

# Azerbaijan 2018



Total: 44.68

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## Political Freedom

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### Free and Fair Elections : 1.07

Freedom and fairness of elections in Azerbaijan are highly restricted, with no pluralism in political life of the country. Political landscape is dominated by the ruling New Azerbaijan Party and the president Ilham Aliyev, who prevent any competition and criticism, by means of imprisonment, verbal and physical violence, censorship and abuse of institutions for making a play unfair. Azerbaijan has a long history of fraudulent elections, those which abound with crackdown on opposition politicians by placing them behind bars or restricting them from participating in elections, with abuse of state resources and power without clear distinction of the political party and governmental positions, and with irregularities on the voting day such as ballot stuffing or carousel voting. Although regularly due in October 2018, the president called for snap elections in February, leaving no space to opposition candidates to prepare, in less than two months time. In the first presidential elections after the constitutional changes adopted in 2016, which extended the presidential term in office to 7 years, the incumbent president was reelected in “restrictive political environment and under a legal framework that curtails fundamental rights and freedoms, which are pre-requisites for genuine democratic elections”, as OSCE observation mission stated. Limiting public and media space for opposition parties and candidates is a norm in Azerbaijan, but recently government has also taken steps to impose limitations on Internet, as the only source of critical and independent views.

### Absence of Unconstitutional Veto Players : 0.83

Political decision making in Azerbaijan is solely in the hands of the president Ilham Aliyev and the close circle of his allies. There are no unconstitutional veto players who could force president and ruling elite to do anything unwillingly, but undermining of the rule of law and of democratic principles is coming exactly from this group of people. Very narrowly limited political pluralism, tight control over all branches of power which leaves the country with no mechanism of checks and balances, deeply entrenched high level corruption and abuse of power to serve private interests - all those are characteristics of the Azerbaijani authoritarian regime. Other powerful people exist in the country as well, but they are rather close partners of the president than the ones representing a challenge to his rule. Introduced constitutional changes allowed president to appoint vice-presidents. The only appointment during the past year was of his wife, as the First vice-president of Azerbaijan, thus further tightening his own control of the state. The eyes of the international community were redirected onto the country also due to the “Laundromat” international bribery scheme, itself aimed to influence decision making in Europe in favor of Azerbaijan, for which

purposes 2,9 billion dollars were spent by the president`s clan.

## **Freedom of Press : 1**

Freedom of the press in Azerbaijan is limited by all means. President Ilham Aliyev imposed extensive control over all media sources, reducing criticism of the regime, and independence and objective reporting, to the very minimum. With score of 1 out of 10, the country remains on the very bottom in regard to Press Freedom in the Freedom Barometer 2018 Index. Reporting is censored through political and economic pressure, while also by ceasing operations of the media outlets on fraud allegations and tax charges. Perceived as the last independent outlet, the operation of the news agency Turan was also at risk, after its director had been arrested. However, strong pressure from international community resulted in his release. Journalists are living and operating in an environment of constant fear, unless they are supporting governmental stance. Those who do not obey this are faced with physical and verbal violence, defamation charges, imprisonment and torture. Many dissenting journalists left the country so as to provide independent reporting from abroad, no matter that in such cases their families and relatives were targets of harassment by the state apparatus. Understanding that Internet became the dominant space for criticism, government pushes through legal amendments allowing them to censorship the online content, with numerous websites already having had been blocked.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## **Rule of Law**

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### **Independence of the Judiciary : 5.84**

Not least national judicial institutions but courts, prosecutors and even many solicitors are under heavy political influence by the executive. Freedom House claims that “both ... the judicial system and bar association are under the de facto control” of the government. Trials against political opponents or independent journalists are staged, verdicts often determined in advance and defense lawyers deprived of much of the procedural tools, while the latter are often subject to intimidation, pressure or losing their licenses. Ever more solicitors refuse to counsel in politically sensitive trials. Situation in detention facilities is bad, characterized by torture or even unexplained deaths of detainees. Inmates in prisons lack basic necessities and have to ask families to fetch them. Taken Azerbaijani financial capabilities, that has obviously been due to deliberate neglect and not to scarcity.

