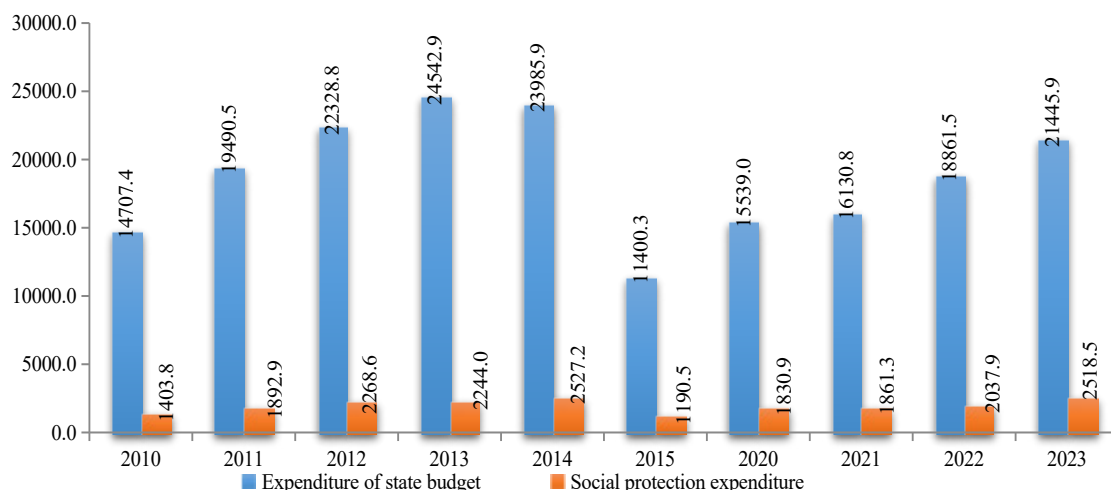
In the 2000s, it was believed that social innovations, that is, by supporting new Start-ups that provide solutions to specific (sometimes targeted) social problems of society, it is possible to achieve a better solution to social problems and to meet the real social needs of the population. In this regard, states and companies have come up with a new approach. Social innovation refers to the design and implementation of new solutions that imply conceptual, process, product, or organizational change, which ultimately aim to improve the welfare and wellbeing of individuals and communities ([OECD Social Innovation, 2000](#)). It should be noted that social innovations also contribute to economic development. Innovation and economic growth and welfare are directly related to each other ([Ulku, 2004](#)).

Of course, weak and moderate economic growth, non-economic problems (such as pandemic, inter-country and intra-country conflicts), different political interests create obstacles to the realization of sustainable development initiatives. The report states that, the effective mobilization of resources and application of innovative approaches are important for achieving sustainable development in the current economic and political conditions ([World Youth Report, 2020](#)). But there is a serious need for sustainable economic development and political stability for this. In fact, the deepening of social problems has a negative impact on the activity of the business sector as well. In this regard, the business sector has increased attention to social innovation in order to identify social needs and increase people’s access to social services in recent years. So, *if innovation has direct effects on economic growth* ([Galor&Tsiddon, 1997](#)) *and economic growth (or income) has direct effects on SWB* ([Frijters, DeNew, Shields, 2004](#); [Stevenson and Wolfers, 2008](#)).

### **3. THE ASSESSMENT OF WELFARE IN AZERBAIJAN**

The socio-economic reforms carried out in Azerbaijan in recent years and the implementation of the adopted state programs have had a positive effect on the welfare of the population. Thus, the poverty rate has been significantly reduced, social protection has been strengthened and income has increased in the country. The improvement of the welfare was primarily caused by the increase in the amount of funds allocated from the state budget. Thus, the expense of the state budget increased 1.5 times and social protection expenditure increased 1.8 times in Azerbaijan in the last 14 years (2010-2023) (Diagram 1).

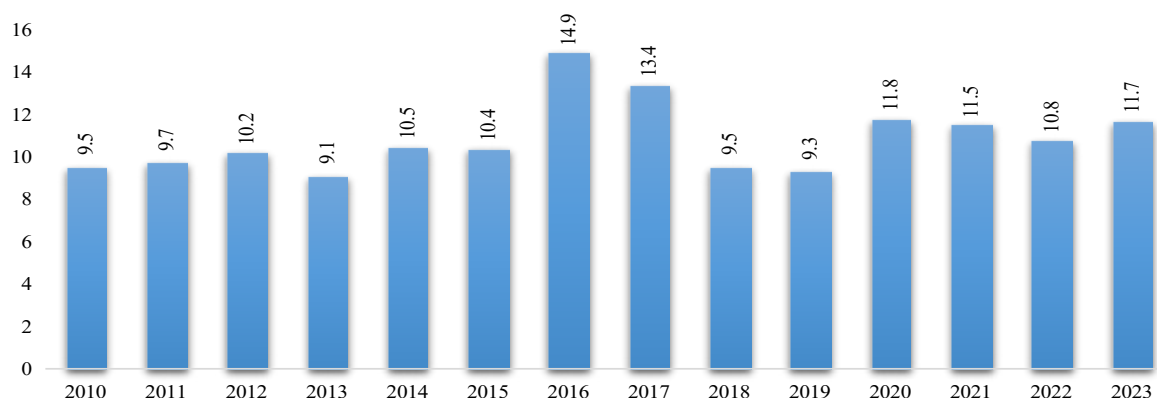
Diagram 1. State budget expenditure and social protection expenditure, million USD



