QUERY

Please provide an overview of the most important economic, political and social developments in Azerbaijan in the past years.

CONTENT

1. Introduction
2. Corruption in Azerbaijan
3. Main drivers of corruption
4. Legal and institutional anti-corruption framework
5. Other governance challenges
6. References

CAVEAT:
This answer builds on a previous Helpdesk Answer available here.

SUMMARY

As with many authoritarian regimes, Azerbaijan is characterised by the large concentration of power in the hands of the ruling elite, which blurs the line between business and politics. The ruling family has extended its reach into virtually all lucrative sectors of the economy and patronage networks permeate all spheres of public life and hamper the long-term economic and social development prospects of the country.

Oil and gas revenues sustained the regime for many years, contributed to impressive levels of economic growth, expanded the government’s room for manoeuvre in both foreign and domestic policy and helped preserve stability in the country. The revenues allowed the government to stage prestige events such as the Eurovision Song Contest and the European Games, Formula 1, Islamic Solidarity Games and to carry out large-scale construction projects.

As the hydrocarbon revenues level off and are set to decline, the space for dissenting views in politics is also closing rapidly: harassment, intimidation and unjustified arrests have become commonplace among members of opposition parties, the media and civil society.

In February 2017, President Aliyev appointed his wife, Mehriban Aliyeva, to the newly created position of first vice president, placing her first in line to take over the presidency. This unprecedented degree of nepotism reduced any future chance for free and independent elections, and further entrenched power within the ruling clan.
AZERBAIJAN: OVERVIEW OF CORRUPTION AND ANTI-CORRUPTION

1  INTRODUCTION

Azerbaijan has undergone significant economic transformation and development since the country's independence in 1991. Before the collapse of the Soviet Union, Azerbaijan had a broad economic base, with developed industrial, agriculture and service sectors (Asian Development Bank 2014). Independence brought about an economic collapse that was among the worst in the Commonwealth of Independent States (CIS): a combination of trade disruption, loss of public financing from Moscow and the transition to a market economy, led to the country's gross domestic product (GDP) shrinking year-on-year until 1996. By 1995, GDP was only 37 per cent of what it had been in 1989. Compounding the country's economic woes, the conflict with Armenia exacerbated the economic decline and led to an influx of around one million Azerbaijani as refugees and internally displaced people (Asian Development Bank 2014).

President Heydar Aliyev came to power in 1993 and managed to secure a ceasefire with Armenia, kick-start the economy and restore domestic stability and a functioning state, while creating an authoritarian regime characterised by patronage networks, disregard for civil and political rights and repression of political dissent (Freedom House 2013). In 1994, the country signed the first major oil contract with international firms. This, combined with a surge in foreign direct investment (FDI) and the construction of the Baku-Tbilisi-Ceyhan oil pipeline, injected billions of dollars into the economy.

The economy resumed growth in 1996 due to the onset of oil investment through production sharing agreements (PSAs) between the state oil company, SOCAR, and foreign oil firms for exploration and production (Asian Development Bank 2014). As a result, Azerbaijan experienced a period of remarkable economic growth between 2000 and 2010: on average, the economy grew by 15.3 per cent a year, and the share of the population living in poverty decreased from almost 50 per cent in 2001 to less than 16 per cent in 2008. These impressive levels of economic growth were mainly driven by the oil sector, which grew at an average pace of almost 22 per cent per year (Asian Development Bank 2014).

In 2003, after Heydar Aliyev’s death, his son, Ilham Aliyev, took over the presidency of the country. In addition to stifling political dissent, the regime has managed to sustain itself through a deeply entrenched system of political patronage fed by the significant inflows of oil revenues (Freedom House 2013a).

In 2010, however, oil production started to slow and while high oil prices and public expenditure in non-oil sectors kept the economy growing, the vulnerabilities of the country’s economic model became apparent: Azerbaijan failed to diversify its economy and invest adequately in non-oil sectors (Freedom House 2013) and became highly dependent on transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ), which constituted only 9.7 per cent of total state budget revenues in 2007, but climbed to almost 60 per cent by 2010, (Asian Development Bank 2014). This entwined the country's fiscal policy with global oil prices, which exposed the country's economy to a high degree of external volatility. Moreover, by using much of the oil revenue to fuel public spending and stimulate the economy instead of developing a broader revenue base, the government of Azerbaijan compromised SOFAZ's main objective: conserving the oil wealth for future generations (Asian Development Bank 2014).

Since even leading industries in the non-oil economy were indirectly funded by the oil sector – the construction and transport industries, as well as much of the private sector were reliant on government contracts from the public investments (Asian Development Bank 2014) – the steep decline in oil prices from 2014 had a tremendous impact on the country’s economic performance. Construction plummeted by 27.6 per cent as the government slashed public investment in response to plunging revenues; manufacturing declined by 1.4 per cent, and the production of construction materials and petrochemicals also declined by 10.6 per cent and 9.1 per cent respectively (Asian Development Bank 2017). Overall, Azerbaijan’s GDP contracted by 3.8 per cent in 2016 and is expected to decline by a further 1 per cent in 2017 (International Monetary Fund 2017).

The persistently low prices of oil have put additional pressure on the country’s economy, which led President Ilham Aliyev to announce an adjustment in the country’s economic strategy in late 2016. The new strategy focuses on the development of four non-oil sectors – agriculture, transportation, tourism and information and communication technology – as part of...
an effort to diversify the economy (US Department of State 2016).

