

# Azerbaijan 2016



**Total: 42.01**

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## Quick facts

Population:	9.417 million
Unemployment rate:	6.0 %
GDP:	50.643 billion EMU
GDP growth rate:	1.1 %
GDP per capita:	5 380 EMU

## Political Freedom

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### Free and Fair Elections : 1.43

Azerbaijan held parliamentary elections in November 2015, which were once again neither free nor fair. OSCE/ODIHR canceled its observation mission after Azerbaijan government refused to accept minimum number of observers needed to make this process feasible and successful. According to Freedom House report, elections were conducted in the environment of intensified crackdown on all critical and dissent voices, which started at the half of 2015. Opposition parties have almost no access to media coverage, they are not allowed to organize rallies in public space and ruling party uses all means to intimidate and harass activists who confront to the president Ilham Aliyev and his power. Because of that, main opposition parties decided to boycott the elections. After tabulation of votes, Yeni Azerbaijan Party won 71 seats and independent individuals with tight connections to the ruling party 41 seat. Opposition is not present in the parliament since 2010.

### Absence of Unconstitutional Veto Players : 0.83

Azerbaijan score declined from 1,67 in 2015, in this section of Freedom Barometer Report. Due to dysfunctional system of checks and balances in practice in Azerbaijan, executive branch holds complete power in the country and president Aliyev is the most powerful person. However, his authority to govern is limited with the power of wealthy oligarchs and other high ranking officials in the government. Corruption remains one of the major problems in the country, especially among high ranking officials who often engage in corrupt practices with impunity. Transparency

International 2015 Corruption Perception Index ranked Azerbaijan on 119th place out of 168.

## **Freedom of Press : 1.1**

Freedom of the press is getting worse in Azerbaijan. In order to tackle criticism, government use violence, large fines and imprisonment against journalists, especially around important events in the country, like European Games or parliamentary elections in 2015. Khadija Ismayilova, known for her investigative reports on corruption among high ranking officials including president and his family, was sentenced in 2015 to seven and a half years in prison. By the end of a year, eight journalists remained in prison. Traditional media outlets are almost completely under control of the ruling YAP and business elites, or if not, they aim to censor those media through controlled advertisement market, raids and defamation suits. Defamation is a criminal offense which was in 2013 extended to online media.

## **Rule of Law**

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### **Independence of the Judiciary : 4.17**

The level of judicial autonomy continued decreasing. Corruption, as well as governmental influence on courts in the politically relevant trials (in areas of criminal as well as civil law), is gradually destroying independent judiciary. The country is – of course, under different banners - returning to the Soviet-style vertical organization of power regarding the last part of the state organization (judiciary) that used to show some autonomy. The number of political prisoners is rising together with a decrease in political and media freedom. As Freedom House noted, the right on fair trial is seriously endangered, arbitrary arrest and detention are common and pre-trial detention is long. As Amnesty International noted, “torture and other ill-treatment continued to be committed with impunity for the perpetrators”. Conditions in prisons are very bad and in sharp contrast with the relative richness of the country. Besides torture, overcrowding and poor medical protection are the worst problems in prisons.

### **Corruption : 2.9**

Azerbaijan is overwhelmed by corruption. The situation is far worse than in nearby Georgia, Armenia or Turkey. Corruption starts at the top of the government, where the President`s clan is enjoying privileges and amassing enormous wealth, springing down to numerous ordinary public servants who expect, demand and receive bribes. Government anti-bribery measures are superficial and limited in scope. Pressure on media and limited public access to information further diminish opportunities to discover concrete cases of corruption. There was no improvement during the past year. Transparency International has put Azerbaijan, in the Corruption Perception Index 2015 ranking, to the place 119 of 168, with the score remaining 29, as in 2014.

### **Protection of Human Rights : 4.2**

The year 2015 saw an all-out attack on many human rights and civil liberties. NGOs or media outlets were routinely shut down via seizure of property or other indirect actions of government,

while foreign ones were leaving. Black listed dissidents were denied passports. Religious freedom was limited, while members of the non-registered faith communities or of non-official Islam cults were prosecuted, often on charges of extremism or other anti-constitutional activity. Freedom of opinion and expression is on a low level indeed. There is no legal protection of LGBT people - Azerbaijan even did not join the United Nations` declarations on protection of people from discrimination due to sexual orientation. Women are under-represented in politics and many other professions, suffer domestic violence and are poorly protected against trafficking. However, in a surprising serial of presidential or judicial pardons in May 2016 some political prisoners were released or acquitted. Whether it was due to the foreign policy reasons, i.e. the President`s planned visit to the USA, or to the genuine shift in policies, yet remains to be seen.