Source: The State Statistical Committee of the Republic of Azerbaijan. Official web site: <https://stat.gov.az/source/finance/?lang=en>

There was an increase in the share of social protection expenditure to state budget expenditure in recent years. Thus, the share of social expenses in the budget was 9.5% in 2010, and this indicator was 11.7% in 2023 (Diagram 2).

Diagram 2. The share of social protection expenditure in state budget expenditure, %, (2001-2022)

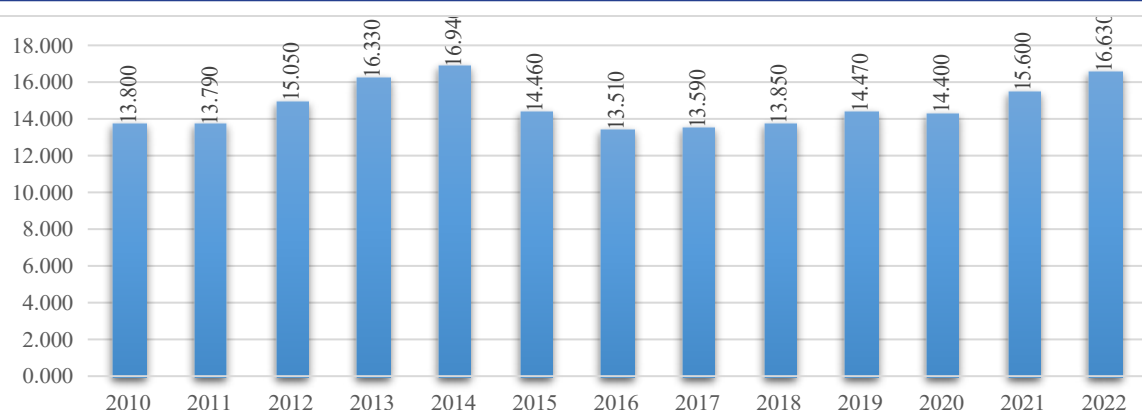


Source: The State Statistical Committee of the Republic of Azerbaijan. Official web site: <https://stat.gov.az/source/finance/?lang=en>

The increase of state social expense has led to an increase of the salaries of employees in budget organizations, pensions, benefits and allowances and etc. As it is known, there is a high inverse correlation between social spending and poverty. It means that, if the public social spending increases, the poverty rate decreases. As a result of increasing public social spending, the poverty rate has significantly reduced (from 49% in 2001 to 5.5% in 2022) in Azerbaijan.

As it is known, one of the most important indicators characterizing welfare is the GNI per capita. There was an increase in the GNI per capita in recent years (Diagram 4).

Diagram 4. GNI per capita, PPP (current international \$) - Azerbaijan

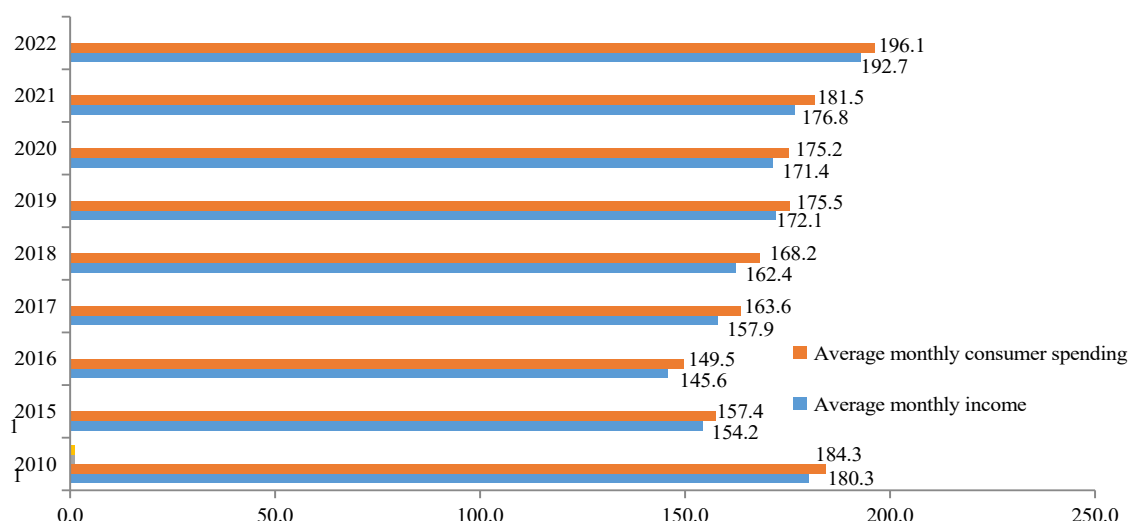


Source: World Development Indicators database, World Bank. <https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?locations=AZ>

Thus, the GNI per capita increased by 20.5 percent in 2022 compared to 2010.