In sum, after the oil bonanza of the early 2000s, Azerbaijan’s economic model appears to have lost its steam and the underlying structural and governance issues have become more evident in light of the economic recession, due to rising prices, unemployment and systemic corruption.

2 CORRUPTION IN AZERBAIJAN

Extent of corruption and nature of corruption

Corruption has many faces in Azerbaijan, ranging from petty corruption (such as bribery) to political corruption, which is “the manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, status and wealth” (Transparency International 2009). As a result, the country is a perfect example of what Acemoglu and Robinson (2012) defined as an extractive institutional setting – a system designed to extract resources from the many to concentrate power and opportunity in the hands of a few – or what Mungiu-Pippidi (2006: 87) called a particularistic governance regime: “a mode of social organization characterized by the regular distribution of public goods on a nonuniversalistic basis that mirrors the vicious distribution of power within such societies”. This is backed by the perceptions of external observers, citizens and companies who perceive corruption to be endemic and deeply institutionalised – permeating all spheres of public life.

Transparency International’s 2016 Corruption Perceptions Index (CPI), which captures the perceptions of corruption in the public sector, gives Azerbaijan a score of 30 on a scale from 0 (highly corrupt) to 100 (very clean), which positions the country among the most corrupt tercile in the index (rank 123 out of 176). The World Bank’s control of corruption indicator, which also reflects perceptions of both petty and grand forms of corruption but adds a component of “capture” of the state by elites and private interests, confirms the CPI assessment: in 2015, Azerbaijan had a score of -0.82 in a scale from -2.5 (most corrupt) to 2.5 (least corrupt), which put the country among the top 20 per cent most corrupt countries in the world.

The CPI and the World Bank’s control of corruption indicators only provide a very general overview of the levels of corruption in countries and are not designed to provide much information on the exact nature of corruption within a country. For this reason, it is important to look at other measurements and sources to get a more nuanced understanding of the nature of corruption in a country. In the case of Azerbaijan, different types of corruption have been documented.

Petty corruption

Bribery is a prevalent issue in Azerbaijan. Transparency International’s 2016 Global Corruption Barometer (GCB) reveals that 38 per cent of Azerbaijani paid a bribe in the 12 months prior to the survey in order to obtain a public service (Pring 2016). Moreover, companies interviewed for the World Bank’s 2013 Enterprise Survey corroborate the high bribery rates in the country. While only 16 per cent of firms report having paid a bribe, over 40 per cent stated that they are expected to bribe to secure government contracts or obtain construction permits.

Despite the high levels of direct corruption experience, only a fifth of citizens surveyed for the GCB and less than 5 per cent of firms included in the World Bank’s Enterprise Survey see corruption as a problem for the country. While this discrepancy is difficult to explain, the high level of non-response rates in the GCB, which is above 40 per cent (Pring 2016), might point to one of the known issues of measuring public opinion in authoritarian regimes, the fact that respondents might feel hesitant or uncomfortable to express dissent or disapproval due to fear of retaliation (Rogov 2016).

Grand and political corruption

As is usually the case in authoritarian regimes, the state apparatus is at the service of the ruling elite and corruption has been institutionalised (International Crisis Group 2004) and has been used to strengthen and guarantee the survival of the Aliyev regime by removing possible obstacles to the powers of the executive, weakening accountability structures and co-opting economic elites.

Political institutions are closely linked to clan structures and the ruling elite. According to the 2012 report on human rights practices, members of the ruling party often enjoy preferential treatment, especially in terms...
of being granted public positions. Parliament members are often protégés and relatives of oligarchs, and the civil service suffers from endemic clientelism, cronyism and nepotism (Bertelsmann Foundation 2016). Most ministers, including parliamentarians and governors, have bought their jobs, and many are directly related to powerful officials and the presidential family (International Crisis Group 2004).

Little is known about the specifics of such informal networks and the division of power. However, the regime has demonstrated political skills in managing conflicting interests and maintaining a delicate balance among vested interests in preserving the political status quo (Guliyev 2012; International Crisis Group 2010). The government does this by distributing rents, power, key positions and favours in exchange for loyalty, political support and a share of the profit, facilitating the emergence of what some observers describe as a neo-feudal system. Oil revenues have provided the government with further opportunities to sustain and expand these patronage networks on which the incumbent regime is based (Guliyev 2012).

3 MAIN DRIVERS OF CORRUPTION

Recent anti-corruption literature characterises corruption as an equilibrium between power and material resources on one hand, and legal and normative constraints on the other (see Mungiu-Pippidi 2015). In the case of Azerbaijan, the lack of checks and balances on the powers of the executive, the absence of political opposition, the complex bureaucratic environment and high levels of red-tape combined with the lack of enforcement of the anti-corruption legal framework and the government’s crackdown on civil society and the media, create the perfect breeding ground for corruption. The following section elaborates on the most relevant drivers of corruption in the country.

Absence of checks on the executive power

Azerbaijan is regarded as an authoritarian state whose democratic institutions exist only nominally, given that the president has considerable influence over the legislature and the judiciary thus rendering constitutional checks and balances useless (Bertelsmann Foundation 2016; Transparency Azerbaijan 2014): The 125-member Milli Majlis (national assembly) exercises little or no independence from the executive branch and is largely seen as a rubber-stamp body. The courts also suffer from constant interference from the executive who often has the last say in decisions regarding political, economic or other cases deemed as publicly sensitive (Bertelsmann Foundation 2016). There is also room for interference of the executive branch over matters of judges’ selection and execution of the judicial budget (Transparency Azerbaijan 2014).