### **Corruption : 3.1**

Azerbaijan is a place of grand corruption. Large portions of national wealth, gained mainly via oil or other extraction industries, are channeled into private hands of the President`s clan or to lower, also highly corrupted public officials. With media freedom and access to public information being very low, details cannot reach the public, or be the ground for investigations (except for show-trials

purposes). Moreover, corruption spills across the border, whereby it was, in the framework of the “Azerbaijani Laundromat” scandal in 2017, revealed that the government was bribing foreign, including EU, politicians, bankers and journalists to turn a blind eye at its plunder, or at breaches of human rights. In Italy, investigation was opened against a member of the Parliamentary Assembly of the Council of Europe allegedly corrupted by Azerbaijani government. PACE president resigned, while PACE investigates the allegations that several of its members received cash, gifts or various favors by Azerbaijani government so as to protect it from being criticized or sanctioned. On the Transparency International’s CPI 2017 list, Azerbaijan shares places 122-129/180 with seven other countries.

## **Protection of Human Rights : 4.28**

Respect for human rights is at low level. Amnesty International reports about intensified crackdown against freedom of expression in 2017, through prosecution, imprisonment and unfair trials against critics of government or independent media workers. Human Rights Watch reported on politically motivated arrests – of 18 political or NGO activists and 7 journalists – as well as on closing down or blocking of 5 media outlets. A number of Internet sites are meanwhile blocked. In early 2018, arrests continued, encompassing yet another prominent opposition leader. Right on fair trial in many of those cases has been fundamentally jeopardized. Freedom of association and gathering is also restricted. Besides more or less limitations put to religious or ethnic minorities, sexual minorities face an all-out crackdown. Massive round-ups of LGBTs (more than 100) were taken in September 2017 in Baku, with the aim of extorting data, by threats or torture, on their contacts, and thus filing a comprehensive black-list of LGBT citizens. In attempts to get hold of dissident expatriates and to summon them, Azerbaijani government misuses Interpol warrants, or engages in cross-border abductions. At least in one such case – that of the exiled investigative journalist Afgan Mukhtarli who disappeared in Tbilisi, Georgia, in May 2017, to be sentenced in Baku to six years in prison in January 2018 – it was allegedly done in cooperation with the secret services of the neighboring country.

## **Economic Freedom**

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### **Security of Property Rights : 6.94**

Private property rights are not well protected in Azerbaijan. The most important problem is the level of control that the ruling elite has over the courts. Court proceedings are not considered fair and professional. There is limited level of transparency regarding court procedures and there is inconsistent enforcement of rules. The law on expropriation can be easily misused for private gains by the members of the political elite, by unnecessary appropriation or low compensation, in spite of its legal provisions. This was further complicated by the 2016 constitutional amendments which enabled authorities to expropriate private property in dubious instances, when necessary for social justice and effective use of land purposes. Contract enforcement is mostly effective, executed within a reasonable time frame. There are specialized commercial courts. However, there are no automated processes within courts and no adjournment rules. Recent changes introduced an electronic system for payment of court fees. Insolvency procedures are complicated and lengthy, with low recovery rates estimated to stand at 40% on average, and lasting 1.5 year

on average. Registering property is very easy, with just 3 procedures, and with very low fees, yet not all land titles are clear, especially in the rural areas. Land ownership is restricted to domestic nationals, but foreign nationals can lease land for long periods of time. There are broad restrictions regarding foreign ownership in different industries. Majority equity is reserved for domestic nationals in the case of mining, oil and gas; while in the media sector foreign equity in newspapers is capped at 33% and outright prohibited in the TV broadcasting. Furthermore, companies in the oil and natural gas sector must be in majority state ownership. The privatization process conducted in the country is not considered transparent and is perceived as prone to political dealings and corruption. Public procurements are also prone to corruption.