One of the most effective ways to study the income situation of the population is the investigation of households. In 2010-2022, household income and consumption spending increased (Diagram 5).

Diagram 5. Monthly household income and consumption spending in Azerbaijan, USD (2010-2022)



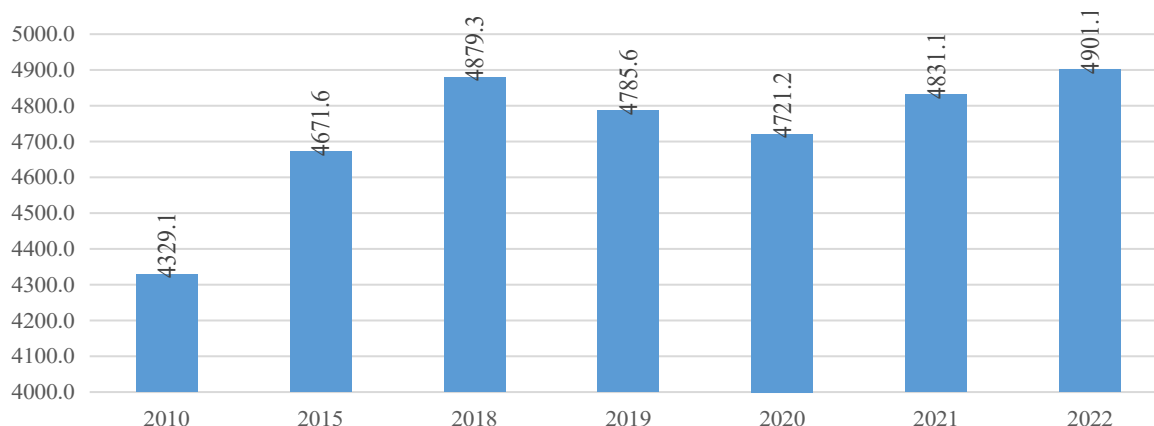
Source: The State Statistical Committee of the Republic of Azerbaijan. Official web site: [https://www.stat.gov.az/source/budget\\_households/?lang=en](https://www.stat.gov.az/source/budget_households/?lang=en)

Thus, household income increased by 6.9% and spending by 6.4% in the corresponding period. However, as can be seen from the diagram, household expense exceeded their income.

The share of income from wage increased from 11.6% in 2010 to 70.5% in 2022 in the structure of household income and it is a positive situation in terms of increasing the employment rate of the population.

As can be seen from the analysis of the structure of household income, the income from employment has risen in recent years, which is an indicator of the increase in the employment rate in Azerbaijan. If the number of employed people in Azerbaijan was 4329.1 thousand people in 2010, it increased to 4901.1 thousand people in 2022 (Diagram 6).

Diagram 6. Distribution of employed people by economic activities, thousand people

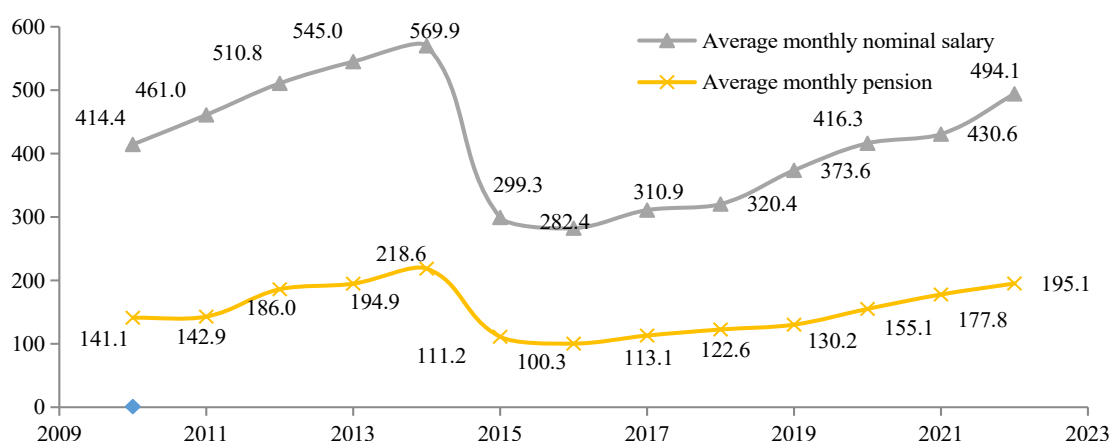


Source: The State Statistical Committee of the Republic of Azerbaijan.