In September 2016, President Ilham Aliyev consolidated his authoritarian rule through a controversial constitutional referendum (Freedom House 2017). The 29 constitutional amendments – rushed through in the absence of parliamentary debate or public consultation – further expanded the powers of the executive while weakening accountability mechanisms and fundamental rights even further (Freedom House 2017). Among other changes, these reforms increased presidential terms to seven years, weakened the parliament and property rights, created vice presidential posts with legal immunity and reduced civil servants’ liability for rights violations (Denbar 2016). The authorities prevented opposition groups from campaigning against the referendum and arrested dozens before and during three anti-referendum protests. Electoral fraud is a known and common practice in the country; the legitimacy of the referendum vote was further undermined by video footage of ballot stuffing (Freedom House 2017).

Lack of judicial independence

Many authors have documented the positive correlation between judicial independence and low levels of corruption. An independent and efficient judiciary helps keep governments in check and guarantees the rule of law (see Mungiu-Pippidi 2015). Since the separation of power in Azerbaijan exists only on paper, the executive heavily interferes and has the last say in court decisions regarding political, economic and other publicly sensitive cases. Thus, although the administrative capacity of the courts has improved, their political independence has actually deteriorated (Bertelsmann Foundation 2016).

Professional examinations are included in the selection process for judges, but political loyalty to the regime, assessed through background checks and interviews,
remains the top priority (Bertelsmann Foundation 2016). The bar association is also controlled by the executive and is frequently used as a tool to penalise independent defence attorneys. During the last few years, some defence lawyers were dismissed from politically sensitive cases and some others were even disbarred due to their success in bringing public and international attention to the irregularities existing in the courts (Bertelsmann Foundation 2016).

**Lack of fair electoral competition**

While the president has a firm grip on the government, he relies on the support of a multi-faceted rent-seeking elite to preserve his power, leading to a situation where domestic politics is less shaped by a traditional opposition-government contest but rather by the complex dynamics and power struggles among the ruling elite (International Crisis Group 2010). Since the early 1990s, elections have not been considered free or fair by international observers (Freedom House 2016):

- In 2008, although progress had been noted towards meeting international standards, particularly in terms of technical aspects of election administration, the Organization for Security and Co-operation in Europe (OSCE) concluded that the election process failed to meet some central OSCE commitments. In particular, the election was characterised by a lack of robust competition, a restrictive media environment and the non-participation of some opposition parties (OSCE 2008).
- Monitors of the 2010 parliamentary elections also concluded that the elections did not meet international standards. The campaign had been marred by restrictions on media freedom and freedom of assembly. It was characterised by an “uneven playing field” and a biased registration process, with many opposition candidates unable to register (Al-Jazeera 2010; OSCE 2010). There have also been reports of political violence, voter intimidation and pressure exercised on election candidates and observers (Freedom House 2013; US Department of State 2012b).
- In the 2013 presidential election, Ilham Aliyev was re-elected to a controversial third term in office, but the vote was marred by widespread irregularities and electoral fraud (Freedom House 2016). In its preliminary statement of findings, the international election observation mission (EOM) concluded that the election “was undermined by limitations on freedom of expression, assembly and association that did not guarantee a level playing field for candidates” (Bertelsmann Foundation 2016). The final report of the OSCE’s Office for Democratic Institutions and Human Rights (OSCE/ODIHR) similarly concluded that “the counting was assessed in overwhelmingly negative terms” (Bertelsmann Foundation 2016).
- The parliamentary elections held in November 2015 occurred amid an intensifying government campaign against criticism and dissent and, as a result, the main opposition parties boycotted the vote (Freedom House 2016). According to official results, the ruling party won 71 seats, with 41 going to independent candidates who tend to support the ruling party, and the remaining 12 split among small pro-government parties. Several international election observers, however, declined to send monitors: the OSCE/ODIHR cancelled its mission, stating that restrictions placed by the government on the number of observers would make effective and credible observation impossible. The European Parliament also declined to send a monitoring mission due to widespread human rights violations taking place in the country. Finally, the Parliamentary Assembly of the Council of Europe (PACE) sent a small monitoring mission that claimed the elections met international standards, but several human rights groups questioned the delegation’s independence and three of its members subsequently issued a dissenting opinion (Freedom House 2016).

In terms of political party financing, the government introduced public financing for political parties in 2012, but observers point towards unequal distribution of these resources, favouring the ruling party and discriminating against opposition parties (Freedom House 2013a).

The government has also used its power to consistently limit space for political competition in a number of ways. Airtime for candidate debates on state TV and radio has shrunk significantly, and the costs of airing campaign ads have skyrocketed, making them unaffordable for the economically strangled opposition; distributors of leaflets on the streets are harassed, intimidated and frequently detained; and opposition rallies are only allowed in places designated by the
government, which are usually inconvenient, hard-to-reach locations. These restrictions, combined with other types of pressures, including intimidation and harassment of activists, have significantly reduced the ability of the systematically weakened opposition parties to hold the government and ruling elites to account (Bertelsmann Foundation 2016). The authorities have especially targeted numerous leading and rank-and-file members of the opposition’s major Azerbaijan Popular Front Party (APFP), which has at least 10 activists either on trial or serving prison terms. For example, in June 2017, a court convicted Fuad Ahmadli to four years in prison on trumped up charges (Human Rights Watch 2016).

