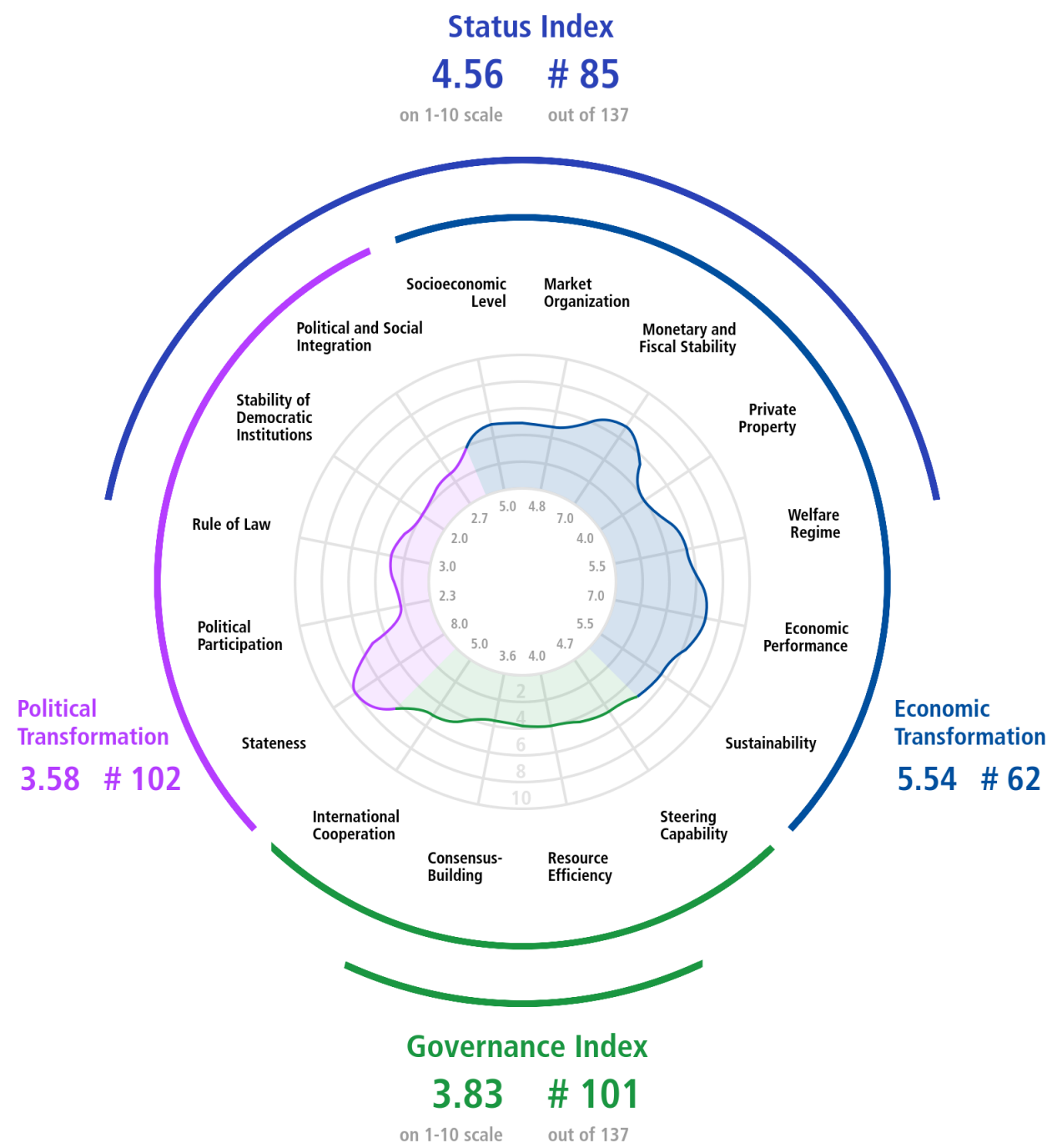


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Azerbaijan



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Key Indicators

Population	M	10.2	HDI	0.745	GDP p.c., PPP \$	17764
Pop. growth ¹	% p.a.	0.4	HDI rank of 189	91	Gini Index	26.6
Life expectancy	years	69.4	UN Education Index	0.726	Poverty ³	0.3
Urban population	%	57.2	Gender inequality ²	0.294	Aid per capita \$	0.9

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

During the reporting period, the further consolidation of political and economic power in the hands of the ruling family continued. Over the past two years, the president has consistently replaced long-standing senior officials with young and loyal cadres, many of whom have forged their careers in companies associated with the ruling family. This trend significantly enhances the government's political coordination abilities. However, it also solidifies the ruling family's uncontested monopoly over the country's economy and politics.

In the past two years, the authorities have persistently targeted dissenters, opposition figures, civil society representatives and religious activists. It has been especially challenging for Shi'ite Muslims during this reporting period. The deteriorating relations between Azerbaijan and neighboring Iran have prompted the Azerbaijani authorities to persecute Shi'ite believers who maintain spiritual ties with Iranian religious institutions. The enactment of new laws concerning political parties and media, both approved in 2022, is expected to exacerbate the already limited room for political opposition and independent media within the nation.

The rise in oil and gas prices boosted economic growth in the reporting period. Azerbaijan's role in the global economy as an energy exporter and the country's prospects as a transport hub increased. Of particular importance was an agreement between Azerbaijan and the European Union to promote Azerbaijan's export potential in renewable energy, including offshore wind power and so-called green hydrogen. Efforts to diversify the country's economy and reduce dependence on fossil fuel revenues have intensified. Agriculture, which the government calculates creates more jobs than any other sector in Azerbaijan, is at the heart of the government's plans to expand the economy outside the oil and gas sector. Despite a slight decline, oil and gas still account for about 90% of total exports, 50% of total GDP and more than half of state budget revenues.

After the liberation of the territories previously occupied by Armenia in 2020, the postwar reconstruction of these territories has become a top priority for the Azerbaijani government. In January 2021, President Ilham Aliyev announced that the settlements destroyed during the war of the early 1990s would be reconstructed according to the smart city/smart village concept. One of these settlements, the village of Agali, was completed in July 2022 for the return of refugees.

No comprehensive peace was achieved with Armenia. Despite the cease-fire agreement signed on November 9, 2020, this failure led to several deadly military clashes between Azerbaijani and Armenian forces during the reporting period. In a major military escalation on September 13/14, 2022, 80 Azerbaijani soldiers were killed, and Armenia reported over two hundred casualties. Despite multiple efforts by European countries and the United States to calm the region, the situation remains extremely unstable. The presence of Russian troops in the conflict zone and the escalating geopolitical competition do not contribute to peacebuilding but further complicate the situation.

History and Characteristics of Transformation

In the early 19th century, Russia incorporated the South Caucasus into its empire through conquest. This empire included the territory of the present-day Republic of Azerbaijan, where the majority of the population consisted of Turkic-speaking Shi'ite and Sunni Muslims. During Russian rule, a new elite known as the national intelligentsia emerged, which worked to modernize local society and transform the Muslims of the South Caucasus into secular Azerbaijanis. Following the collapse of the Russian Empire in 1918, the Azerbaijan Democratic Republic was established. Although this young nation-state was subsequently crushed by the Bolshevik invasion in 1920, the process of nation-building in Azerbaijan continued and was further consolidated during the Soviet period.

During Gorbachev's perestroika, the dispute between Azerbaijan and Armenia over Nagorno-Karabakh reignited the Azerbaijani national movement. Led by the Popular Front, this movement positioned itself as an alternative force to the country's Soviet leadership. On October 18, 1991, Azerbaijan declared independence, and a few months later, the Popular Front overthrew the last communist leader, Ayaz Mutallibov, amid an escalating war with Armenia. In June 1992, Popular Front leader Abulfaz Elchibey was elected president in Azerbaijan's most democratic elections in recent history. Elchibey negotiated with Russian President Yeltsin for the withdrawal of Soviet troops from Azerbaijan. A year later, however, he was overthrown in a military coup allegedly backed by Russian security forces. With a civil war looming, Heydar Aliyev, the country's former communist leader (1969 – 1982) and a Politburo member of the Communist Party of the Soviet Union (1982 – 1987), seized the opportunity to take power. He succeeded in bringing stability to Azerbaijan by negotiating a cease-fire with Armenia, appeasing Russia by joining the CIS, and subduing local warlords. However, his most important achievement was the "Contract of the Century," which invited Western companies to develop Azerbaijan's oil fields. Aliyev launched a strategic initiative to build oil and gas pipelines to help Europe diversify its energy supply away from Russia. Nevertheless, he failed to implement much-needed democratic reforms.