Official web site: <https://www.stat.gov.az/source/labour/?lang=en>

The reason of the increase in the employment rate of the population is the development of the business sector, as well as the expansion of the self-employment programs implemented by the state. The expansion of employment opportunities also led to an increase in the average monthly salary (Diagram 7).

Diagram 7. Average monthly nominal salary and average monthly pension, USD



Source: The State Statistical Committee of the Republic of Azerbaijan. Official web site: <http://www.stat.gov.az>

The average monthly nominal salary has increased by 19.2% in 2022 compared to 2010. The welfare of pensioners, who are vulnerable people has relatively improved in recent years in Azerbaijan. Thus, the average monthly pension increased by 38.3% in 2022 compared to 2010.

It is true that although an increase was observed in the indicators characterizing the welfare, it was not sufficient in terms of improving the quality of people's life. Thus, the indicators of welfare in Azerbaijan are lower than those of a number of developed and developing countries.

Although funds allocated to social protection from the budget have increased in recent years in Azerbaijan, the share of social expenditure in budget expenditure is much lower than the corresponding indicator of both developed and developing countries. So,



while this indicator fluctuates between 30-40% in developed and developing countries, it constitutes 10% in Azerbaijan.

While per capita income was 192.7 USD in Azerbaijan, it was 7,958 USD in Switzerland, 6,398 USD in the United States, 2,466 USD in Slovenia, and 1,821 USD in Latvia in 2022 ([World Data, 2022](#)).

The situation of the average annual salary is similar. Thus, the average annual salary was 63,681 international dollar in Luxembourg, 65,836 international dollar in the United States, and 46,481 international dollar in France in 2019. The average annual salary was 17932 international dollar in the corresponding year in Azerbaijan.

The amount of the minimum wage, which plays an important role in the formation of the average monthly wage, is very low in Azerbaijan. In recent years, the minimum wage has also been increased in accordance with the socio-economic development in the country. However, despite of this increase, the ratio of the minimum wage to the average monthly salary is not appropriate to the international standards. So, this indicator was 41,1% in 2022. According to the European Social Charter, to which Azerbaijan has joined, the minimum wage must be 60% of the average monthly salary ([European Social Charter, 2024](#)).

In addition, the minimum wage for 1 working hour is 13.6 in international dollar in Australia and Luxembourg, 13.5 international dollar in Germany and France, 7.3 international dollar in the United States and approximately 5.69 international dollar in our country now. It should be noted that according to the ILO Convention, «*the minimum hourly wage should not be less than 3 dollars*» ([Huseynov, 2013](#)). *The 1-month norm of the minimum wage in Azerbaijan equals to 6 hours in France, 6 hours 25 minutes in Belgium, 7 hours in Netherlands, 7 hours 30 minutes in the United States and 7 hours 45 minutes in Canada* ([Ibadoglu, 2017](#)).

It is known that, the unemployment benefits are given to people who are unemployed. Although, the amount of unemployed benefits has been increased in recent years in Azerbaijan, it is still low compared to developed countries. Thus, the unemployment benefit is 91.7% of the average monthly salary in Sweden, 90.0% in Denmark and 60.0% in Belgium. This indicator constitutes 47.5% in Azerbaijan ([Labor market, 2017](#)).

One of the main components of the social policy of each state is the improvement of the welfare of disabled people from low-income population groups and their integration into society. The European Social Charter, ratified by Azerbaijan, states that «*disabled people have the rights of independence, social integration and participation in public life*» ([European Social Charter, 1999](#)). Although 56% of disabled people are able to work, approximately 8.3% of them work in Azerbaijan. This indicator is 40% in Europe, 60% in Australia, 80% in China. However, expanding the employment opportunities of disabled people not only strengthens the social protection of people who needs special care, but also it can lead to positive results such as their closer integration into society, efficient management of state budget expenditure and etc.

It is possible to solve some of the existing problems (ensuring the employment of vulnerable groups of the population, including disabled people, their integration into society, improving the welfare, etc.) through the application of social innovations. One of the obvious examples of such social innovations is social entrepreneurship.