Close ties between business and politics

As in many post-communist countries, one of the country’s major corruption challenges is the blurred line between business and political elites, with widespread conflicts of interest and predatory behaviour by monopolistic interests closely connected to the political elite (Chêne 2013). This is especially so in Azerbaijan as economic and political powers are largely concentrated among the president, his family and a small group of oligarchs (Freedom House 2013a).

Since the fall of the Soviet Union, most large enterprises in the country have been privatised, however many are now controlled by monopolies tied to high-ranking government officials (Bertelsmann Foundation 2016). Many small, and especially mid-sized, businesses are also owned by the oligarchs and informally tied to their large businesses (Bertelsmann Foundation 2016). Moreover, monopoly-holding officials see off possible competitors by restricting their access to the domestic market and forcing them out of business (Bertelsmann Foundation 2016).

This intimate link between the business and political spheres makes it difficult for firms without political connections to prosper as they are likely to encounter numerous irregular inspections, which most of the time result in unofficial payments (bribes) to the inspectors to keep ‘good relations’ with them” (Bertelsmann Foundation 2016: 22). The dominance of these monopolies thwarts competition, innovation, price stability, service quality and fosters corruption (Asian Development Bank 2014). As a result, SMEs only contribute marginally to the country’s economy, representing less than 10 per cent of GDP, which is well below the 30 per cent to 45 per cent participation rate found in other countries in the region.

For years, the ruling elite have abused their power for self-enrichment (Freedom House 2017). This is illustrated by the Organized Crime and Corruption Reporting Project’s investigation, alleging that the ruling family benefitted, by around US$64 million, through the devastating currency devaluation in December 2015 (see Bloss et al. 2016). Three banks owned by either the Aliyev family or their long-time business associate, Ashraf Kamilov, violated several national banking regulations to achieve this but have faced no consequences (Freedom House 2017).

In 2016, the Panama Papers also exposed the Aliyevs’ “offshore empire”, comprising a web of companies with interests in the country’s banking, telecommunications, construction, mining, oil and gas industries. A controversial gold mine project revealed to be controlled by the president’s two daughters was bailed out by the state on president’s orders by a state-owned company after the venture failed (Patrucic and Ismayilova 2016). Several allies and advisors were also named in the resulting investigations, including tax minister Fazil Mammadov (Fitzgibbon, Patrucic and García Rey 2016).

Lack of transparency in government

Azerbaijan’s oil and gas sector lacks transparency and is considered to be the greatest source of corruption in the country (Freedom House 2015). As mentioned earlier, state revenue depends on the extractive industries, but the opaque distribution of oil revenues has fuelled presidential patronage and kickbacks to officials (Freedom House 2015). The government has not fully adhered to transparency practices of the Extractive Industries Transparency Initiative (EITI): In March 2017, EITI, an international coalition promoting better governance of resource-rich countries, suspended Azerbaijan for “failing to make satisfactory progress on civil society engagement” (EITI 2017).

It is worth noting that Azerbaijan once used to tout its achievements in the EITI as the first fully-compliant country in the initiative since 2009. In April 2015, and due to the government’s laxity in including civil society in securing transparency in the extractive industries, the EITI downgraded Azerbaijan from “compliant” to
“candidate” status (Freedom House 2016). Negotiations for the accession to the World Trade Organization were also intentionally postponed by the government to protect the interests of local oligarchs and their corrupt businesses (GAN Integrity 2016).

Following years of scrutiny, and several warnings, the EITI decided Azerbaijan had failed to make progress on promises to reform laws that restricted the country’s non-governmental groups. Azerbaijan responded to EITI by cancelling its EITI membership. Azerbaijan’s departure from the EITI underscores the government’s blatant disregard for public accountability and open governance. While Azerbaijan has criticised the EITI’s civil society benchmark as a shift from the Initiative’s original mission the ability for NGOs to monitor implementation of transparency measures is an essential accountability tool that legitimises the EITI members’ implementation of disclosure requirements. But in the past few years, Azerbaijan has systematically dismantled the country’s once vibrant civil society through the vicious crackdown.

Azerbaijan scores 51 out of 100 in the 2015 Open Budget Survey 2012 (International Budget Partnership 2012), which is below the score of other countries in the region, including Georgia, Russia and the Kyrgyz Republic. Azerbaijan’s results indicate that the government provides only limited information on budget processes, limits citizens’ opportunities to engage in the budget process and curtails opportunities for the parliament and auditing institutions to hold it accountable for the management of public resources.

According to Global Integrity (2011), while the budget debate in parliament is conducted in a transparent manner, in the absence of real opposition in the parliament, there are no significant debates around any substantive issues and the process is mostly formal in nature. In addition, the budget hearings do not allow for much citizen input.

In June 2017, Open Government Partnership (OGP 2017), which is a prominent multilateral initiative to make governments more open, accountable, transparent and responsive to citizens, has decided to maintain the status of Azerbaijan as “inactive” for another year due to persisting constraints on the operating environment for NGOs (OGP 2017).