Before Heydar Aliyev died in 2003, he managed to transfer power to his son Ilham, marking the first transfer of power resembling a dynasty in the post-Soviet space. Ilham Aliyev maintained his father's energy policies, but he also curtailed opportunities for independent political activity, the media and civil society. In 2009, a fiercely disputed referendum revised the constitution and scrapped the two-term limit for the presidency. This modification allowed Ilham Aliyev to seek a third term in an election that drew widespread criticism. In 2016, another referendum was conducted, which extended the presidential term from five to seven years and expanded the president's authority, further consolidating the regime's authoritarian character. In 2017, President Aliyev appointed his wife as the first vice president, centralizing power within his family. In April 2018, Aliyev was elected for a fourth term, this time for a duration of seven years.

After the 2020 war with Armenia – which resulted in a military victory for Azerbaijan and the return of most of the territories lost in a war in the early 1990s – Aliyev was able to further consolidate his power. To date, however, no comprehensive peace agreement has been reached with Armenia, and the November 9, 2020 cease-fire remains fragile. Additionally, the war has brought Russian troops to Karabakh as “peacekeepers,” putting the country in a difficult geopolitical position.

In addition, the economy – highly dependent on fossil fuel – remains the ruling elite's greatest weakness.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

After the victorious war with Armenia in the autumn of 2020, the Azerbaijani state enjoys uncontested authority with a monopoly on the use of legitimate force in approximately 96% to 97% of the state territory, comprising 98% to 99% of the population. However, that war also ended with the deployment of two thousand Russian troops to the Nagorno-Karabakh region, which has a predominantly Armenian population, as peacekeeping forces. These forces also control the so-called Lachin Corridor, which connects Nagorno-Karabakh with mainland Armenia. Therefore, the Azerbaijani government's authority does not extend to either the "Lachin Corridor" controlled by the Russian troops or the Armenian-controlled part of Nagorno-Karabakh.

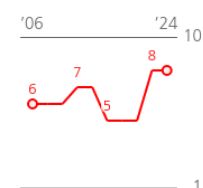
At the same time, Article 9 of the 2020 Nagorno-Karabakh cease-fire agreement maintains the establishment of a connection between Azerbaijan proper and its exclave, the Nakhchivan Autonomous Republic. According to Azerbaijan's interpretation, this aims to create the so-called Zangezur corridor, which would pass through the southern part of Armenia. The Azerbaijani government demanded that Armenia not have any authority over that route. During the reporting period, Baku pressed Armenia to accept its demands regarding the "Zangezur corridor." The refusal of the Armenian side to accept the Azerbaijani interpretation has resulted in multiple armed clashes since May 2021 and culminated in a major escalation in September 2022.

Failing to achieve results in establishing the "Zangezur corridor," on December 12, 2022, the Azerbaijani government sent individuals claiming to be eco-activists to disrupt the movement via the "Lachin Corridor," connecting Nagorno-Karabakh with mainland Armenia. This ongoing action by the Azerbaijani government has caused widespread criticism from the international community and calls to lift the blockade.

Question
Score

Monopoly on the
use of force

8



The entire population is guaranteed full citizenship, regardless of race, gender, religion or ethnic background. The current government has so far successfully promoted loyalty to the state through school curricula, textbooks, state propaganda and other means. However, the cult of personality around former President Heydar Aliyev (father of the current president) is linked to the consolidation of state identity. This policy is likely to be questioned in the future.

One major challenge to the legitimacy of the nation-state came from the Armenians in Nagorno-Karabakh (former autonomous region). Since ethnic clashes between Azerbaijanis and Armenians first occurred in 1905, this conflict has become one of the major factors in the process of forming Azerbaijani national identity. As for Karabakh, in the autumn of 1919, a first major effort was undertaken to establish peace between the two sides, which provisionally placed Karabakh under the rule of the Azerbaijani government. The Bolsheviks, having overthrown independent Azerbaijan, retained Azerbaijani control over Karabakh and created an autonomous oblast in its mostly Armenian-populated mountainous (Nagorno in Russian) part.

Although no major ethnic clashes occurred between the two sides during the 70 years of communist rule, the Armenian side never accepted this outcome and initiated a separatist movement in the latter years of the Soviet Union. Hostilities on the ground escalated into a full-scale war between Armenia and Azerbaijan after 1991. Azerbaijan lost control of Nagorno-Karabakh and seven adjacent districts. A cease-fire was reached in 1994. However, in late September 2020, Azerbaijan launched a military offensive that concluded on November 10, 2020, with a peace deal brokered by Russia. Azerbaijan regained control of most of the territories lost in the early 1990s. Nevertheless, no final peace agreement was reached between Armenia and Azerbaijan during the reporting period.

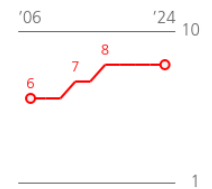
After the military success of 2020, the Azerbaijani government denies any involvement by Armenia in the Karabakh issue and rejects granting any political status to local Armenians. Furthermore, the authorities openly express irredentist claims over the territories of Armenia proper, likely aiming to compel Armenia to agree to a final peace agreement. However, the victorious war, coupled with the government's irredentist claims, has inflamed ethnic nationalist sentiments among many Azerbaijanis, which may lend legitimacy to Azerbaijan's expansionist vision.

Azerbaijan is a secular state, and its legal system is defined by positive law. Although Azerbaijan is a Muslim-majority nation, the constitution stipulates the equality of all religions before the law, and no preference is given to Islam either in the constitution or in the laws of the country.

During the reporting period, amendments to the Law on Religious Freedom – signed in June 2021 – further strengthened the state's regulatory role over religion.

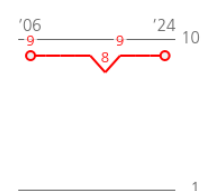
State identity

8



No interference of religious dogmas

9



Until 2021, religious organizations and members of the clergy were prohibited from participating in elections. Nevertheless, the previously mentioned amendments to the Law on Religious Freedom now permit clerics to be appointed or elected to government institutions. In such instances, the clerics' role as religious professionals is temporarily suspended for the duration of their service in government institutions.

This amendment removed the long-standing ambiguity regarding clergy participation in elections. Until 2021, they were not allowed to. One such case was lost by Azerbaijan in the European Court of Human Rights (ECHR). The Muslim cleric posts are only granted by an official institution, namely the State Committee for Work with Religious Associations. All Muslim clerics are subject to re-attestation every five years.

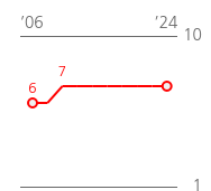
The state provides basic services, such as health care, education, tax collection, social security and transportation, through its fully functioning bureaucratic system and infrastructure. During the reporting period, the quality and standards of these services have steadily improved. However, corruption, bribery and inefficiency continue to be problematic.

As of April 1, 2021, the entire population of the country is covered by statutory health insurance, according to the World Health Organization (2019). It is reported that 96.1% of Azerbaijan's population has access to at least basic sanitation services, while 21% has access to improved sanitation services. Additionally, 88.3% of individuals utilize drinking water from improved sources, and 96% have access to at least basic water services. Notably, the entire population enjoys 100% access to electricity.

The public transportation system continued to improve during the reporting period. However, the influx and general growth of the capital's population, combined with the slow expansion of the city's metro system, the lack of a sufficient number of modern buses, metro trains, and suburban rail tracks have begun to put serious pressure on Baku's transportation network. Traffic congestion in the central districts of Baku has become a major problem that needs to be addressed.

Basic
administration

7



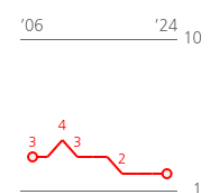
2 | Political Participation

The laws of the country and international commitments Azerbaijan signed, such as the OSCE Copenhagen Document, guarantee universal and equal suffrage by secret ballot. However, elections in Azerbaijan are neither free nor fair.

In a highly controversial referendum in 2009, the constitution was amended, lifting the two-term presidential limit. In 2016, another referendum occurred, extending the president's term from five to seven years and introducing a vice presidency. Both referendums were held in a repressive environment. In February 2017, the president appointed his wife as the first vice president, further consolidating the power of the ruling families. In the snap elections of April 2018, Ilham Aliyev was re-elected as president for a fourth consecutive time, this time serving a seven-year term.

Free and fair
elections

2



The last parliamentary election, held on February 9, 2020, did not change the country's political landscape. However, the OSCE Office for Democratic Institutions and Human Rights (ODIHR) reported that the candidate registration process was inclusive overall, and voters were provided ample opportunity to verify and correct their registration. Despite these efforts, restrictive legislation and the political environment prevented genuine competition. While the voting process was generally smooth and orderly at most polling stations, the vote count received negative assessments in over half of the observations. Once again, parliament convened without a viable opposition, and the government continues to lack checks and balances, primarily due to a rubber-stamp legislature.