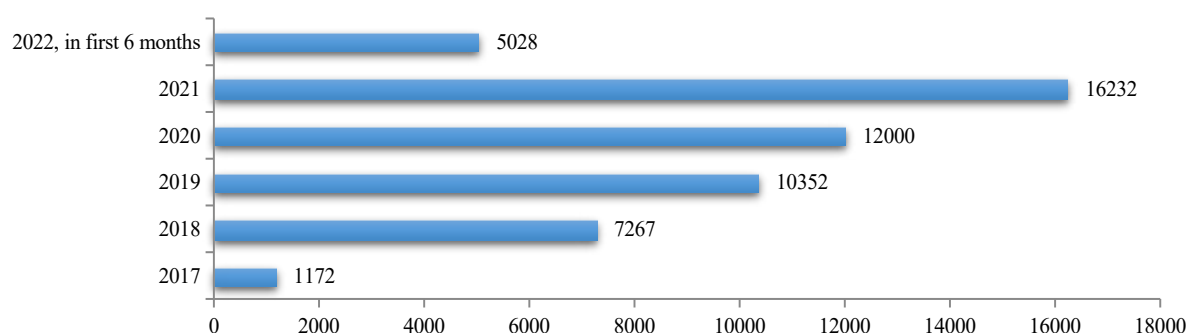
#### 4.THE ROLE OF SOCIAL ENTREPRENEURSHIP IN IMPROVING WELFARE

One of the methods used to reduce poverty and improve welfare is the development of social entrepreneurship in the world. Social entrepreneurship serves to increase income and inclusion, form social capital and etc. by applying innovations in solving social problems. According to Azmat, «*the development trend of social entrepreneurship is aimed at reducing poverty by creating new work places, new job opportunities, forming social capital in the world and it develops innovative initiatives in a new institutional form in society*» (Azmat, 2013). Social entrepreneurship also plays an important role in easing the social burden of the state by helping to provide the people (who are unemployed, but wish to work) with job (Defourny & Shin-Yang, 2011).

Social enterprises, which are the organizational-legal form of social entrepreneurship, and their income have increased rapidly in recent years. New data suggests that over 10 million social enterprises generate an estimated 2 trillion USD in annual revenues globally – more than, for example, the apparel or telecommunications industries (World Economic Forum, 2024).

Social entrepreneurship, which is widespread in the world as a new innovative solution for reducing the unemployment and poverty rate and improving welfare, is almost new for Azerbaijan. Self-employment is valued as social entrepreneurship in our country. It should be noted that the self-employment program is new for our country, it is applied in order to abandon the passive social protection measures of the unemployed and transformation to active forms. According to the information of the State Employment Agency, 5,028 people were involved in the self-employment program in the first six months of 2022, and 52,051 people were involved in the self-employment program in 2017-2022. The number of people involved in self-employment programs increased approximately 14 times in 2021 compared to 2017 (MLSPRA, 2022)

Diagram 8. The number of people involved in the self-employment program



Source: Azerbaijan Public Employment Agency. Official web site: <https://dma.gov.az/fealiyyet/statistics>

As the self-employment program creates favorable opportunities for those who want to start micro and small business activities, the Small and Medium Business Development Agency (KOBIA) closely cooperates with the State Employment Agency of the Ministry of Labor and Social Protection of the Population in this direction, provides support at various stages of the program since 2019. In 2019-2020, about 400 citizens used the services of KOBIA to join the self-employment program (Small and Medium Business Development Agency of the Republic of Azerbaijan, 2022a).

As can be seen from the statistics, the number of people working as social entrepreneurs is very small in our country. There are several reasons of it. The legislative framework is not developed in this field in Azerbaijan. Although there are certain provisions regarding social enterprises in the current legislation in Azerbaijan, they are not capable of fully regulating social entrepreneurship. There is no special law on social entrepreneurship and its organizational-legal form-social enterprises. The lack of an appropriate regulatory and legal framework also complicates the work of entrepreneurs who want to work in this field.

In general, the level of awareness about this topic among the population is low. The results of our survey among 100 experts regarding the study of the current situation of social entrepreneurship in Azerbaijan are noteworthy. So, 54.5% of people who answered the question of «How do you assess the situation related to social entrepreneurship in Azerbaijan?» considered the situation «unsatisfactory», 36.4% «satisfactory». 9.1% of the respondents chose the «other» version. 59.6% of people who answered the question of «What are the factors that hinder the development of social entrepreneurship in Azerbaijan?» cited «lack of information», 47.5% as «lack of funds», 36.4% as «insufficient legislative framework» and 27.3% as «unfavorable business environment». According to the results of the survey, the respondents considered necessary to take a number of measures for the development of social entrepreneurship in Azerbaijan. Thus, 67.3% of the respondents considered «education among the population», 54.5% «state support», 44.6% «credit availability», 41.6% «improvement of the legislative framework», 33.7% considered «simplification of import-export procedures» necessary (Abdullayeva, 2022).

Although the situation regarding social innovation is not satisfactory, the development potential of social entrepreneurship is great in Azerbaijan. The development of this type of entrepreneurship will reduce the poverty rate, increase the employment rate, improve the welfare, reduce the social burden of the state (even if it increases social expenditure in the short term) in the long term, increase economic growth and inclusion. In order to develop social entrepreneurship in our country, the level of awareness among the population should be increased and the existing legislative framework should be improved. At the same time, the government should develop a stimulating mechanism for the development of social entrepreneurship.

