

Azerbaijan 2017



Total: 42.71

Political Freedom

Free and Fair Elections : 1.07

Elections in Azerbaijan are held in highly restricted environment, where parties and politicians are often prevented from competing, in an already unfair process. President Ilham Aliyev combined various methods of dealing with critical voices, from imprisoning of politicians and activists, physical violence and intimidation, to restricting access to media or from holding rallies. Due to that, there is no freedom and fairness of elections in the country. Same environment accompanied constitutional referendum as of September 2016. After the coup in Turkey, the President wanted quickly to further empower his position in the system by calling for a referendum, which had strengthen his powers over legislative branch and prolonged his term in office from 5 to 7 years, besides other changes. Campaign against proposed changes was suppressed by all means, triggering a new wave of repression toward activists who opposed the changes, while at the same time the voting process abounded with irregularities.

Absence of Unconstitutional Veto Players : 0.83

Having a situation in which elections are not free, where the President controls the executive, judicial and legislative branches of power, and corruption is orchestrated by the highest ranking politicians, means that autocratic authorities are those actors who hinder the rule of law in Azerbaijan. There are several players, though, who are able to challenge President's monopoly on power, such as oligarchs or other influential officials in the government or security apparatus. However, for the time being they are cooperating closely, simultaneously abusing the state for their own private interest.

Freedom of Press : 1

Media freedom continued to deteriorate in Azerbaijan, resulting in the lowest score among all the countries in the Freedom Barometer 2017 index. Landscape has been characterized by the lack of any kind of diversity, since either media outlets are reporting with a pro-government attitude or they are facing constant repressive measures. Objective, critical and independent journalism struggles to survive. It is censored, using extensive legislation to shoot down media outlets or even imprison journalists. Both physical and verbal attacks on reporters are common in Azerbaijan, contributing to high level of self-censorship among them. Government released several journalists from prison in 2016, although after that it didn't stop with arrests. Private television station ANS was terminated broadcasting license due to their intention to air the interview with Fethullah Gulen.

It was done allegedly to maintain good relations with Turkey after the failed coup in it. After the arrest of their director, the Azadliq outlet stopped with its print edition, since it was unable to access its bank account. Defamation remains punishable by the law, while its definition was expanded in November.

Rule of Law

Independence of the Judiciary : 4.92

Year and again, the level of judicial autonomy decreased. Corruption, as well as governmental influence on courts in the politically relevant trials, is destroying independent judiciary. The number of political prisoners is in the rise parallel to decreasing political and media freedom, in spite of occasional amnesties. Their treatment worsens, with torture becoming more present and unchecked and even lawyers coming under pressure. An important indicator of the state of rule of law in 2017, as Freedom House has noticed, is the shrinking of the pool of lawyers willing to take domestic or ECHR-addressed human rights cases. Constitutional changes as of September 2016 provided for de facto supremacy of the President over Parliament in appointing members of the Constitutional Court or Supreme Court, atop his right to appoint Prosecutor General.

Corruption : 3

Besides (or because of) having a clearly authoritarian political system, Azerbaijan is overwhelmed by corruption. The situation is far worse than in nearby Armenia or Turkey, not to mention the rapidly reforming Georgia. Corruption starts at the top of the government, where the President's clan enjoys privileges and drains out enormous wealth, springing down to numerous ordinary public servants who expect, demand and receive bribes. Government anti-bribe measures are superficial and limited in scope. Pressure on media and shrinking public access to information further diminish opportunities to discover concrete cases of corruption. There was almost no improvement during the past year. Moreover, a huge scandal broke out in summer 2017 – “Azerbaijani Laundromat” - showing that government cronies, between 2012 and 2014, bribed out favorable treatment by Western politicians, journalists and businessmen, including their blind eye turned at human rights violations. Transparency International has put Azerbaijan, in its Corruption Perceptions Index 2016, to the (shared) places 123-130 of 176 countries. Similar as in the mainland, authoritarianism and corruption by provincial leaders could be found in the Azerbaijan's geographically isolated exclave of Nakhchivan.

Protection of Human Rights : 4.19

State of human rights is very bad. The all-out attack on many of those and on civil liberties has resumed during 2016 and 2017. Freedom of expression is further limited, as in May 2017 Azerbaijan has blocked access to critical websites. Freedom to move abroad has been limited by denying passports to some political dissidents. Religious freedom is limited as members of the non-registered faith communities or of non-official Islam cults are prosecuted, often on charges of extremism or other anti-constitutional activity. National minorities are experiencing pressure in cultural and political life. In its 2016/17 report, Amnesty International warned that despite massive

pardons in May 2016 some political prisoners were not released, that new ones are meanwhile arrested and that banned organizations were not allowed to re-establish. Torture in detention and arbitrary arrests of government critics are widespread, while international human rights observers are denied access to the country. Moreover, in May 2017, a dissident Azerbaijani journalist living in the neighboring Georgia since 2015 was suddenly arrested (and tortured) in Baku, which rose serious suspicion of a cross-border abduction.