**Excessive administrative burden**

Even though the country has worked to improve its regulatory system over the past few years, opaque procedures in a number of areas and persistent allegations of corruption remain a problem (US Department of State 2016). While Azerbaijan has integrated its energy exports into the world economy relatively successfully, the situation is rather different in other sectors of foreign trade. This is particularly problematic for small and medium-sized enterprises (SMEs) who encounter significant barriers to the import and export of goods and services (Bertelsmann Foundation 2016).

According to the World Bank’s 2017 Doing Business Report, Azerbaijan ranks 184 among 190 economies on ease of foreign trade due to the extensive paperwork, the high costs and the time required for exporting and importing (World Bank 2017). Part of the problem is that the government’s administrative and planning capacities have not kept up with the country’s rapid economic development (Asian Development Bank 2014). As a result, companies face many barriers to trade, including: high transportation costs; high tariffs, corruption and extensive bureaucracy in customs; wide-ranging discretionary powers granted to relevant agency staff; and additional expenses related to obtaining permits and standardisation procedures (Bertelsmann Foundation 2016).

4 **LEGAL AND INSTITUTIONAL ANTI-CORRUPTION FRAMEWORK**

Given the lack of an independent judiciary, democratic checks and balances, as well as the prevalence of patronage networks and government favouritism, the ruling elite and its allies are de facto above the law. Bearing this in mind, even the most comprehensive anti-corruption legal framework is unlikely to deliver the expected results. Given these limitations, the following section outlines the most relevant pieces of legislation in the country and the main institutions supposed to keep corruption in check.

**Legal framework**

The legal framework against corruption is assessed as strong by Global Integrity, which gives a score of 100 out of 100 (Chêne 2013). The Criminal Code criminalises major corruption offences, including active
and passive bribery, extortion, attempted corruption, bribery of foreign officials, money laundering and abuse of office, and forbids public officials to receive gifts of a value exceeding US$55.

A Law on Rules on Ethical Conduct of Civil Servants was adopted in 2007, but the conflicts of interest draft law has been stuck in parliament after the first reading. Legislation has also been introduced requiring a wide range of public officials to disclose their assets on a regular basis. However, the mechanism in place to review declarations submitted by public officials is not efficient in practice. The Azerbaijan Anti-Corruption Commission is supposed to collect asset declarations from a very exhaustive list of government officials, but there is no clear procedure in place by which the commission assesses the asset declarations and the cabinet of ministers has failed to design a form for those declarations to date (Business Anti-corruption Portal 2013; Michael and Mishyna 2007).

According to Global Integrity (2011), while there are reporting mechanisms in place in many departments in the forms of websites and hotlines, there is no specific legal protection for whistleblowers. In other words, no specific protection is provided to civil servants or private sector employees reporting corruption cases other than general security measures for witness protection prescribed by the Law on State Protection of Persons Participating in Criminal Proceedings.

The constitution recognises a fundamental right of access to information and a freedom of information law was passed in 2005, which is ranked 11 of the 93 countries in the 2012 Right to Information Rating. An independent oversight ombudsman body to control compliance with freedom of information requirements was created. However, all observers agree that this is not an effective mechanism at the moment (Transparency International Armenia, Transparency International Azerbaijan, Transparency International Georgia 2012).

In 2009, the parliament passed a law on the prevention of the legalisation of criminally obtained funds or other property and the financing of terrorism. The government is credited to have made significant progress in the area of anti-money laundering (AML) through the newly established financial monitoring service (see below) (US Department of State 2012). The MONEYVAL Committee of the Council of Europe on AML/counter-financing terrorism has even recommended the country’s development as a model legislative system to be treated as an example by other states.


**Institutional framework**

While there are a number of anti-corruption institutions in place, significant practical challenges remain: law enforcement agencies are not able to initiate investigations independently, they are not adequately protected from political interference and have largely avoided prosecuting public officials for corruption, especially high-ranking officials, while in some cases, lower-ranking officials are arrested for corruption (Bertelsmann Foundation 2012; Global Integrity 2011).

**The Commission on Combating Corruption (CCC)**

The CCC was established in 2005 and is composed of 15 members appointed by the president, parliament and the constitutional court. However, according to analysts, the commission has not been granted adequate powers. It only has the mandate to request information from state agencies and to make recommendations (Michael and Mishyna 2007). The role of the commission is limited to activities that include participating in the formation of the policy on corruption and coordinating the activity of public institutions in this area, analysing the state and effectiveness of the fight against corruption, collecting asset declarations and receiving complaints by individuals. According to Global Integrity (2011), the commission is not protected from political interference.

**Prosecutor general’s office**

A special anti-corruption department (ACD) has been set up within the prosecutor general’s office to detect and investigate cases of corruption. It became fully operational in 2005. The ACD is staffed with 40 prosecutors and investigators and deals mainly with the detection and prosecution of corruption offences,
as well as with the recovery of proceeds of crime. As of 2007, more than 150 people had been charged with corruption in close to 70 investigations (International Association of Anti-Corruption Authorities). According to Global Integrity (2011), the general prosecutor's office has a sufficient budget to carry out its mandate. The Department for Combating Corruption under the General Prosecutor's Office and the Unit for Special Investigation Measures on Corruption Crimes under the Ministry of Internal Affairs work closely with the ACD to investigate and prosecute corruption committed by law enforcement officials.