## **5. DOST CENTERS IN AZERBAIJAN- AS AN EXAMPLE OF SOCIAL INNOVATION**

«DOST» centers are an obvious example of social innovation in Azerbaijan. These centers operate under the «DOST» Agency. «DOST» Agency was established according to the [Decree No. 229 \(2018\)](#) of the President of the Republic of Azerbaijan dated on August 9, 2018 with the aim of improving the quality of services provided to citizens in the fields of employment, labor, social protection and security, increasing transparency, implementing innovative solutions and accelerating the transition to electronic services, as well as preventing procrastination and increasing citizen satisfaction. «DOST Work Center», «DOST Inclusive Development and Creativity Center», «DOST Digital Innovation Center», «DOST Infrastructure Center», «DOST Call Center 142» also operate under the authority of «DOST» Agency.

«DOST» Centers currently operating in Azerbaijan provide 159 types of services (12 directions in total) as determining disability, labor pensions, social benefits, targeted state social assistance, ensuring self-employment, providing social services to the el-

derly and etc. There were 2163129 applications to «DOST» centers from 09.05.2019 to 31.03.2024. The average number of monthly applications is more than 50,000.

The services provided by DOST centers have a number of advantages (protection of transparency, ensuring operational efficiency, etc.). One of these advantages is the high level of digitalization. DOST centers offer centralized 159 services, 110 of them have been fully digitized, while others have been partially digitized.

Although it has been a short time since its establishment, DOST centers play an important role in providing social security services and increasing the level of satisfaction among the people. In order to study the activity of DOST centers and the level of satisfaction among the citizens we conducted structured interview with Director of Department of International Relations, Programs and Projects of DOST Center No. 1. During this interview the following questions were asked and answered:

**1. What the issue was addressed by the establishment of the Agency for Sustainable and Operative Social Provision?**

Prior to the introduction of reforms in the provision of social services, the system was a complex and non-adaptive structure. Most of the processes were not optimized to facilitate their delivery, and in some cases even consisted of 10-15 participating instances, with which citizens had to contact in-person. This, in turn, led to massive discontent and a lack of transparency. The systems for evaluating the effectiveness and monitoring, as well as the recitation of opinions and complaints from citizens were not properly implemented and were of a nominal nature. At the same time previous governance model led to an irrational expenditure of allocated budget by government for the delivery of social services. The considerable part of the financial flow didn't reach to the strategic goals of the improving the well-being of citizens. To respond the problem, First Lady has led the initiative and MLSP developed the "DOST Concept" in aim to provide the population of Azerbaijan with smooth access to State Social Protection Services by deploying state-of-the-art IT solutions, through a network of Citizen Service Centers.

**2. Which types of social service are provided in the centers of the DOST Agency?**

The Ministry of Labor and Social Protection of the Population provides 175 services in the fields of social protection, employment and labor relations, of which (Issuance of references, Labour relations, Disability, Employment, Labour pensions and social benefits, Assignment of targeted state social assistance, Grants of the President of the Republic of Azerbaijan, Individual registration of the insured State compulsory personal insurance payments, Social Services, Adoption, Functional services, Social Protection of martyrs' family members, military servants injured at the war and people with war-related disability) are delivered by the centers of the DOST Agency.

**3. The history of establishment of the DOST Agency and its centers is very short. However, the satisfaction level of citizens involved in monitoring in the centers of the DOST Agency (2024) is 98.1%. How do you achieve it?**

Before the establishment of DOST Single-Entry-Point Model, experience of around 15 countries have been researched and analyzed. The innovativeness of the DOST approach is that the multidirectional services have been brought together and their integration has been ensured. Thus, the application of unified approach to the provision of all services related to the MOLSP's activities has been achieved. Therefore, a mature



service chain has been established by providing communication between front, middle, and back-offices, Call Center 142, information systems and beneficiaries. Based on the standards and administration maintained by the middle-offices the received application by the front-offices is transferred to the back-offices through information systems. Provision of services is realizing on the basis of data concentrated in CEIS. Communication and provision of the results to citizens upon the processed application are realized through e-sosial.az web portal as well as Call Center 142.

#### **4. What were the main objectives of the plan or strategy to resolve the issue or challenge?**

The main objectives of the Strategy of the DOST Agency in the delivery of social services are listed as below:

- Expansion of infrastructure of DOST Centers and branches in order to improve the well-being of the population, increase public care for vulnerable groups by implementation of innovative solutions;
- Optimization of services provision on the model of “single-window” for increase rate of citizens’ satisfaction;
- Institutional development and strengthening the effectiveness of corporative management;
- Apply strategies and take actions toward the Digital transformation, development of ITC infrastructure for establishment of efficient e-governance;
- Development of community relations and awareness on social services and expand international cooperation;
- Ensure effective M&E system.

To improve level of operations and services provision to the citizens, DOST Agency applied to ISSA Recognition program in August, 2021 and at the present moment the necessary work has been done to introduce new, as well as to optimize existing processes in accordance to the guidelines specified in “Workbook on the Service Quality Guideline”.