Economic Freedom

Security of Property Rights : 6.45

Private property rights are not well protected in Azerbaijan. Out of court influence of political elite over judicial processes remains a major obstacle. Court proceedings are not considered fair and professional. Out-of-the-court procedures, such as arbitration or mediation are not developed. The law on expropriation can be easily misused for private economic gains, by unnecessary appropriation or low compensation, in spite of its legal provisions. Contract enforcement is mostly effective, with reasonable time frame, and there are specialized commercial courts. However, there are no automated processes within courts and no adjournment rules. Insolvency procedures are complicated and lengthy, with low recovery rates estimated to stand at 40% on average. Registering property is very easy, with just 3 procedures, and with very low costs. 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, more stringent than the usual provision of majority equity that is reserved for domestic nationals: in Azerbaijan, foreign ownership in media outlets is limited to 33%, while in insurance companies to just 10%. Furthermore, majority equity in companies dealing with oil and natural gas must be in state ownership. The privatization process conducted in the country is not considered transparent and is prone to political dealings and corruption.

Size of Government: Expenditures, Taxes, and Enterprises : 7.26

Government spending in Azerbaijan stood at 36% of GDP in 2016, mostly in line with other Commonwealth of Independent States (CIS) countries. After a 6% of GDP deficit in 2015, a small consolidated fiscal balance surplus of 0.3% of GDP was recorded, but further changes in fiscal policy are necessary in order to make public finances sustainable. This fiscal result stems from higher revenues, due to customs reorganization and higher oil prices, but also due to the fall in capital expenditures. The economy experienced contraction of 3.8% in 2016, not just due to energy prices, but more importantly, due to the fall in non-oil industries. Inflation remains high, mostly due to pass through effects of the national currency devaluation, peaking at 12.4%. The government approved a Strategic Road Map in December 2016, a broad development plan, covering areas from macroeconomic stability and exchange rate policy to investment plans in chosen industries deemed as competitive, which may have a strong influence on future economic freedoms depending on its implementation. Non-tax revenues stemming from oil and gas allowed for a high degree of public investment and large-scale welfare programs, leading to high social transfers, but these revenues are dwindling. Unreformed state pension system is a drain on public

finances. Public debt has been tripled since 2014, to almost 40% of GDP. Numerous state owned enterprises (SOE) are present in the economy, not just in the oil or utility sector and many of them have a near-monopoly status, with unclear separation between regulatory bodies and SOE corporate interests. An ambitious plan of privatization of public companies that was drafted in 2016 is lagging in implementation. Azerbaijan's Sovereign Wealth Fund, that was set up with exceeding oil revenues, has been linked to corruption of high state officials and bad investment policy. Corporate tax is set at 20%, while VAT is at 18%. Personal income tax is progressive, being 14% up to a high threshold and 25% above it, while social contributions stand at 25% of the gross wage (22% paid by the employer and 3% by the employee).

Regulation of Credit, Labour, and Business : 6.55

Business environment in Azerbaijan is not considered as business friendly. The biggest obstacles remain in the field of regulatory enforcement, equal treatment of businesses and corruption. Complicated bureaucracy keeps administrative cost for conducting business activities elevated. Getting an electricity grid connection proves to be lengthy and expensive, but it was recently made less burdensome with the introduction of electronic capacity maps which reduced the necessary time for determining new connection points. Issuance of construction permits is very inefficient, burdened with many processes, lasting up to 7 months, which creates a corruptive environment. On the other hand, starting a business is quick and inexpensive, and without minimum paid in capital requirements. Tax compliance is easier than in many neighboring countries - total number of payments is low and they are paid mostly online, but the actual compliance is burdensome. Shadow economy in the country is widespread, with many people working in undeclared activities. Labour regulations are mostly flexible: fixed term contracts can last up to 60 months without restrictions, while notice periods and severance pay for redundancy workers do not increase with their years in tenure. However, the relatively long mandatory military service (18 months for general male population, while 12 months for university students) is burdensome to businesses, but also for the young workers, due to disruption in human capital accumulation.

Freedom to Trade Internationally : 7.44

Azerbaijan is not a champion of free trade. It is one of the rare countries that are not members of the World Trade Organization (WTO), therefore its international trade is conducted under General Agreement on Trade and Tariffs (GATT), or bilateral agreements. Although the WTO accession negotiation has been ongoing since 1997, and the last meeting of the WTO Working Party was held in July 2016, there were little, if any, advances in this regard. Tariffs remain high, with simple average Most Favoured Nation (MFN) applied rate of 9%, and even higher for agriculture products. Border compliance costs are high, but the electronic system for submitting export and import documentation is expected to improve the situation. Customs administration are perceived as often having a partial stance in dealings with enterprises, whereby corruption remains an issue. Standardization procedures, which are still not in line with the international practice, serve as non-tariff barriers to trade. The national currency manat, now in the float regime, currently remains relatively stable when compared to its recent sharp depreciation. Poor state of the infrastructure poses yet another burden to trade, lowering not only volume of imports and exports but also the volume of transit goods. Azerbaijan is making efforts to increase its connectivity with the surrounding countries, in order to benefit from an increased volume of exports. The Baku - Tbilisi - Kars railway and Trans - Anatolian and Trans - Adriatic pipe lines are among the most important infrastructure projects in this regard.