**Ombudsman**

The ombudsman was established in 2001 by the Constitutional Law on the Human Rights Commissioner and is responsible to restore human rights and liberties violated by officers of public authorities and municipalities, but cannot investigate the president, members of parliament or judges (Business Anti-Corruption Portal 2013).

The commissioner is elected for seven years by parliament from three candidates nominated by the president. In practice, as with other institutions, the ombudsman is not protected from political interference (Global Integrity 2011). In addition, the government largely ignores or gives superficial attention to the body's findings, reports and recommendations.

**The Chamber of Accounts**

The Chamber of Accounts is the supreme state financial budget control body. It supervises and approves the execution of the state budget, the inflows of funds generated by state property, and the use of state funds allocated to legal entities and municipalities. It reports quarterly to parliament. While the audit agency has professional and experienced full-time staff, in practice, members of the chamber are appointed based on the interests of the presidential administration by parliament and cannot be considered as fully independent (Global Integrity 2011).

**Financial monitoring services (FMS)**

The FMS was established in 2009 as Azerbaijan's financial intelligence unit under the Central Bank of the Republic of Azerbaijan, with the mandate to implement, coordinate and strengthen anti-money laundering activities in line with international standards. This has been welcomed as a positive step in the fight against money laundering (US Department of State 2012a). The FMS is responsible for monitoring and analysing suspicious transactions across the banking and finance sector, and is making progress in data collection, storage and analysis. However, the lack of inter-agency cooperation and inadequate training, constitute significant obstacles to its capacity to effectively fulfil its mandate (US State Department 2013).

**Other anti-corruption watchdogs**

Corruption scholars have noted that civil associations, political participation and the media all serve to empower collective action on behalf of society, thus rendering it better equipped to solve common problems, including corruption. Moreover, press freedom and the strength of civil society have been proven to have a positive statistical relationship with the control of corruption (Mungiu-Pippidi 2015). In Azerbaijan, however, the freedom of association and expression have both been weakened by constant government crackdowns in the recent years. This section considers the state of the media and civil society and their ability to stand against corruption.

**Civil society**

Since Ilham Aliyev came to power in 2003, the authorities have sought to weaken and undermine independent civil society organisations in Azerbaijan. While the government has been successful at retaining power through dubious electoral tactics, the authorities have, in parallel, orchestrated a campaign to silence critics. Threats, arrests and violence against outspoken human rights defenders and journalists in Azerbaijan often end in imprisonment, exile or self-censorship (CIVICUS 2016). According to the US Department of State’s 2016 Human Rights Report on Azerbaijan, the government has greatly restricted the freedoms of expression, assembly and association through intimidation, politically motivated incarcerations and “harsh abuse of selected activists and secular and religious opposition figures” (US Department of State 2016a: 1). The government has frozen bank accounts of independent civic groups and their leaders, in some cases forcing them to shut down. As a result, the operating space for activists and non-governmental organisations (NGOs) remains severely constrained (see Transparency International 2017).

In 2014, the parliament approved a large and highly controversial package of amendments to several laws.
concerning independent groups. These amendments have provided new grounds for authorities to threaten and penalise independent groups. In addition, the government has used criminal law to control and punish independent groups in connection with international sources of funding (USAID 2015).

Criminal investigations into NGO activities have also rendered many groups unable to function. Moreover, regressive laws requiring NGOs to register all grants and donations with the Ministry of Justice, and to inform authorities of all donations over US$250 are used to pressure both local and foreign organisations, many of which were forced to suspend operations when their bank accounts were frozen and, in some cases, their offices raided and closed (Freedom House 2016).

A number of prominent rights activists have been sentenced to prison on spurious charges (Freedom House 2016). To name just a few: Rasul Jafarov, chairman of the Human Rights Club, received six and a half years in prison for illegal entrepreneurship, tax evasion and abuse of office; Leyla Yunus, director of the Institute for Peace and Democracy, was sentenced to eight and a half years on similar charges. Her husband, historian and academic Arif Yunus, also received a seven year sentence in the same case (Freedom House 2016). Although the authorities have pardoned or conditionally released over a dozen activists and journalists imprisoned on politically motivated charges since 2016, many others remain behind bars on flimsy charges.

The government has also targeted ordinary citizens who criticise the country’s economic deterioration. Blogger Khalid Khanlarov frequently criticised the authorities through a satirical Facebook page called Ditdili (mosquito) and, in January 2016, actively commented on the economic situation surrounding public protests related to the economy. On 23 January 2016, a Baku court sentenced him to 25 days’ detention on a bogus charge of resisting the police (Human Rights Watch 2016). In such a hostile climate, people face the risk of reprisals for commenting on corruption, “white elephant” projects or exposing the misuse of funds or harmful projects.

The media

While the constitution guarantees freedom of the press, in practice the authorities severely restrict the media. Reporters Without Borders ranks Azerbaijan 162 among 180 countries for press freedom (Reporters Without Borders 2017). Broadcast outlets reflect pro-government views. All television stations are controlled by the government, which also controls approval of broadcast licences (Freedom House 2016). In July 2016, authorities closed a private television station, ANS TV, which planned to air an interview with Fethullah Gulen, the Muslim cleric whom Turkey accuses of orchestrating a failed coup attempt of July 2015. The channel was accused of damaging Baku's "strategic” links with Turkey (Radio Free Europe/Radio Liberty 2016). Local radio broadcasts of international news services have been banned since 2009. The authorities also shut down the Baku office of Radio Free Europe/Radio Liberty (RFE/RL) in 2014.