## **6.THE ASSESSMENT OF THE CURRENT SITUATION OF STARTUPS IN AZERBAIJAN**

The role of innovations, as well as social innovation is increasing in economic development in modern age. In fact, more than [80% of economic growth](#) comes from innovation and application of new knowledge. Social innovation can bring greater value to public services by catering more effectively and holistically to the needs of populations ([Porumboiu, 2021](#)).

Startups play an important role in creating social innovations. [Social innovation startups are driving](#) positive change and making a significant impact on the world. Through their innovative ideas, these startups are addressing social, environmental, and economic challenges in unique and impactful ways ([Faster Capital, 2024a](#)). These innovative [ventures use entrepreneurial approaches](#) to tackle pressing issues such as poverty, inequality, climate change, and access to education and healthcare ([Faster Capital, 2024b](#))

Social innovation startups, which play an important role in solving social, economic and environmental problems and economic development in the world, are newly created in Azerbaijan. In general, the level of innovation development in our country is not satisfactory. In 2023, according to the Global Innovation Index, Azerbaijan ranked



89th among 132 countries ([Global Innovation Index, 2023](#)), which is inconsistent with the innovative development potential of our country.

A number of reforms are being carried out by the government in order to develop innovative economic development and startups in Azerbaijan. The Innovation and Digital Development Agency was established according to the Decree of the President of the Republic of Azerbaijan dated October 11, 2021. The Innovation and Digital Development Agency (IDDA) serves to organize activities in the field of digital transformation, to form a local innovation environment, and to strengthen the ecosystem in the country ([IDDA, 2021a](#)). The agency is trying to create new opportunities for establishing startups ([IDDA, 2023c](#)).

In addition to the Innovation and Digital Development Agency, a number of state institutions (Small and Medium Business Development Agency of the Republic of Azerbaijan (KOBIA), Innoland Incubation and Acceleration Center operating under the State Agency for Public Service and Social Innovations under the President of the Republic of Azerbaijan, Azerbaijan Investment Company, The Entrepreneurship Development Fund of the Ministry of Economy of the Republic of Azerbaijan) also support the creation and development of startups in Azerbaijan.

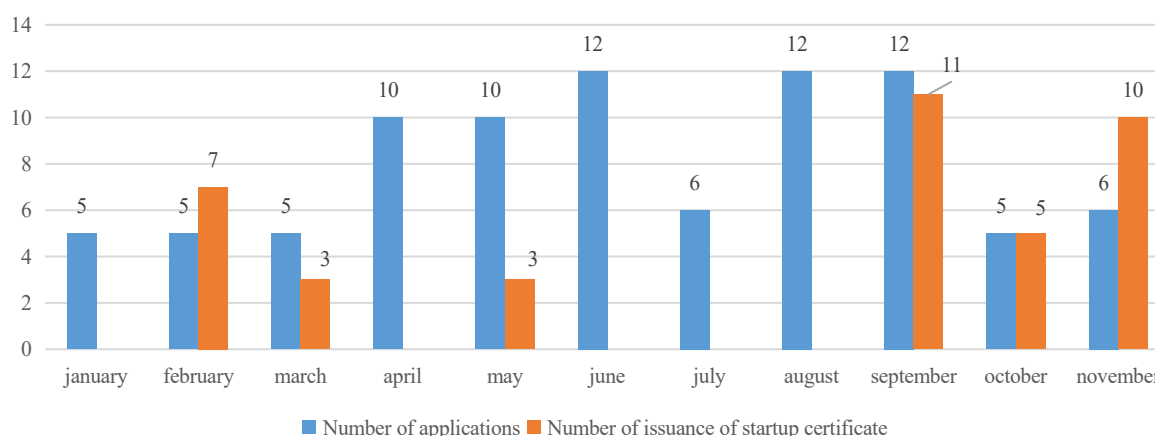
Some preferential financial mechanisms like grants, loans, subsidies and etc. allocated by the state can be shown as the first measure of support for startups. Unlike other loans, such loans are given to startups for a long time and at a low interest rate. In addition, it helps to find investors who will provide financial support for startups. Some of the aforementioned institutions in Azerbaijan (KOBIA, Innoland Incubation and Acceleration Center) offer these supports ([Valiyeva, 2020](#)).

It should be noted that the «Caucasus Ventures» venture fund was established in 2023 in Azerbaijan. The main goal of establishing the fund is to create favorable conditions for the development of Azerbaijan's innovation ecosystem, to encourage the formation of investment culture in the country and to attract the attention of foreign startups and investors to the local market ([IDDA, 2023b](#)).

As mentioned, one of the state institutions that help in the creation and expansion of the activities of startups in Azerbaijan is KOBIA. The agency was established by the Decree of the President of the Republic of Azerbaijan dated December 28, 2017 ([SMBDA, 2022a](#)). As it can be seen, the activity history of the Agency is also new. The agency started issuing start-up certificates from 2021. From May 2021 to December 1, 2023, the Agency received a total of 252 applications for the issuance of a «Startup» certificate, and 120 entrepreneurs were issued a «Startup» certificate ([SMBDA, 2022b](#)). Currently, the number of «Startup» certificates issued by KOBIA to micro and small business entities is 130 ([Fed, 2024](#)).