## Economic Freedom

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### **Security of Property Rights : 6.04**

Private property is not well respected in Azerbaijan. Judicial process is not reliable, mainly due to influence of political elite over the judiciary and legal proceedings therefore can be partial. Out of court procedures, such as arbitration or mediation are not developed. An area of concern is implementation of the law on expropriation, which can be used for private economic gains, by unnecessary appropriation or low compensation, although the law stipulates compensation that is 20% higher than the market value. However, contract enforcement are mostly effective, after taking into account slow legal procedures. Land ownership is restricted to domestic nationals, but foreign nationals can lease land for long periods of time. There are also broad restrictions on foreign ownership in different industries: foreign holdings in media outlets is limited to 33%, and in insurance companies to 10%, and state must possess majority of equity in companies dealing with oil and natural gas. Privatization process is not transparent and is prone to political dealings and corruption.

### **Size of Government: Expenditures, Taxes, and Enterprises : 7.24**

Government consumption in Azerbaijan stood at 38,5% of GDP in 2015, in line with other Commonwealth of Independent States (CIS) countries. Economic prospects are not positive, with slow growth in previous years and envisaged recession in 2016, due to historically low oil and gas prices, Azerbaijan`s main export commodities. These non-tax revenues allowed for a high degree of public investments and large scale welfare programs, leading to high social transfers. Reforming state pension system due to occurring deficits of the Social Fund is a necessary measure in order to make the fiscal position more sustainable, with high public deficits. Public debt is expected to be more than doubled in 2016 standing at 40% of GDP, compared to 2014. Numerous state owned enterprises (SOE) are present in the economy, not only in oil and public utility sector. These SOEs often include quasi-governmental of nearly a monopoly status, with unclear separation between regulatory bodies and SOE corporate interests. An ambitious plan for privatization of public companies has been drafted in the beginning of 2016, but its implementation is lagging. The overall level of subsidies and social transfers is high. Corporate tax is set at 20% and VAT at 18%.

Personal income is progressive, being 14% up to the high threshold and 25% afterwards, while social contributions stand at 25% (22% paid by the employer and 3% by the employee) of the gross wage bringing the tax wedge to high 38% on the average salary.

## **Regulation of Credit, Labour, and Business : 6.52**

Business environment in Azerbaijan lack from the lack of enforceability of the existing regulatory requirements, and other problems associated with it. Many areas of business regulation continue to be in need of reforms that would encourage private enterprise. Azerbaijan was even named the top reformer on the Doing Business list by the World Bank in 2007/2008, and some further reforms taking place, but at a much slower pace. Administrative requirements coupled with bureaucracy cost are high. Dealing with construction permits and getting electricity prove to be lengthy processes, and also very expensive. Introduction of one stop shop for construction permits is envisaged to decrease administrative burden, as all documentation can be done with only one state agency, instead of six of them. Corruption, enabled by this kind of bureaucratic environment, is one of major problems. On the other hand, starting a business is quick and inexpensive and there are few licensing restrictions, which was further elaborated by abolishment of the requirement to use corporate seal. Tax compliance is easier than in many neighboring countries - total number of payments is low but the actual compliance is not easy, with complicated. The minimum wage is low compared to the average wage in the country, but high social security contributions makes labour expensive, contributing to the shadow economy. Labour regulations are mostly flexible: notice periods and severance pay for redundancy workers do not increase with their years in tenure. Working hours regulation is also do not pose a significant burden, apart from more stringent working hours for female employees. However, the relatively long military service of 18 months for general male population (or 12 months for university students) that is mandatory is burdensome to businesses, but also for the young workers due to disruption in human capital accumulation.

## **Freedom to Trade Internationally : 7.58**

Azerbaijan is not a champion of free trade. Azerbaijan is one of rare countries that is not a member of the World Trade Organization (WTO), and therefore its international trade is conducted under General Agreement on Trade and Tariffs (GATT) or bilateral agreements. WTO accessions negotiation has been ongoing since 1997, but with little improvement. However, the economic situation in the country calls for further involvement of Azerbaijan into global markets to encourage structural changes in the economy, and there has been some encouragement for this stance in official government statements. Tariffs remain high, especially for agriculture products. Border compliance costs are high, and infrastructure also poses another burden to trade. Custom administration can have a partial stance in dealings with enterprises, and corruption is widespread. Standardization procedures, which are still not in line with best international practice, serve as non-tariff barriers to trade. Due to depleting of foreign currency reserves, the National bank of Azerbaijan had to introduce new floating regime of the national currency manat, which faced strong pressures to devaluate, losing approximately 48% of its value compared to USD.