## **Size of Government: Expenditures, Taxes, and Enterprises : 7.35**

Government spending in Azerbaijan stood at 36% of GDP in 2017, which is mostly in line with other Commonwealth of Independent States (CIS) countries but significantly lower than in most European countries. After high deficits in the previous year, the budget was balanced in 2017, and the level of public debt finally stabilized at 54% of GDP, which may look moderate but is still four times its size in 2012. The economy finally overcame recession and recorded a robust growth of 4% in 2017, due to increasing oil prices in the second half of the year and high public investments in infrastructure. Inflation, that was higher than 15% in 2016, finally lost some of its momentum, but remained high, i.e. 10% in 2017. The pension reform initiated in 2017 increased the number of years necessary for retirement from 63 to 65 for men and from 60 to 65 for women, albeit via several annual smaller increases. Numerous state owned enterprises (SOE) are present in the economy, not just in the oil or utility sector but also in power generation, communications, passenger and cargo transport. The largest bank in the country, the International Bank of Azerbaijan, accounts for almost 40% of the total banking assets, and has received several substantial money infusions, since non-performing assets that were transferred to the Agrarkredit reached the level of 25% of GDP. Many of these SOEs have a near-monopoly status, with unclear separation between regulatory bodies and SOE corporate interests. Although facing the same rules and obligations as the private sector companies, SOEs informally enjoy a privileged status as regards government procurements or external financing. Powerful SOEs have also been able to use their influence and block new market entrants. An ambitious plan of privatization of public companies that was drafted in 2016 is slowly under implementation, aiming at attracting foreign investments. Azerbaijani Sovereign Wealth Fund (SOFAZ), which was set up in 1999 with exceeding oil revenues, has been linked to corruption by high state officials and bad investment policies. 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). This leads to tax wedge of 35% on the average wage.

## **Regulation of Credit, Labour, and Business : 6.81**

Regulatory framework in Azerbaijan is not business friendly. Regulatory enforcement is weak, with unequal treatment of businesses and rampant corruption. Complicated bureaucracy also exerts high administrative cost for conducting business activities, but recent sector specific regulatory changes improved the situation in some areas. The law that was introduced in 2015, which suspended inspections of entrepreneurs for 2 years, was further extended in 2017 for another three years. The licensing regime in the country has also been simplified, and licenses are now

issued for an indefinite time period while the number of activities that required a license was reduced. Starting a business is cheap and quick, with no paid-in minimum capital. The process of construction permit issuance has been made more effective, through the introduction of a single window service, which reduced the necessary time from 7 to 4 months on average, although the overall number of procedures remains high. New investments in the power grid and setting up a national regulatory body for power grid monitoring is expected to increase the quality of power supply. Tax compliance has also been recently improved through the introduction of the electronic invoicing and unifying the tax returns for social security contributions. Shadow economy in the country is widespread, with many people working in undeclared activities. Labour regulations are mostly flexible, with fixed term contracts that can last up to 60 months without restrictions and with short notice periods and low severance pay. 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. Social dialogue is not established, since labour unions are controlled by the government. Therefore, collective bargaining is restricted.

## **Freedom to Trade Internationally : 7.46**

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), although its accession talks have been conducted since 1997, but with little success. Trade with other countries is conducted through the General Agreement on Trade and Tariffs (GATT), or bilateral agreements. Import tariffs remain high, with simple average Most Favoured Nation (MFN) applied tariff rate of 9%, but those on agriculture products could be even higher. Border compliance costs are high, and it involves significant time. Recent introduction of an electronic system for submitting export and import documentation has just partially improved the situation. Corruption and partial treatment by the custom administration is still evident. Standardization procedures, which are still not in line with the international practice, serve as non-tariff barriers to trade. In 2016 the government introduced new tariffs on imported goods from several industries, including agricultural products, in order to boost domestic production through import substitution. The national currency, the manat, has been in the float regime since 2016, after two major depreciations that occurred in recent years, but this arrangement is still in its "interim phase" and looks rather like a managed float than a free float. Poor state of the infrastructure is another burden to trade, lowering not only volume of imports and exports but also the volume of transit goods, while the closed border with Armenia poses significant problems in this regard. Three quarters of the Azerbaijani exports are fossil fuels, such as crude or refined oil and gas, and its main trade partners are the EU, Russian Federation and Turkey.