Election commissions are mostly made up of regime loyalists who carry out orders from the presidential office. The ruling party wields significant control over the content of media news and receives disproportionately extensive coverage. Election days are tainted by numerous instances of multiple voting, ballot stuffing, interference with vote counting and other irregularities.

Distrust in the fairness of elections, along with the unclear status of local self-governing bodies and their limited powers, also greatly diminish public interest in elections to municipal offices. Major cities, including the capital, do not have elected mayors.

President Ilham Aliyev has been the country's undisputed ruler for many years. But by the fall of 2020, the president's approval ratings were falling, and discontent with his government was steadily increasing. The situation drastically changed after Azerbaijan launched its successful military campaign against Armenia in late September 2020. This military triumph catapulted the president's popularity to unprecedented levels, further consolidating his hold on power. In December 2022, a significant shift occurred with the forced resignation of Vasif Talibov, the influential speaker of the local parliament in Nakhchivan and de facto leader of the autonomous republic. He was replaced by a newly appointed special representative of the president, signaling the removal of the so-called "old guard" – officials who had gained prominence during the presidency of Ilham Aliyev's father, Heydar Aliyev (1993 – 2003).

The bureaucratic system's ability to promote meritocracy has long been impeded by entrenched clientelism, cronyism and nepotism. Historically, the dominant factions within this system have been two major regional groups closely aligned with the regime: the Nakhchivanis and ethnic Azerbaijanis from Armenia. Nonetheless, the appointment of relatively young officials, whose careers initially flourished in economic, political and non-governmental sectors associated with the president's wife, has posed a formidable challenge to the monopoly of these two regional groups over high-ranking positions.

Effective power to govern

2

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1 2 1

Freedom of assembly and association is guaranteed in the constitution, but in reality, it is severely restricted. In January 2019, the opposition, led by the Popular Front Party and the National Council for Democratic Forces – an umbrella group of opposition parties – held the largest rally in recent years, demanding the release of political prisoners and reforms. However, it was the last officially authorized rally by the opposition. Immediately thereafter, the government effectively banned demonstrations by refusing to issue permits.

Nevertheless, the opposition and various human rights and civil society groups attempted to hold unauthorized protests in the center of the capital Baku during the reporting period. These protests were sparsely attended and violently dispersed by riot police.

At the same time, the government itself has used and encouraged protests as a means to demonstrate support for its foreign policy. For example, on December 12, 2022, a group of Azerbaijani government-backed protesters, calling themselves environmental activists, began blocking the Lachin Corridor – the road connecting the Armenian-controlled part of Nagorno-Karabakh with Armenia proper and the outside world. Similarly, in September 2022, a government-sponsored protest took place in front of the Iranian Embassy in Baku, coinciding with rising tensions between the two countries. However, the police prevented the opposition party Musavat from holding a similar protest action on the pretext that it was not officially authorized.

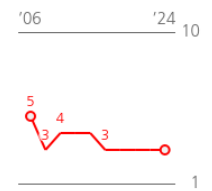
As recent reports, notably by Human Rights Watch, indicate, Azerbaijani authorities have imposed massive restrictions on civil liberties in recent years, leaving little room for independent expression or activism, and the government has remained hostile to any dissenting voices.

The constitution guarantees the right to freedom of expression. However, the country lacks independent television and radio stations, as well as print media. Consequently, Azerbaijan ranks 154th out of 180 countries in the Reporters Without Borders' World Press Freedom Index 2022.

It should be noted that, until recently, social media and independent web TVs acted as watchdogs and played an important role in forcing the government to address public concerns. However, during the reporting period, the authorities managed to secure their dominance in the Azerbaijani segment of social media by mobilizing extensive human and financial resources. Government-sponsored webpages and news channels proliferated, leading to a significant increase in targeted attacks on government critics via fake profiles on social media. These attacks often rely on fake news to harass independent voices and opponents of the regime.

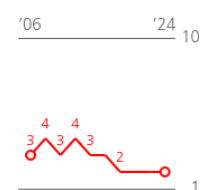
Association / assembly rights

3



Freedom of expression

2



On February 8, 2022, President Aliyev signed into law a new media bill. The Council of Europe's Directorate General on Human Rights and Rule of Law, along with the Venice Commission – an advisory body on constitutional law – cautiously expressed their opinion that the law has “a problematic focus on restricting the activities of the media rather than creating the necessary conditions enabling the media to fulfill their ‘public watchdog’ role.”

3 | Rule of Law

Although there is a formal separation of powers, the executive dominates the other branches of government, and there is virtually no functioning system of checks and balances in the country. All important decisions are effectively made by the presidential administration and merely rubber-stamped by parliament.

Also, there is no independent judiciary. The courts often function as a punitive mechanism in the hands of the executive branch to punish dissenters, government critics and officials who fall out of favor with the ruling family.

Although the selection process for judges includes professional examinations, political loyalty to the regime – as determined by background checks and interviews – remains the top priority. The government interferes heavily and has the final say in court decisions concerning political, economic and other sensitive cases. While the administrative capacity of the courts may have improved, their political independence has, if anything, deteriorated. No significant improvements have been made in combating widespread corruption in the courts, which remains a significant shortcoming in the adjudication of ordinary civil and criminal cases and severely affects decision-making.

Defense attorneys play a primarily ceremonial role and have minimal impact on court rulings. The executive branch controls the bar association, which excludes lawyers who are critical of the government and operate independently. Lawyers are still subjected to disciplinary proceedings as a means of exerting pressure. Human rights practitioners with autonomous legal backgrounds are not granted admission to the bar. On September 10, 2022, Elchin Sadigov, one of the few remaining independent human rights lawyers, was arrested and charged with “complicity in bribe taking.” However, due largely to international pressure and public outcry, Azerbaijani authorities were compelled to release him from prison and put him under house arrest for the duration of the investigation.

Previously, lawyers outside the bar association were able to practice non-criminal law. However, since a new law took effect in January 2018, only members admitted to the bar can enter a courtroom.

The European Court of Human Rights (ECHR) remains the last chance for justice-seekers in Azerbaijan, and many rely on it.

Separation of powers

2

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Independent judiciary

3

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Political rule in the country is based on nepotism, patronage, high-level corruption and personal loyalty rather than the rule of law. High-ranking officials are, in fact, immune from prosecution. However, violations of personal loyalty to the president are severely punished.

Beginning in late 2019, there has been a series of arrests of public officials. Heads of local executives in several regions, who were unpopular among the broader public, were the primary targets of law enforcement. However, central government officials were also arrested. For example, during the reporting period, high-ranking officials of the Culture Ministry, as well as ministers and other officials of the Nakhchivan Autonomous Republic, were placed under investigation. The arrested individuals were accused of embezzlement, abuse of power and bribery. The president described these arrests as part of the “irreconcilable fight against corruption and corrupt officials” he had initiated. However, the public was skeptical. These arrests were not intended to change the system itself; rather, they are often used to punish state officials who have fallen out of favor. Additionally, they serve to solidify authoritarian rule by promoting the image of a virtuous president and his corrupt inner circle. During the reporting period, it became evident that the most apparent outcome of this purported fight against corruption was the further consolidation of political and economic power in the hands of the ruling family, as well as the strengthening of the authoritarian regime.

During the reporting period, the authorities continued to persecute dissenters, opposition members, civil society activists and religious activists. Criminal charges were filed against prominent government critics, such as civil society activist Bakhtiyar Hajiyev. There were also reports of physical attacks against the most extreme critics of the government who were living in political asylum in European countries. Additionally, during the reporting period, several sex videos targeting opposition figures, civil society representatives and human rights activists, as well as their family members, surfaced. The most notable incident took place in March 2021 when a private video, supposedly featuring the daughter of the chairman of the National Council of Democratic Forces (the primary political opposition group) and prominent historian Jamil Hasanli, was leaked and shared on social media.

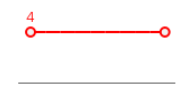
Legally, Azerbaijan is fully committed to gender equality – the constitution contains relevant provisions, and the country is party to numerous international conventions. Nevertheless, patriarchal norms and values are still prevalent in society. Consequently, Azerbaijan ranks 101st out of 146 countries in the World Economic Forum’s Global Gender Gap Report 2022 and is one of the three worst-ranked countries in the Central Asia region.

Even though Azerbaijan has decriminalized homosexuality, there is still a serious infringement on the rights of sexual minorities. The country remains the worst place in Europe to live as an LGBTQ+ citizen, according to the 2022 ILGA-Europe Rainbow Index.