The few critical outlets that are able to disseminate information in the country – including the independent online television station, Meydan TV, which operates from Germany – face constant pressure (Freedom House 2017). In 2015, representatives of Meydan TV and other critical outlets reported that their family members in Azerbaijan had faced threats, interrogations and arbitrary detentions (Freedom House 2016). In June 2015, authorities arrested Meydan TV’s Berlin-based director Emin Milli’s brother-in-law, Nazim Agabeyov, on bogus drug charges in Baku. Milli considers the charges against Agabeyov to be “bogus and absurd”, intended to punish his relatives for his critical reporting (Meydan TV 2015).

On 20 April 2016, the Azerbaijani authorities launched a criminal investigation into “alleged illegal practice and profit-making in an especially large amount, large-scale tax evasion and abuse of power resulting in falsification of elections and/or referendum results” involving 15 journalists who cooperate with Meydan TV. Though the journalists are all at liberty pending the investigation, at least seven of them face travel bans (Meydan TV 2016).

State antagonism towards independent and opposition media has been a serious problem in Azerbaijan for many years. Defamation remains a criminal offence, punishable by exorbitant fines and imprisonment, and journalists are threatened and assaulted with impunity. Many have been detained or imprisoned on fabricated charges of drug or weapons possession, ethnic hatred, high treason and hooliganism, among others. According to the Committee to Protect Journalists,
there are numerous jailed journalists in Azerbaijan (Bertelsmann Foundation 2016). Among them was the most prominent investigative journalist Khadija Ismayilova, who was arrested in 2014 and imprisoned over charges of embezzlement and tax evasion. Her trial was widely seen as politically motivated, and revenge for her award-winning reporting that linked President Ilham Aliyev and his family to alleged corruption scandals (Walker 2016).

Even though Ismayilova was released under probation by the supreme court in May 2016, overall, freedom of expression continues to deteriorate (Bertelsmann Foundation 2016) and journalists are still common targets for the government. At least eight journalists and bloggers are currently in prison on politically motivated charges. In March 2017, Azerbaijani journalist and blogger, Mehman Huseynov, was sentenced to two years in prison on charges of libel. Huseynov, who is known for investigative reporting on corruption cases, published pictures of luxury homes that presumably belonged to government officials (CIVICUS 2017). A month earlier, Elchin Ismayilli, was also arrested. He is known for his articles detailing acts of corruption and human rights violations in Azerbaijan. The authorities charged him with extortion and abuse of power in a position of influence (CIVICUS 2017).

On 29 May 2017, Afgan Mukhtarli, a journalist seeking asylum in Georgia, was illegally abducted in Tbilisi, beaten and smuggled across the border to Azerbaijan where he now awaits trial on trumped up charges (Human Rights Watch 2017b). Ilgar Mammadov, leader of an opposition movement and a member of the advisory council of the Natural Resources Governance Institute, remains in prison after almost four years despite the ruling of the European Court of Human Rights in his favour (Vincent 2016). In total, there are around 150 political prisoners now in Azerbaijan, and the number keeps growing (Europe Without Political Prisoners 2017).

In July 2017, authorities sentenced Faig Amirli, financial director of the already closed, pro-opposition Azadlig newspaper, to three years and three months in prison (Gogia 2017a). Aziz Orujov, head of the recently-closed Kanal 13 online TV channel, has been awaiting trial on tax-related charges since June. The most recent victim was the country’s last remaining independent news agency, Turan, whose prominent director Mehman Aliyev (no relation to Azerbaijan’s President Ilham Aliyev), was arrested on 25 August 2017, on charges of alleged tax evasion and other offences in retaliation for his independent journalism investigation (Gogia 2017; Human Rights Watch 2017a).

Besides jailing critical journalists, Azerbaijani authorities permanently block websites of some major media outlets critical of the government, including Radio Free Europe/Radio Liberty, Azadlig newspaper, and Meydan TV, and have adopted new legislative changes in March 2017 to tighten control over online media (Institute of Reporters Freedom and Safety 2017).

The arbitrary arrest and detention of journalists and civil society activists clearly illustrate the government’s abuse of the judicial system to punish dissent, but the regime is also known for its constant violations of basic Human Rights. Torture and other ill-treatment continue with impunity (Human Rights Watch 2017). In August 2016, for example, police arrested Elgiz Gahraman, a member of an opposition youth movement, and held him for six days with no outside contact. Gahraman also told his lawyer that police beat and threatened him with sexual humiliation to force him to confess to false drug possession charges (Human Rights Watch 2017). In July 2016, 68 defendants in a high-profile counter-terrorism trial told the court that police had beaten them to elicit confessions and testimony (Human Rights Watch 2017).

5 OTHER GOVERNANCE CHALLENGES

Since its independence, Azerbaijan has made important improvements on the social front. As mentioned before, poverty has been dramatically reduced thanks to the country’s quick economic development and the government’s large public transfer programmes (UNDP 2012). The country also made important progress in achieving near-universal primary and secondary education with enrolment rates that are fairly equitable between children from poor and non-poor households (UNDP 2012). On the health front, infant mortality dropped steadily from 76 deaths per 1,000 live births in 1993 to fewer than 28 in 2015 and maternal mortality saw a similar development, dropping from 25 cases per 100,000 live births in 2001 to 15 in 2012 (World Bank Database 2017). Despite
these achievements, the country still faces important challenges.