The diagram below shows the number of applicants and issuances of the «Startup» certificate from KOBIA during the 11 months of 2023 (Diagram 9).

Diagram 9. The number of applications for the «Startup» certificate and certificate issuances in 2023



Source: Small and Medium Business Development Agency of the Republic of Azerbaijan. Official web site: <https://smb.gov.az/storage/HESABAT2023.pdf>

During 11 months of 2023, 45 «Startup» certificates were issued by KOBIA.

In January - March 2024, more than 99 thousand services were provided to entrepreneurs in SMB houses. 52 public and private institutions in SMB houses provide more than 300 «G2B» and «B2B» services, which are necessary for entrepreneurial activity. The level of satisfaction of entrepreneurs with the services provided in SMB houses is 98% (SMBDA, 2022d). As it can be seen, despite the fact that they have been established for a short time, the level of satisfaction with the activity of SMB houses that provide new, innovative solutions is high.

It is gratifying that the number of start-ups in Azerbaijan is increasing year by year. Men are more active than women are in creating startups. Thus, 13.1% of startup entrepreneurs are women and 86.9% are men in Azerbaijan. According to statistical data, people in the 20-24 age group have a high share among startup entrepreneurs.

Education, e-commerce, security, social networks, media and advertisement, entertainment, transport and logistics, finance, design, art, tourism, etc. are dominated among the fields in which startups operate in Azerbaijan (Taxes, 2021). In 2022, 492,300 USD were invested in startups and 2,255,014 USD were got (Huseynzade, 2023).

The start-up ecosystem of Azerbaijan is young and small. Nevertheless, some of them could enter the world market. The most successful event of the ecosystem is the “exit” of the Nextsale startup at the beginning of 2022. The benefits provided by the **Ministry of Digital Development and Transport** to residents of Technopark, the Technest scholarship program, the “Startup” certificate issued by KOBIA are measures to support the ecosystem (Huseynzade, 2023). It should be noted that according to the Article 102.1.31 of the Tax Code of the Republic of Azerbaijan, “startups that are micro or small business entities and operate as individual entrepreneurs are exempted from income tax for a period of 3 years from the date of receiving a “Startup” certificate” (Tax Code of the Republic of Azerbaijan, 2000).

However, the work done and the reforms carried out in the direction of the creation and development of startups are not enough. Unfortunately, investors are not very interested in startup projects in the country (Nuruyev, 2021). Startups do not play a significant role in improving welfare, including providing employment in Azerbaijan. Most of the established startups are not able to expand their activities and become a

company later. According to statistical data, 9 out of 10 startups fail in the first year and cease their activity. There are 5 main reasons of failing of startups in Azerbaijan: disregarding the opinions of customers, wrong marketing strategy, lack of a business model, not being actual of the idea, wrong choice of team (Milli, 2020).

There is need special centers for startups to implement their projects successfully in Azerbaijan. It is necessary to coordinate the activities of relevant institutions in this field in order to eliminate these problems. A number of services such as education, experience sharing, financing, technical and marketing support should be provided to startups at the initial stage in Azerbaijan in order to encourage the growth of startups in our country both within the country and abroad.

## 7. CONCLUSION

Thus, as a result of the conducted research, it became clear that, numerous reforms have been carried out regarding the improvement of the welfare in recent years in Azerbaijan. There have been some improvements in welfare, income of population, the amount of the minimum wage, average monthly nominal salary and the employment rate have increased, the poverty rate has reduced as a result of the reforms. But the role of social innovation has not been sufficient in this process. Social entrepreneurship, which provides innovative approaches to solving social problems, has not developed in Azerbaijan; it is currently in its infancy. There are very few social innovation startups. Although serious reforms have been carried out by the state for the creation and development of start-ups from the legal, organizational or financial aspects it is impossible to say the same thing about social entrepreneurship.

It is necessary to increase the role of social innovation in the improvement of welfare in Azerbaijan. It should be noted that the opportunities for using social innovation are also great in Azerbaijan. It is possible to increase the role of social innovations in improving the welfare by solving a number of organizational and legal issues (formation of the non-existent legal framework and improvement of existing ones, raising the level of digitalization, etc.) in Azerbaijan.

In order to develop social entrepreneurship in Azerbaijan, the level of awareness among the population should be increased and the existing legislative framework should be improved. In addition to these, the government should develop a stimulating mechanism. Startups need special centers to implement their projects successfully in Azerbaijan. These centers would help ensure access to funding of startups.

It is necessary to coordinate the activities of relevant institutions in this field regarding the creation and expansion of the activities of startups. In addition to supporting the creation of startups, this would help to solve the problems that arise during their activities, thus increase their chances of becoming a company.

The implementation of the mentioned will increase the role of social innovation in improving welfare and expanding employment opportunities in Azerbaijan.

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