Prosecution of office abuse

4

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Civil rights

3

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The reporting period was particularly difficult for Shia believers. The deterioration of relations between Azerbaijan and neighboring Iran led Azerbaijani authorities to persecute Shia believers who are spiritually affiliated with Iranian religious institutions.

During the reporting period, Azerbaijan's land borders with neighboring countries remained closed as a special quarantine measure imposed by the authorities to combat the spread of the COVID-19 pandemic. On December 22, 2022, the Cabinet of Ministers extended the closure of land borders until March 1, 2023.

4 | Stability of Democratic Institutions

Azerbaijan is a consolidated autocratic state with nominally existing democratic institutions. In reality, all power is concentrated in the executive branch. Since 1995, parliament has been dominated by the ruling New Azerbaijan Party, and the government has gradually restricted opposition parties by manipulating elections. The government imitates a multiparty system, tolerating only parties that agree not to criticize it directly. In 2002, a referendum eliminated party-list proportional representation, leaving a majoritarian (single-member constituency) system. Since the 2010 elections, only political parties that do not challenge the government's authority and operate under its control have been given seats in parliament (so-called systemic opposition). Real opposition parties (non-systemic) are not represented.

The judiciary is also entirely controlled by the executive. However, in systems where there is a separation of powers and the political will to combat corruption, the judiciary could, in principle, fulfill its role as a democratic institution in a professional manner.

There are neither elected mayors of cities nor elected regional governors. There are also no regional or municipal parliaments. All power is in the hands of the heads of local executives appointed by the president.

The authoritarian Azerbaijani government always emphasizes that it is committed to strengthening democratic institutions. However, the constant crackdown on political opponents, civil society, the media and religious groups proves that this is only lip service. The military is fully under the control of the ruling elite and has so far been kept isolated from internal politics.

The largest opposition party, the nationalist Popular Front, always reiterates that the democratization of the country is its utmost priority. However, the fact that the uncontested party leader has not changed for more than two decades, as well as the frequent controversial statements and behavior of the high-ranking officials of the party, cast doubt on its reputation as an organization dedicated to democratic principles. In general, almost all secular political parties formally declare that their goal is the democratization of the country.

Performance of democratic institutions

2

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2

1

Commitment to democratic institutions

2

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2

1

While official Muslim clergy are loyal to the ruling elite, independent Islamic religious groups – particularly Shi'i connected to religious centers in Iran – regularly question the adequacy of liberal democracy for the majority Muslim Azerbaijani society.

5 | Political and Social Integration

While there are 60 registered political parties in Azerbaijan, it is a dominant-party system controlled by a single party that has been in power for nearly three decades. Officially, 11 political parties are represented in the parliament, most of which are nominally in opposition. In reality, however, all so-called parliamentary opposition parties are controlled by or reliant on the ruling party, and there is no political plurality in the legislative assembly. Over the past two decades, the ruling regime has pursued a policy of marginalizing the real opposition with mixed success.

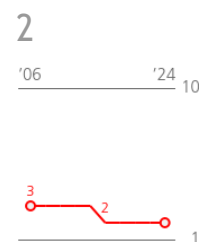
The most radical registered opposition party – the Azerbaijan Popular Front Party – boycotted the 2020 elections due to the restrictive environment. The party was subject to severe oppression throughout the reporting period and had previously been stripped of its head office.

On December 16, 2022, parliament passed a new bill on political parties, which was signed into law by the president in January 2023. According to local independent NGOs and opposition parties, the law will further restrict political parties and ultimately erode the shrinking legal space for political opposition in the country. The law prohibits the activities of political parties that are not registered with the state, and if implemented, the new requirements for the establishment and activities of political parties will inevitably result in most of them losing their official registration.

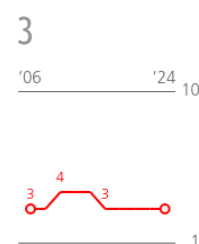
Since the mid-2000s, several influential interest groups, such as the Union of Independent Writers, AN Network and its project Kapellhaus Lectures, OL! Azerbaijani Youth Movement and its project Free Thought University, Dalgha Movement, Nida Civic Movement, and multiple Shi'i youth factions, have developed as NGOs, cultural, religious, social, human rights and ideological networks. These groups were mainly concentrated in the capital, Baku, as well as in other major cities, and were mostly absent in rural areas. These newly emerged groups started to challenge the establishment, specifically the dominance of Soviet-style organizations like trade unions, the Writers' Union, and the Caucasus Muslim Board, which still exist as semi-official bodies. The new organizations rapidly gained strength and began to pose a significant challenge to the existing system by attracting more attention and mobilizing a larger number of active individuals.

However, this unforeseen achievement has made them the primary focus of continuing crackdowns. Numerous individuals have encountered a multitude of administrative and legal constraints. The heads of certain organizations have been

Party system



Interest groups



detained under questionable allegations, and criminal inquiries have been initiated. Additionally, some have had their leased properties revoked, while others have suffered funding losses as a result of donor restrictions. Enhanced legislation further curtails their efforts, rendering their work nearly impracticable. Consequently, many have discontinued their endeavors within an increasingly limited environment for civil society.

Yet it should be noted that independent civil society and youth activism had shown some promising signs of revival during the previous reporting period, particularly in Baku. Some independent civil society groups resumed their seminars, training and public lectures. They were able to rent venues for these purposes, which was almost impossible when the crackdown was at its peak. But this development proved very fragile and heavily dependent on the tolerance and goodwill of the state authorities.

Many observers expected that after the victorious war in Karabakh, which lifted the government's approval rates to unprecedented heights, it would pave the way to open the space for the activities of civil society organizations. With enormous public support, the authorities would launch a genuine democratization process. Unfortunately, during the reporting period, the authorities did the exact opposite and used the chance to consolidate authoritarian rule and suppress independent activities further. However, despite oppressive policies, the regime has so far failed to completely close the space for independent groups. During the reporting period, some new organized critical voices, such as feminists and other progressive youth, emerged.

Although Azerbaijani citizens did not have sufficient knowledge of or experience with basic democratic institutions, such as the separation of powers or multiparty systems, after the collapse of the Soviet Union, there was strong popular support for democracy and Euro-Atlantic integration. However, the crackdown on secular political parties and free media, as well as the shrinking space for civil society, stalled the democratization process and led to the rise of authoritarianism and personalist rule.

In recent years, an increasing number of individuals with Western education have become involved in public life, supported by both national and international non-governmental organizations (NGOs) through civic initiatives. This trend has resulted in a wider understanding of the fundamental principles of democracy, fostering optimism for a progressive evolution that ultimately brings about a transformation of the system.

However, the government's "strategic" criticism of democratic principles and human rights as a means of promoting Western imperialism has raised doubts about liberal democratic values among segments of the population. The global decline of democracy and the rise of authoritarianism, as well as propaganda from neighboring Iran, Türkiye and Russia, have contributed to these doubts. In the most recent

Approval of
democracy

n/a

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n/a

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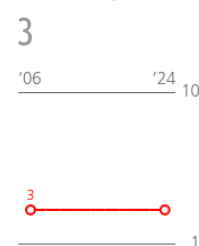
parliamentary elections in February 2020, citizens displayed limited interest in the political process due to mistrust and fear, despite the officially reported numbers. During the 2020 war with Armenia, anti-Western sentiment increased, as people believed that the Western media exhibited bias against the Azerbaijani cause – a cause focused on restoring internationally recognized borders.

However, the majority in Azerbaijan still believes that free and fair elections, government accountability and the rule of law are the best conditions for creating prosperity and justice.

Most social capital in Azerbaijan exists in rather homogeneous family and kinship ties, regional identities and groups of close friends. Membership in such associations is based on birth, marriage or high levels of interpersonal trust. These types of social trust and social relationships were always more prevalent in rural areas outside the capital and have gradually declined as urbanization and modernization have increased. Rampant corruption and the absence of the rule of law have also seriously damaged social trust. According to the joint report of the European Values Study and the World Values Survey (2017 – 2022), 90.7% of Azerbaijanis say that family is very important in their lives.

Although participation in formal civil society associations, such as NGOs, was generally limited, it had been steadily increasing in the capital until the recent crackdowns. Since the beginning of 2016, there has been some upturn, but in general, society remains accustomed to demanding action from the government rather than taking action itself.

Social capital



II. Economic Transformation

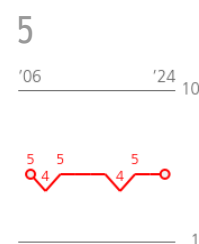
6 | Level of Socioeconomic Development

Azerbaijan ranks 91st out of 191 countries in the 2021 Human Development Index (HDI) with a score of 0.745. This is the lowest score among the three South Caucasian countries. The country is classified as an upper-middle-income group in the ILO's World Social Protection Report, 2021. According to the report, only 39% of the population in Azerbaijan is covered by at least one social protection cash benefit. While the global average is 46.9%, the average figure for the countries in the upper-middle-income group is 64%.