**Education**

Azerbaijan’s budget allocations for the educational system have been consistently low, which indicates that education is, despite the official discourse, not a priority for the governing elites (Guliiev 2016). Even during the oil boom, education remained underfunded accounting for just 9 per cent of the government spending in 2009 (on a par with Georgia and Belarus but half that of Ukraine and Moldova). Based on RFE/RL’s estimates, more money was spent on hosting the 2015 European Games (US$1.2 billion) than on education in 2016 (US$1.14 billion). According to the World Bank, although public spending on education increased in nominal terms from AZN 294 million in 2004 (approximately US$60 million based on 2004 exchange rates) to AZN 1.55 billion (US$1.94 billion in 2014 dollars) in 2014, it did not match the rate of GDP growth (Guliiev 2016).

As a result of the underfunding, the quality of the education system has taken a hit. Only 26 per cent of Azerbaijani children aged one to five attended preschool in 2013, which is lower than in neighbouring countries. Azerbaijani students also performed poorly on the 2009 PISA international student survey, receiving one of the lowest scores on the reading and science scales. As more school graduates fail to pass the national university admission exam due to low scores, the State Student Admission Commission is forced to lower the minimum threshold every year. For this reason, the quality of secondary school education is deemed insufficient to prepare graduates for university admission. Because of the low quality of secondary schools in the country, parents are often forced to allocate additional funds to hire private tutors for their children (Guliiev 2016).

**Health**

In the healthcare sector, infant mortality remains more than two times higher than the upper middle-income countries’ average, and neo-natal deaths account for half of all infant deaths (UNDP 2012). This is possibly due to a lack of resuscitation and neo-natal care skills among health workers as well as a lack of adequate neo-natal care facilities (UNDP 2012).

While citizens technically have access to low-cost healthcare, many Azerbaijanis report that corruption is widespread in the healthcare system. This has been partly attributed to the low salaries of medical personnel. A nurse, for example, earns roughly US$150 per month. For that reason, patients often have to offer bribes to obtain basic medical services (Safarova 2016). While government allocations may have risen significantly over the past two decades, spending has dipped over the last years, due primarily to the country’s economic situation and the depreciation of the currency. (Safarova 2016).

**Gender equality**

Promoting gender equality is another issue that requires further attention in Azerbaijan. Even though women make up over 45 per cent of the labour force in the country (World Bank Database 2017), they still face both vertical and horizontal segregation in many sectors of employment and they are concentrated mainly in low-wage sectors (UNDP 2012). Gender differences are particularly marked at the decision-making level. In 2013, only 2.3 per cent of firms in the country had a female manager. Women are also underrepresented in elective offices and senior positions. Despite having increased by six percentage points between 2010 and 2015, the share of women in parliament is just 17 per cent (Inter-Parliamentary Union 2015). In the executive branch, out of a total of 39 ministers and chairpersons of state committees there is only one woman, Hijran Husenova, Chair of State Committee for Family, Women and Children Affairs.

The ratio of men and women in the civil service also presents a picture of vertical discrimination – the higher the position, the fewer the number of women: if compared to men, the ratio of women in the position of head of division is as low as 1 to 14 (UNDP 2012). Disparities observed in the level of men’s and women’s participation in economic, social and political life are, to a large extent, accounted for by patriarchal attitudes and the stereotypes regarding women’s roles and responsibilities in the family and society (UNDP 2012).

The deep patronage networks that exist in Azerbaijan have also been cited as a factor contributing to the exclusion of women in the country, given that they are often excluded from these clientelisitic structures (Wallwork 2016).
Brain drain

Another issue that presents a challenge for the country is the retention of talent. Although Azerbaijan’s State Statistical Office does not publish statistics about citizens that emigrate and asylum seekers, it does provide some limited data on foreigners who have moved to Azerbaijan compared to Azerbaijanis who have left the country permanently.

Data from 2015 indicated that 2,700 foreigners had moved to Azerbaijan versus 1,600 Azerbaijanis who have left the country permanently (Geybulla 2017). The UN Refugee Council, however, paints a more drastic picture: as of June 2016, almost 6,000 Azerbaijani citizens had pending asylum applications in another country and 11,000 more had a refugee or refugee-like status. These numbers are up from 5,230 and 9,712 in 2015, respectively, but politically motivated emigration is only a small part of brain drain, and the majority of Azerbaijanis who leave do not request asylum (Geybulla 2017). According to World Bank data, as of 2010, 16 per cent of the country’s population – approximately 1.4 million people – had left the country permanently.

Risk of social unrest

The shaky condition of the economy and the government finances continue to strain social stability. For instance, from December 2015 to February 2016, several days of protests linked to economic concerns erupted in several cities, and the authorities violently dispersed them and arrested many. In this period, several hundred people in cities throughout the country organised public protests against the currency devaluation, increased prices for food and other essential goods and growing unemployment (EurasiaNet 2016).

Though the gatherings were largely peaceful, in some cases protesters clashed with police, who arrested tens of protesters. For example, demonstrators in Siyazan, a town 115 kilometres north of Baku, clashed with riot police equipped with tear gas and rubber bullets. Instead of settling the valid concerns of the protesters, authorities used heavy-handed tactics and blamed “religious extremists” and political opposition for stirring up popular discontent against the government (EurasiaNet 2016 and APA News 2016).

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