FREEDOM BAROMETER

Azerbaijan 2019

Total: 44.46

Quick facts

Population:	9.940 million
Unemployement rate:	5 %
GDP:	46.946 billion $
GDP growth rate:	1 %
GDP per capita:	18020 $ PPP

Political Freedom

Free and Fair Elections : 0.71

Political environment in Azerbaijan is highly restricted. Electoral process is neither free nor fair. New Azerbaijan party and its leader Ilham Aliyev hold complete control over the country and its institutions, abusing position for preventing any kind of political pluralism. Parties and political activists who are critical of government are facing verbal and physical violence, imprisonment, intimidation including members of their families, lay-offs from work, and/or censorship. Parties often lack funding, access to resources and media representation, while organization of the rallies is limited by law. Even online space became highly controlled by the state after 2017 referendum, with online outlets having been shut down, and those which posted criticism against the ruling elite having faced criminal charges. The enumerated has made opposition participation in the political life of the country almost impossible. In addition, elections in Azerbaijan 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. In April 2018, Ilham Aliyev was elected as president for the fourth consecutive term, in “restrictive political environment and under a legal framework that curtails fundamental rights and freedoms, which are pre-requisites for genuine democratic elections”, as marked by the OSCE. Many politicians, activists and journalists were either arrested or remained behind bars throughout the year, even though political leader Ilgar Mammadov was released in August 2018, after 5 years spent in prison.

Absence of Unconstitutional Veto Players : 0

As the score clearly indicates, principles of democracy do not exist in Azerbaijan, hence decision making in this country is completely subject to the interests of the incumbent president Ilham Aliyev and political and business elites surrounding him. There are no unconstitutional veto players who could force president or ruling elite to do anything unwillingly, but undermining of the rule of law and of the democratic principles is coming exactly from this group of people. System of checks and balances is hindered by the domination of executive over legislative and judiciary. High level corruption is widespread in the country and these practices by state officials often go by with impunity. With all branches of power controlled by the president, and a tight grip put over state resources and decision making, Azerbaijan might be considered as a captured state.

Freedom of Press : 4.09

Space for free and independent media in Azerbaijan is shrunk to the very edge of existence. Despite being granted by the law, freedom of the press is limited by all means. There has been clear evidence of media censorship, with many outlets which even slightly stood out of the governmental narrative having had been shut down by the state. In August 2018, APA news agency, usually biased towards the government, was closed down. Many foreign outlets, such as Radio Free Europe/Radio Liberty or BBC, remained prohibited. Also, self-censorship is widespread among journalists and editors, restraining themselves from reporting on critical topics. Independent and objective reporting is followed by retaliation from the government, through cracking down on critical journalists, imprisonments, verbal and/or physical harassments, smear online campaigns, or defamation charges. In such restrictive environment, many journalists made decision to report from abroad, however same repressive methods are often directed towards members of their families. Journalist Afgan Mukhtarli, who was abducted from Georgia and transferred to Azerbaijan, was sentenced to 6 years in prison. Libel is a criminal offense punishable by law, by up to three years of imprisonment. Understanding that Internet became the dominant space for criticism, government pushes through legal amendments, allowing them to censorship the online content. Throughout the observed period, many online portals were either blocked by court or remained blocked.

Rule of Law

Independence of the Judiciary : 4.4

The position of judiciary vis-a-vis executive branch of government has not improved. Not least national judicial institutions but also courts, prosecutors or even many defense lawyers are under heavy political influence, taken the de facto government control of the Bar Association. Staged trials against political opponents or independent media actors are common, whereby usual legal procedures are avoided and verdicts often brought in advance. Arbitrary detentions - and torture thereby - are also common, while the situation in prisons is bad in spite of abundant financial capabilities to improve it. All those are countered by occasional, apparently generous, presidential pardons (last one to be proclaimed in March 2019, whereby 51 political prisoners - among the total of 400 benefiting convicts - were released).

Corruption : 2.5

Already very bad, the situation regarding corruption has further deteriorated in Azerbaijan during 2018. The country`s downfall – in just a year - on the Transparency International`s Corruption Perception Index list has been one of the most dramatic ever. From the places 122-129 in 2017 it fell to places 152-156 in 2018 (among 180 countries of the world), with the score plummeting from 30 in 2016 and 31 in 2017 to 25 in 2018 (out of 100). Grand corruption, itself capturing considerable proportions of national wealth and of its extraction industries` income, is only superficially checked, whereas it mainly comes from the very top of the government. Yet petty corruption too is widespread in almost all sectors of administration, be it tax or land administration, customs service, police, judiciary, or public procurement. On the top of it, attempts at bribing foreign politicians, journalists or businessmen, either to laundry the domestic corruption or to turn a blind eye on it and artificially boost the country`s image abroad, are also common.

Protection of Human Rights : 4.56

Azerbaijani citizens are lacking human rights and civil liberties in many fields. Freedoms of expression, gathering and association are endangered by occasional mass arrests, prosecution, unfair trails and imprisonment of political dissidents, independent journalists or NGO activists, including sometimes their defense lawyers. Legal uncertainty on what is allowed and what is not is in fact even exacerbated by occasional amnesties or presidential pardons that include political prisoners or are obviously conceived because of them. Traveling abroad is restricted to politically unsuitable individuals. While ethnic minorities face hardships, religious (especially „non-traditional“) or sexual ones face persecutions and black listing. Domestic violence and child marriages are insufficiently fought against, while largely regarded either as a private matter or as part of traditions that should be tackled by the state very cautiously.