According to the World Bank, the poverty rate has remained stable at about 5% to 6% over the past decade, but households remain vulnerable to shocks.

Question
Score

Socioeconomic
barriers



The World Inequality Database (2021) shows that the wealthiest 10% possess a 56% share of the country's wealth. There is also a significant economic disparity between the capital Baku and the rest of the country. In 2020, Baku accounted for 65% of the gross national output, while Ganja, the third-largest city, contributed only 1.2%. Official statistics indicate that 23% of Azerbaijan's population resides in the capital. However, experts estimate this figure to exceed 30%.

The 2021 Gender Inequality Index for Azerbaijan is 0.294, ranking 70th out of 170 countries, according to UNDP. The labor force participation rate of women in 2021 was 60.4%, while that of men was 67.3%, which is 7% lower than the previous year. In collaboration with the World Bank, a promising action plan was established to support rural women.

It should be noted that during the reporting period, the primary objective of the state was not to enhance the social condition of the population but to reduce expenditures on its social policy. The government consistently reduces spending from the State Social Protection Fund with the aim of transforming it into a self-sustaining fund and, in turn, saving the state budget. However, this policy has led to a significant segment of the population facing the consequences.

Certain vulnerable groups, such as elderly individuals and children from low-income families, have been deprived of social support. For example, the complex bureaucratic procedures involved in assessing disabilities leave many individuals with disabilities without any allowance or with reduced financial support. In Azerbaijan, the corresponding figure has decreased from 6% to 5% due to administrative changes between 2017 and 2022, while the global average stands at 10%. Obtaining a pension is already becoming challenging, as less than 40% of working-age men (15+) and 25% of women are currently able to save for their future retirement. The issue of child allowances also remains highly debated, with only 16.9% of children in the country benefiting from at least one social protection cash benefit. Furthermore, the criteria used to define poverty and the minimum consumer basket utilized to determine the subsistence minimum further contribute to the difficult circumstances faced by individuals in need.

Subsistence was relatively high in the 1990s. However, the flow of big oil money since the early 2000s, rising demand for local agricultural production, increasing export opportunities and the accessibility of cash even in remote rural areas due to the expanding banking sector, including e-banking and ATMs, during the last decade have reduced subsistence to negligible levels.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	48174.2	42693.0	54825.4	78721.1
GDP growth	%	2.5	-4.3	5.6	4.6
Inflation (CPI)	%	2.6	2.8	6.7	13.9
Unemployment	%	4.9	7.2	6.0	5.5
Foreign direct investment	% of GDP	3.1	1.2	-3.1	-5.7
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	4364.9	-227.6	8291.6	23478.1
Public debt	% of GDP	17.7	21.3	26.3	17.3
External debt	\$ M	15843.4	15811.8	14644.7	-
Total debt service	\$ M	2159.9	1839.0	1979.4	-
Net lending/borrowing	% of GDP	6.1	-5.3	4.8	-
Tax revenue	% of GDP	14.2	15.2	13.4	-
Government consumption	% of GDP	11.1	16.2	13.9	10.9
Public education spending	% of GDP	3.2	4.3	3.7	2.9
Public health spending	% of GDP	1.3	1.6	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	3.9	5.4	5.3	4.5

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

There are rules and laws regulating the market, but they do not play a major role in the real economy. Ensuring transparency in business is a constant challenge. Tender procedures are opaque. Small businesses face many hurdles, especially because of the preferential treatment given to large and state-owned enterprises. The business climate in Azerbaijan suffers from the large holding companies that dominate significant parts of the non-oil economy, including export, import, construction, manufacturing, mining, agriculture and retail. With few exceptions, these large holding companies are owned by the ruling families. During the reporting period, the ruling families continued their expansion into the non-oil sector by eliminating potential competitors. Personal relationships are very important in these markets, even for small to medium-sized enterprises.

Under Azerbaijani law, foreign investments benefit from comprehensive legal protections and are generally safeguarded against nationalization or expropriation, except in specific circumstances. Foreign citizens, organizations and enterprises can lease land but are not permitted to own it. Despite notable enhancements in the investment climate, particularly in areas such as business registration, access to credit, protection of minority investors, contract enforcement, and adherence to tax and customs regulations, challenges remain when it comes to resolving disputes involving government agencies and companies with close ties to influential officials. This challenge arises due to the lack of judicial independence. Additionally, it is worth mentioning that Azerbaijan has chosen not to become a member of the World Trade Organization (WTO).

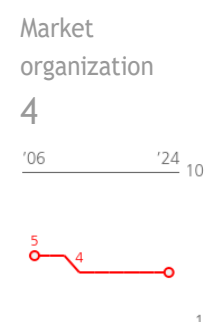
Historically, Azerbaijan has been a magnet for foreign investment, with a significant focus on the oil and gas sector. However, the Azerbaijani government has outlined its intention to diversify the economy by targeting four non-oil sectors: agriculture, tourism, information and communications technology (ICT), and transportation/logistics.

The capital market is underdeveloped, and limited access to credit for SMEs remains a problematic issue.

According to World Economics, the size of Azerbaijan's informal economy is estimated to be 36.8% – representing approximately \$56 billion at GDP PPP levels. Yet, according to the IMF, “Azerbaijan has recently adopted several tax policy and administration measures, with the goal of reducing the sizable informal economy.”

The state controls pricing in some sectors of the economy, including oil, electricity and gas. Prices of non-regulated goods and services are also influenced by regular informal payments to tax and customs authorities. The government heavily subsidizes machinery and other agricultural inputs, targeting hazelnuts, rice, citrus fruits, tea, tobacco and cotton.

Regulated by the central bank, the currency exchange rate is inflexible. The U.S. dollar to AZN exchange rate has not fluctuated at all during the reporting period and has remained constant.



Rules and laws designed to promote market competition are often circumvented due to high levels of corruption in government agencies. Despite significant efforts to open up the business environment, the structural reforms necessary to create a diversified and competitive private sector are progressing slowly.

Despite significant diversification efforts, Azerbaijan remains primarily an oil-based economy, and the state has a stake in the oil and gas industry through the State Oil Company of Azerbaijan Republic (SOCAR). It enjoys a near-monopoly in the oil industry and is also the state's largest company and taxpayer.

On May 12, 2020, the president of the Republic of Azerbaijan approved the Regulations of the State Service for Antimonopoly and Consumer Market Control under the Ministry of Economy of the Republic of Azerbaijan. The service participates in the formation and implementation of the state's antitrust policy. However, it is evident that progress in implementing antitrust laws is extremely challenging because all large local companies are concentrated in the hands of high-ranking officials with monopoly interests. Similarly, many medium-sized companies are either owned by officials or informally affiliated with larger businesses.

The International Competition Network (ICN) lists Azerbaijan among its members; however, the relevant information on Azerbaijan is extremely outdated. In turn, the State Service for Antimonopoly and Consumer Market Control under the Ministry of Economy of the Republic of Azerbaijan does not list ICN among its international partners.

Azerbaijan has selectively integrated into the world economy, primarily in the field of energy exports. The country's economy relies heavily on oil and gas exports, which make up over 90% of Azerbaijan's total exports. The state has monopolized the oil and gas sector.

Production-sharing agreements (PSAs), as a rule, exempt the parties involved from import duties or restrictions, as well as duties and VAT on imported goods and equipment.

The country has free trade agreements (FTAs) with Russia, Ukraine, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Moldova, Turkmenistan and Belarus. Under the FTAs, goods can be imported from those countries without customs duties.

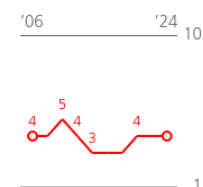
Agriculture reportedly creates more jobs than any other sector in Azerbaijan. The sector is central to the government's plans to expand the economy outside the oil and gas sector, and it has therefore introduced a number of subsidies. Agricultural products are generally subject to a 15% tariff.

The state's share in non-oil sector exports is also quite high, amounting to more than one-third of total non-oil exports. Additionally, official data indicate that thousands of businesses in Azerbaijan engage in foreign trade. However, in reality, the majority of exports are concentrated in the hands of a few businesses, which are mainly owned by either government officials or their relatives.

The most favored nation tariff in Azerbaijan is still quite high – on average, it is about 8.7%.

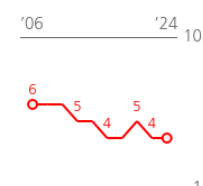
Competition policy

4



Liberalization of foreign trade

4



Azerbaijan currently shows no intention of seeking membership in the World Trade Organization (WTO) in the near future. This reluctance stems from the fact that WTO membership would entail compliance with international standards, some of which the country seems unwilling to adhere to. Nevertheless, Azerbaijan has sought to enhance its regulatory framework in recent years. However, challenges persist, including opaque procedures and allegations of corruption.

