

Gulara Aliyeva
Independent Expert on Economics and Finance,
Baku, Azerbaijan
aliyevagulara@yahoo.com

NATIONAL INNOVATION SYSTEM IN AZERBAIJAN: RECOMMENDATIONS FOR GREEN ECONOMY

After the country's independence, the hydrocarbon sector saw a new revival, thanks to new exploration leading to the discovery of significant new oil and gas reserves. The resulting upsurge in the sector produced an extraordinary economic boom during the past decade, which has been unmatched in recent history on the global scene.

The massive presence of FDI investors is an asset that has not been fully used so far. These investors are both potential sources of positive local spillovers and technology transfer into the domestic economy and also a prospective channel for further integration into the global economy. Thanks to comprehensive and wide-ranging reforms during 20 years of independence, Azerbaijan boasts a relatively more favorable business environment than other CIS countries. The Government pursues an "open door" policy to foreign investors, which is seen as key for the diversification of the economy.

The Azerbaijan Investment Promotion Agency (AzPromo) is tasked with promoting both foreign and domestic investment. One of its priorities is to facilitate business investment in areas that would contribute to economic diversification. It seeks to identify sectoral priorities corresponding to Azerbaijan's competitive advantages. Apart from targeting direct investment in non-oil sectors, it facilitates downstream business cooperation between oil and non-oil sectors.

The body in charge of environmental protection and natural resource management in Azerbaijan is the Ministry of the Environment and Natural Resources (MENR). A number of other public bodies (in particular, the Ministry of Industry and Energy and the Ministry of Economic Development) also have responsibilities for certain aspects of environmental protection. The current structure of the economy (overwhelmingly dominated by the oil and gas sector), the need for economic diversification, coupled with the existing environmental challenges, make a strong case for a major focus on

developing the green economy and re-orientation towards green growth on the basis of promoting eco-innovation.

The concept “national innovation system” reflects the notion that the innovation process takes part in a system (the systemic view on innovation) and characterizes the systemic interdependencies that influence the processes of generation and diffusion of innovation in the economy. One of the broad definitions of the national innovation system is: “the network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies”.

Given the numerous systemic and market failures associated with green innovation, we see inherent difficulties in internalizing the eco-related costs and benefits along the process. Without targeted government intervention, the perceived risk of investing in such projects is generally high whereas the demand for green products is low. Therefore, policy intervention in different forms has in general a central role to play in promoting eco-innovation and, in particular, in boosting the demand for green products.

The capacity of the economy to successfully absorb and adopt new technologies depends on the level of human capital, in particular the skills and educational levels of employees. More efforts are needed (as also seen by the low level of R&D spending in the country) to invest in the country’s science base and skills development, as green growth and eco-innovation are especially demanding in this sense. The authorities can build on successful experiences and practices to stimulate the demand for innovation, in particular, eco-innovation in Azerbaijan.

References

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