Economic Freedom

Security of Property Rights : 6.94

Private property rights are not well protected in Azerbaijan. The most important problem is political influence of the executive branch of government and connected vested interest groups over the courts. Court proceedings are not considered as fair and professional. There is a limited level of transparency regarding court procedures. Rules are enforced inconsistently. The law on expropriation could be easily misused for private gains by the members of the political elite, e.g. by unnecessary appropriation, or by a low compensation, all in spite of the legal provisions. This was farther complicated by the 2016 constitutional amendments which enabled authorities to expropriate private property in dubious instances when it was necessary for social justice or effective use of land purposes. Contract enforcement is mostly effective - done in 9.5 months on average. There are specialized commercial courts. However, automated processes within courts are scarce, apart from the newly introduced electronic payment system for court fees and filing the initial complaint by plaintiffs. There are no adjournment rules. 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 4 procedures, albeit with high fees. Not all land titles are clear, especially in rural areas. Cadastre coverage has increased,

while cadastre plans have been digitalized, which has been a positive move, yet not all land is covered by these actions. 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 cases 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 as transparent but prone to political dealings and corruption. Government still holds a large sway in the economy. Public procurement is also prone to corruption.

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

Government spending in Azerbaijan stood at 34% of GDP in 2018, which was mostly in line with other Commonwealth of Independent States (CIS) countries but significantly lower than in most European countries. After the deficits in previous years due to the banking crisis and the prolonged recession due to low oil prices, the public purse recorded a strong surplus in 2018. General government gross debt is low and on a slowly downward trajectory, being below 20% of GDP in 2018. The economy has been experiencing a sluggish growth, due to still low oil prices and private sector investment constraints. Inflation, which had reached 13% in both 2016 and 2017, was put under control, below 2.3% in 2018. Numerous state owned enterprises (SOE) are present in the economy, not just in the oil or utility sector, but also in power generation, communications, or passenger and cargo transport. There are currently 5 000 active SOEs in the country. 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 often enjoy a privileged status in government procurements or external financing, including budget subsidies when necessary. Powerful SOEs have also been able to use their influence and block new market entrants. The government recently set up a SOE monitoring commission within the Ministry of Finance, together with guidelines for their work, but this is not expected to curtail strong political interests in this field. 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 in order to deal with the non-performing assets. The bank does not have a viable business plan, yet its privatization is not nearly in sight. The banking system is still plagued with very high level of the non-performing loans (NPL). An ambitious plan of privatization of public owned companies, drafted in 2016, is mostly stalled. Azerbaijani Sovereign Wealth Fund (SOFAZ) that was set up in 1999 with exceeding oil revenues has been linked to corruption of high state officials. Its capital was almost 90% of GDP in 2018. 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 the tax wedge of 35% on the average wage. Recently, the government implemented many small tax reforms, for example raising excise duties and the number of excise goods, reducing the simplified tax rate from 4% to 2% and broadening tax exemptions and deductions, including agriculture manufacturers, retailers and SMEs. A complicated counter-cyclical fiscal rule was introduced in 2019, with non-oil primary balance not deteriorating as compared to the current year, and nominal public spending growth not rising above 3% as compared to the previous year. But the fiscal stimulus, including a 40% nominal wage increase among the public sector employees, could lead to a collision with the fiscal rule.

Regulation of Credit, Labour, and Business : 6.45

Regulatory framework in Azerbaijan is not business friendly. However, strong efforts in recent years to implement reforms in many regulatory areas have increased its ranking in the Doing Business from 57th to 25th but it was downgraded in 2019 to 34th place. But main problems, such as weak or partial regulatory enforcement, alongside corruption, still plague the business environment, while complicated bureaucracy keeps business administrative costs high. Also, draft legislation is often not made available for public comment, nor does it involve a public discussion process. The law that was introduced in 2015, which suspended inspections of entrepreneurs, was renewed several times, now prolonging until 2021. The licensing regime in the country has also been simplified, whereby licenses are now issued for an indefinite time period within a 10 day period while the number of activities that required a license was reduced from 60 to 32. Starting a business is cheap and quick, with no paid in minimum capital. The introduction of a single-window service, which reduced the necessary time to 4 months on average, made the process of construction permit issuance more effective. Similar measures were taken in getting electricity, with a single-window procedure and establishment of a national regulator to monitor power outages. 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, which incrementally increase with the tenure of workers. 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 and collective bargaining are not established, since labour unions are controlled by the government and therefore collective bargaining is restricted and present mostly in the public sector.

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, since the last meeting of the working party on Azerbaijan's succession met over two years ago, in July 2017. Trade with other countries is conducted through the General Agreement on Trade and Tariffs (GATT), or bilateral agreements, which are for the time being signed only with ex-Soviet states from the region. Import tariffs remain high, with simple average Most Favoured Nation (MFN) applied tariff rate of 9%. Border compliance costs are high, and it involves considerable time. Recent introduction of an electronic system for submitting export and import documentation has just partially improved the situation. Electronic customs procedures have been somewhat streamlined, and the "green corridor" system is under full implementation. However, corruption and partial treatment by the custom administration is still a matter of concern. 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 follow the import substitution policy. In order to boost investments and exports, the government established the first free trade zone in the country, in the city of Alat, in 2016, with a very high degree of autonomy from the government, but implementing regulations is still pending. Thus the zone still waits to commence its operation. Poor condition of the infrastructure is another burden to trade, lowering not only volume of imports and exports but also the volume of transit goods. The closed border with Armenia, due to political tensions over the contested region of Nagorno-Karabakh, also poses significant problems. Three

quarters of the Azerbaijani exports are fossil fuels, such as crude or refined oil and gas. Its main trade partners are the EU, Russian Federation and Turkey. The national currency, the manat, has officially been in the float regime since 2016, after two major depreciations that occurred in recent years, but it is de facto pegged to the US dollar.