During the reporting period, which encompasses 2021 and 2022, Azerbaijan's banking sector made remarkable progress in terms of financial health and customer services in the sector also improved. In this two-year span, only one bank, the Baku branch of the National Bank of Pakistan, ceased to operate.

Despite several government initiatives, the credit supply available to small and medium enterprises remains limited. According to CEIC data, Azerbaijan's bank lending rate stood at 14.4% in 2022.

As of December 1, 2022, the country's banking sector recorded assets totaling \$26.75 billion, with liabilities reaching \$23.5 billion, resulting in a balanced capital of \$3.24 billion. Over the course of 11 months in 2022, the banks' loan portfolio expanded by 18.1% when compared to the previous year.

According to the International Monetary Fund, at the end of 2021, the banking sector's capital adequacy ratio was still relatively high at 19.1%. As of December 1, 2022, the share of nonperforming loans in the total credit portfolio of banks and credit unions decreased to 3.2%.

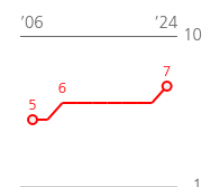
Official data reveals that individual savings investments in Azerbaijan surged by an impressive 25.5% to reach AZN 11.6 billion in the first 11 months of 2022, marking a historic high. Notably, the Russian invasion of Ukraine also had an impact on Azerbaijan during the same period. Consequently, the savings of foreign citizens experienced a remarkable increase, soaring by 3.5 times from AZN 301.3 million to AZN 1.1 billion, marking the highest figure recorded since February 2016.

Although Russia is an important trading partner, sanctions against Russia have thus far had only a limited impact on Azerbaijan's banking sector. Azerbaijani banks have few funds in Russian-sanctioned banks, and two-thirds of Azerbaijan's banks have correspondent accounts in U.S. and European banks.

Azerbaijani banks undergo a supervisory review process by the central bank of the country and adhere to the international standards defined in the Basel accords. The stock market is currently extremely weak.

Banking system

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8 | Monetary and fiscal stability

Although the central bank officially announced the transition from a fixed to a floating exchange rate in 2017, it did not implement a truly floating regime. In practice, the exchange rate of the Azerbaijani manat (AZN) was pegged to the U.S. dollar, and during the reporting period, the AZN to U.S. dollar exchange rate did not change and remained constant at 1.70:1. The government views having a strong currency as a prestigious indicator of strength and stability. The central bank lacks transparency and is highly influenced by political decisions.

Azerbaijan is commonly an inflation-prone country due to its high dependence on imports and the serious institutional and structural problems of the economy, which include strict monopolies, state intervention in prices, limited competitive markets and informal or economically unjustified official payments that raise prices. The central bank announced an annual inflation rate of 6.7% in 2021 and around 14% in 2022. However, according to the Statistics Committee, food inflation is even higher at 21% in 2022.

Azerbaijan monitors the prices of 532 products and services every month to calculate inflation. However, even the official inflation statistics, which independent researchers view with skepticism, show that price increases far exceed income growth. Over the last two years (2021 – 2022), the inflation rate has outpaced the growth rate of per capita income of the population by nearly 5 to 6 times.

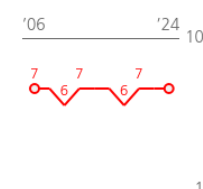
During the reporting period (2021 – 2022), economic recovery resulting from higher oil prices led to an increase in external buffers and a strengthening of international accounts. Public finances exhibited a surplus and were reinforced, including the assets of the State Oil Fund (SOFAZ), which reached \$45.386 billion as of October 1, 2022. The international reserves of the central bank also experienced steady growth, reaching \$8.995 billion by the end of 2022. Fitch reports that the country's current account surplus is the highest among its peer group ("BB").

According to the Ministry of Finance, public external debt reached \$8.135 billion as of January 1, 2022. In 2021, the ratio of public external debt to GDP was 14.9%. Compared to the beginning of 2021, the ratio to GDP decreased by 5.8 percentage points. Additionally, the country's president reported that Azerbaijan's total external debt, which was initially 17% of GDP in early 2022, declined to 9.5% by the end of the year.

As of January 1, 2022, domestic government debt totaled 3.3% of GDP, with government direct obligations accounting for 2.7% of GDP and contingent liabilities for 0.6% of GDP. Compared to the beginning of 2021, the ratio of domestic public debt to GDP increased by 0.6 percentage points. This increase was a result of implementing coherent measures in line with the policy of gradually replacing

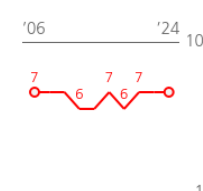
Monetary stability

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Fiscal stability

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foreign borrowing with domestic borrowing and supporting the development of the domestic market for government securities, as outlined in the approved Medium- and Long-Term Strategy for the Management of Public Debt. The structure of the debt has also improved, with short-term debt continuing to decline and projected to represent only 1.6% of total government debt by the end of 2021.

According to the Ministry of Finance, the deficit of the state budget in relation to GDP in 2021 was 1.1%. On the other hand, the consolidated budget resulted in a budget surplus. In the first nine months of 2022, state budget revenues amounted to AZN 22.401 billion, expenditures amounted to AZN 20.470 billion, and the budget surplus was AZN 1.930 billion.

9 | Private Property

Property rights are not secure in Azerbaijan. The state and powerful oligarchs frequently violate them. Although legislation on property rights exists, there are still some gaps in the law, and enforcement remains very poor. The constitution and other laws list conditions for expropriation, which is permitted only for “state needs.” The Civil Code defines “state needs” as the construction of roads or strategic defense facilities. However, the Law on Expropriation of Land for State Purposes, introduced in 2010, expanded the definition of “state needs,” which has led to the large-scale demolition of buildings and entire neighborhoods in the capital. While the law ostensibly protects private property from any infringement, the pervasive corruption within the system enables government officials and oligarchs to bypass these protections and expropriate private homes and retail spaces for personal gain.

Legislation governing property registration also has numerous gaps, with state officials often interfering with legal procedures to extort bribes. Politically motivated property rights violations further compound the issue. However, the establishment of a state agency for public services, ASAN, and its service centers has significantly streamlined the property registration process and, most importantly, made it corruption-free.

One of the most pressing problems continues to be undocumented private houses, unlicensed buildings and apartments. Promises to expedite the legalization process before each election have failed to yield results, leaving hundreds of thousands of such properties in existence that are primarily concentrated in the capital, Baku, and its suburbs.

The law protects copyrights, patents, trademarks and industrial designs. However, enforcement of intellectual property rights is weak in Azerbaijan. There are significant problems with counterfeit goods and the use of unlicensed software. Media and publishing houses also frequently violate copyright laws.

Property rights

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Widespread corruption remains the largest obstacle to conducting business in Azerbaijan. An extensive bureaucracy and weak legal institutions present significant challenges for private companies. Privatization procedures are well-defined on paper but often favor companies closely connected to the government, and tenders lack transparency. Since the dissolution of the Soviet Union, numerous large enterprises have undergone privatization; however, they remain under the control of monopolies that are linked to influential government officials.

The reporting period was characterized by an even greater concentration of monopolistic economic power in the hands of several companies belonging to the ruling families. These companies dominate the banking, finance, mining, insurance, information technology, communications, retail, construction, hospitality, agriculture, real estate development and tourism sectors of the country's economy.

During the reporting period, the heads of two major companies in their respective fields – Ilgar Ismayilov, who founded the “Ideal” perfumery chain, and Rasim Mammadov, the former chair of the supervisory board of the country's largest steel company – faced legal challenges. Mammadov has repeatedly claimed that he is the owner of the company. However, Azerbaijani law prohibits the disclosure of ownership information for private companies, making it impossible to verify his claims. Independent experts argue that both businessmen initially benefited from informal and discriminatory competitive practices but eventually became victims of their own corrupt practices.

10 | Welfare Regime

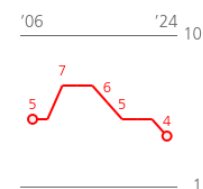
On February 2, 2021, the state announced five national priorities for the next decade with its Azerbaijan 2030: National Priorities for Socioeconomic Development strategy. One of these priorities involves establishing a dynamic and inclusive society built on principles of social justice. Government officials and parliamentarians frequently stress the substantial portion of the state budget allocated to social spending. In 2021, total public social spending reached approximately 7.4% of GDP.

However, local experts insist that only some of the items referred to as social spending by government officials count as social protection or social security spending, as some items are not directly related to social costs.

During the reporting period, the issue of determining various benefits for individuals with disabilities and the distribution of these benefits to thousands of people in Azerbaijan received significant attention. In 2021, the Ministry of Labor and Social Protection of Population (MLSPP) announced the cancellation of certain disability benefits, asserting that over 7,000 individuals had fraudulently obtained disability statuses. Moreover, the redefinition of disability categories resulted in a reduction of eligible beneficiaries.

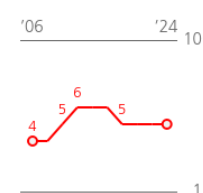
Private enterprise

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Social safety nets

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The government has also introduced various measures intended to reduce the number of pensioners. The retirement age has been incrementally increased to 65 for both men and women. Currently, life expectancy at birth stands at 73.2 years, with men living an average of 70.1 years and women 76.5 years. Thanks to pension reforms, the number of pensioners decreased to 118,000 between 2017 and 2021, despite the growing population of elderly individuals.

Only 20% of the 314,500 unemployed (by the end of 2021) were supported by the country's social protection system. There is also a discrepancy between the published figures on the unemployment rate and the actual unemployment rate.

The Azerbaijani government raised the minimum wage several times during the reporting period. By January 2023, the minimum wage had reached AZN 340 per month. Nevertheless, individuals whose monthly incomes fall below this threshold are not officially classified as poor. The poverty rate is determined by the minimum consumption basket, which presently stands at AZN 246 per person per month (AZN 261 for working-age individuals, AZN 199 for pensioners and AZN 220 for children).

According to the World Bank, Azerbaijan's public spending on health care is 4.04% of GDP. The phased introduction of compulsory medical insurance in Azerbaijan began in early 2020, and since April 1, 2021, the entire population has been covered by compulsory medical insurance. However, it is still too early to assess the results of this reform.

The constitution guarantees equal rights for all its citizens. In principle, everyone has equal opportunities in education and work. Nearly everyone in the country receives at least some form of basic education. The gross enrollment rates indicate high participation: 95.8% at the primary level, 94.1% at the secondary level and 35.2% at the tertiary level. In terms of gender balance, Azerbaijan reported a ratio of female to male enrollment of 1.0 for primary, 1.0 for secondary and 1.2 for tertiary education in the 2020/21 academic year.

Since the dissolution of the Soviet Union, the social status of women has, to some extent, deteriorated, and male dominance still characterizes social structures. In rural areas, the influence of religious and parochial traditions can sometimes lead to young girls dropping out of school. Legally, women possess the same rights as men and actively participate in the labor force. In 2021, Azerbaijan ranked 70th out of 170 countries in the Gender Inequality Index, with a score of 0.294 according to the UNDP. In 2021, the labor force participation rate for women stood at 60.4%, while for men, it was 67.3%, marking a seven-percentage-point drop from the previous year. Nevertheless, women often find themselves in underpaid roles, and gender discrimination remains apparent, particularly in leadership positions, which is influenced by cultural factors.

Equal opportunity

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Nonetheless, in the last several years, women's access to public office has improved. In 2017, a woman assumed the position of the first vice president of Azerbaijan, although she also holds the role of the first lady. Additionally, the newly elected speaker of Azerbaijan's parliament is a woman. Compared to previous periods, the current parliament and local municipalities feature greater representation of women. Over the past few years, the number of women serving as appointed judges, prosecutors and ambassadors has also increased, with a threefold increase in female lawyers.

There is a notable discrepancy in labor force participation rates between rural and urban areas. Generally, urban areas have higher unemployment rates because a significant portion of the rural population is engaged in subsistence agriculture. Moreover, there is a substantial wage disparity between urban and rural regions.

In terms of employment, religious or ethnic background does not seem to pose a barrier, but regional origins continue to play a significant role. Azerbaijanis from Armenia and the Nakhchivan exclave tend to have privileged access to public office though this is on the decline.

11 | Economic Performance

The Azerbaijani economy remains heavily dependent on oil and gas production, which poses many risks for economic development. Despite a slight decline, the share of oil and gas in total exports was around 90% in 2021, accounting for 50% of total GDP production and more than half of state budget revenues. The increase in oil and gas prices boosted economic growth during the reporting period.

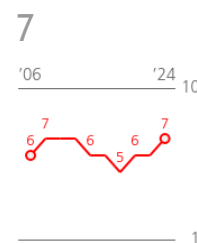
In 2021, Azerbaijan's GDP reached \$54.622 billion. The GDP per capita stood at \$5,384.00, showing a 27.28% increase compared to the previous year. According to the State Statistics Committee, the estimated GDP per capita rose to \$7,096 by November 2022.

According to the Ministry of Economy, tax revenues for the state budget increased by 82.2% in 2022 compared to 2021, reaching AZN 15.5 billion (\$9.2 billion).

The IMF projected that FDI inflows would amount to 0.8% and 1.0% of GDP in 2021 and 2022, respectively. However, according to the central bank's balance sheet, FDI inflows into the Azerbaijani economy in 2021 will be negative at -\$2.162 billion, due to the repatriation of funds by oil companies.

Official statistics for 2021 put the unemployment rate at 6.58%. In 2022, the unemployment rate fell to 5.63%. The central bank announced that the annual inflation rate was 6.7% in 2021 and estimated it to be 14% in 2022.

Output strength



12 | Sustainability

Azerbaijan has announced clean environment and green growth as one of the five pillars of its national priorities for the period from 2021 to 2030. Speaking at the Green Hydrogen Summit as part of Abu Dhabi's Sustainable Development Week, Energy Minister Parviz Shahbazov stated that Azerbaijan's state policy is to become a country with green growth and a clean environment by 2030. At COP26 in Glasgow, Azerbaijan announced a target to reduce greenhouse gas emissions by 35% to 40% by 2050 compared to 1990 levels.

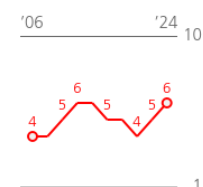
However, the current quality of enforcement of the stated policies on reducing greenhouse gas (GHG) emissions set out at COP26 is questionable. For instance, official statistics reveal that 91% of electric energy in the country is produced by fossil fuel-based thermal power plants, with only 9% being generated from alternative energy sources. Furthermore, in recent years, the expansion of fuel-based power generation has been 3 to 4 times higher than that of alternative energy sources.

The country has also taken steps to reduce the impact of plastic waste on the environment from 2019 to 2020. In the beginning of 2021, Azerbaijan banned plastic bags with a thickness of up to 15 microns, and since July 1, 2021, the production, import and sales of plastic swizzle sticks, forks, knives, spoons, plates and cups have also been prohibited. The country has exempted the import of hybrid and electric cars from customs duties and VAT in 2022.

In July 2022, Ursula von der Leyen, president of the European Commission, and the president of Azerbaijan agreed to boost Azerbaijan's export potential in renewable energy, specifically offshore wind power and green hydrogen. In December 2022, Azerbaijan, Georgia, Romania, and Hungary signed an agreement to construct an electricity cable that will traverse the Black Sea as it transmits green energy from proposed wind farms on the Caspian Sea to Europe. This initiative is part of the European Union's broader endeavor to diversify energy resources and reduce its reliance on Russia, particularly in light of its ongoing invasion of Ukraine.

Environmental policy

6



Formal access to education in Azerbaijan is universal and free. The country boasts a high literacy rate of 99.8%. However, the quality of secondary education is widely acknowledged to be poor. Subpar training, inadequately prepared teachers and often outdated textbooks continue to be prevalent issues across all education levels. Corruption is also a significant problem in state kindergartens and secondary schools.

According to the U.N. Education Index, which measures a country's educational level by combining the average years of schooling for adults with the expected years of schooling for children, Azerbaijan received a score of 0.726 in 2021, ranking 48th out of 134 countries. The gross enrollment rate stands at 95.8% for primary education, 94.1% for secondary education, and 35.2% for tertiary education.

Private tutoring, in high demand for students aiming to pass standardized state exams for university admission, comes at a steep cost. As a result, many high school graduates from economically disadvantaged families often fail to achieve the required scores for tuition-free admission to their desired degree programs.

Corruption has long plagued higher education, but some recently established institutions, such as ADA University, French-Azerbaijani University, and Baku Higher Oil School, have managed to establish themselves as corruption-free zones within the sector.

In 2022, the state budget allocated \$2.28 billion for education, marking an increase of \$356.8 million or 18.5% compared to the previous year. These budget allocations for education constituted 4.5% of the GDP, reflecting a 0.5% rise from 2021.

Despite these investments, research remains an underdeveloped sector of the economy. In 2020, the World Bank reported that only 0.22% of the GDP was allocated for research and development.

Education policy /
R&D

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Governance

I. Level of Difficulty

Azerbaijan has favorable conditions for good governance. However, various factors have hindered the country's development.

Foremost among these challenges is the long-standing conflict with Armenia over Nagorno-Karabakh. While Azerbaijan regained territory lost in the early 1990s during the 2020 war, a comprehensive peace agreement and a final resolution of the conflict remain elusive. Recent years have witnessed several border clashes with Armenia, including a major escalation in September 2022, resulting in nearly 300 casualties on both sides.

Furthermore, the conflict has heightened another structural constraint linked to Azerbaijan's influential neighbors. Russia's assertive foreign policy in the region poses a direct threat, with Russian troops currently stationed in Nagorno-Karabakh as a peacekeeping force, deepening Azerbaijan's dependence on its northern neighbor. Additionally, Türkiye provided substantial diplomatic and military support to Azerbaijan during the conflict, enhancing Ankara's political influence in the region.

Finally, the religious landscape in Azerbaijan, primarily consisting of young Shi'ite believers, makes them reliant on the Iranian religious establishment.

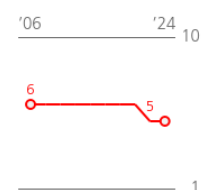
As a landlocked nation, Azerbaijan depends on its neighbors for exporting oil and gas, which constitute the majority of its foreign income. Nonetheless, the Azerbaijani economy managed to maintain relative strength during the reporting period, thanks to the high oil prices observed, despite these inherent limitations.

The historical roots of civil society in Azerbaijan are weak. In terms of local traditions, Azerbaijan is characterized by a hierarchical social structure that emphasizes obedience to authority, and it lacks a tradition of collective action and organization.

The bulk of social capital in Azerbaijan is primarily concentrated within tight-knit family and kinship networks, regional affiliations and close friendship circles. Membership in these groups typically hinges on factors like birthright, marriage or a high degree of interpersonal trust. Historically, these forms of social trust and relationships were more pronounced in rural areas outside the capital, but urbanization and modernization have gradually eroded them. Moreover, widespread corruption and the absence of the rule of law have significantly undermined social trust across society.

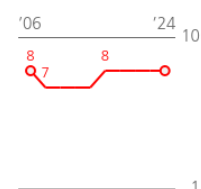
Structural
constraints

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Civil society
traditions

8



Nevertheless, in the late 19th and early 20th centuries, Baku exhibited signs of developing its own intelligentsia and political culture within the context of the broader Muslim world. This could have potentially served as the foundation for a modern civil society. Unfortunately, this potential was extinguished during the era of communist rule. Since gaining independence, NGOs supported by international entities have become significant players in public life. They have effectively mobilized public opinion on various social issues. However, these efforts face challenges within a deeply ingrained authoritarian environment that does not tolerate independent activities and seeks to monopolize all aspects of public life.

Currently, the vast majority of NGOs in the country are often referred to as government-operated NGOs (GONGOs). However, there are some independent NGOs that continue to operate despite the oppressive environment. Obtaining state registration and securing assistance from international donors is exceedingly difficult due to strict laws that severely restrict NGO activities. Nevertheless, the reporting period witnessed the emergence of feminist civil society groups that staged several notable protests in the capital to combat discrimination against women.

The reporting period witnessed a further consolidation of authoritarian practices in Azerbaijan. The ruling family has established complete political and economic control over the country, suppressing any form of dissent, whether it be political, social, ethnic or religious.

In December 2022, a group of Azerbaijani alleged environmental activists initiated a blockade of the Lachin Corridor, a highway connecting Armenia with the Armenian-populated region of Nagorno-Karabakh. The state's response to this action demonstrated how effectively the Azerbaijani authorities have created an illusion of civil society, which they can easily manipulate. The so-called dialogue with political parties, initiated by the authorities, resulted in the emergence of a pseudo-opposition controlled by the authoritarian regime. Additionally, newly enacted laws on political parties and media during the reporting period have provided the elite with additional tools to further cement autocratic rule.

In the early fall of 2021, relations between Azerbaijan and Iran significantly deteriorated when Azerbaijan began imposing tariffs on Iranian trucks transporting goods to Armenia and Nagorno-Karabakh through a road that crosses the unmarked border between Azerbaijan and Armenia. This incident provoked a strong reaction from Iran, escalating into a crisis in Iranian-Azerbaijani relations. In response to this crisis, Azerbaijani authorities arrested several independent Azerbaijani Shi'ite clerics who had received religious training in Iran. Furthermore, during this period, authorities shut down all local internet media operated by independent Shi'ite activists.

Conflict intensity

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II. Governance Performance

14 | Steering Capability

For many years, the government aimed to persuade primarily external (but also internal) actors that it was following a gradual and deliberate strategy to build democracy. However, as it gained confidence from the influx of oil revenues, it began openly discussing a “special approach to democratic development,” effectively signaling a move toward consolidating the authoritarian regime.

Despite the government’s adoption of strategic road maps, ministry restructurings, the creation of new agencies, the dismissal of notorious high-ranking officials, and collaboration with international assistance following the economic downturn in 2014, its strategic and institutional capacity for setting priorities and implementing policies remains limited. The top priority for the ruling elite continues to be maintaining their grip on power. Consequently, during the reporting period, the government persisted in its efforts to further solidify authoritarian rule. Fundamental structural issues in the economy, including deeply rooted high-level corruption and oligarchic monopolies, as well as weak political institutions marked by the absence of the rule of law, a lack of genuinely free and fair political competition, and widespread violations of civil liberties, largely persist.

Moreover, during the reporting period, the combination of rising energy prices and Azerbaijan’s increasing significance as a potential energy supplier to Europe amid the Russo-Ukrainian conflict bolstered the self-confidence of the ruling family and strengthened its political influence.

After the liberation of the territories previously occupied by Armenia in 2020, the government has made postwar reconstruction in these areas a top priority. The country’s extensive construction efforts and population resettlement initiatives are part of its strategy to promote the development of smart cities and villages. One such project, Agali village, was completed in July 2022 with the specific aim of facilitating the return of refugees. Furthermore, during the reporting period, the government undertook the construction of several modern airports in the newly liberated areas.

In general, high-priority projects in the energy and transport sectors, as well as those related to international sporting and entertainment events, tend to be executed successfully despite escalating costs. These cost overruns are often attributed to widespread corruption, wherein funds are frequently diverted from public coffers for private gain.

Question
Score

Prioritization

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Implementation

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The country's president frequently underscores the importance of diversifying the economy. However, despite efforts in this direction, particularly in the realm of agricultural production, the outcomes have been somewhat mixed thus far. As a result, the economy remains heavily reliant on revenue from the oil sector.

As a rule, the adoption of numerous long-term development plans has never been a priority for the Azerbaijani ruling elite, and most of these plans have never been implemented. In general, the Azerbaijani authorities do not address existing problems until they pose an imminent threat to the regime. The long-term planning needed to find a military solution to the Karabakh conflict is an exception here, though the plan did not receive much public attention.

This was vividly demonstrated during the economic downturn that followed the collapse of oil prices in late 2014, which exposed the government's incompetence as well as its flawed policies and corrupt practices. The crisis left the government backfooted, although it did draw some lessons from its own mistakes. In order to consolidate control over the economy, it felt compelled to liberalize somewhat, which forced state authorities to cooperate more with Western institutions in implementing economic reforms.

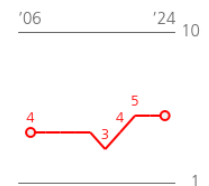
This pattern of addressing urgent issues and then returning to old practices was also manifest in the government's currency policy. When the authorities were forced to unwillingly devalue the AZN in the wake of declining oil prices twice in 2015, it even entertained the thought of switching to a free-floating exchange rate. However, this never materialized, as the crisis was eventually overcome. The discourse about the urgency of diversifying the economy also intensified after the downturn in 2014. In practice, hardly anything has been achieved in this regard since then.

This pattern continues into the present. Prior to the second Karabakh war in 2020, when the government's approval ratings were in free fall, the government's public messaging focused on fighting corruption and implementing reforms. However, once the war was successfully brought to an end, the government ceased to discuss these issues, allowing old corrupt practices such as bribery in law enforcement and embezzlement in government offices to re-emerge.

Nonetheless, the government is willing to seek advice from international organizations in areas that do not threaten its authoritarian character or the vested interests of high-ranking officials. But when it comes to issues regarding political reform, strengthening civil society and enforcing the rule of law, the government completely ignores Western advice. The new laws on the media and political parties passed during the reporting period, as well as the previous tightening of legislation on civil society, serve as a vivid example of this.

Policy learning

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15 | Resource Efficiency

The state budget is highly dependent on hydrocarbon revenues, which led to high GDP growth rates for several years until oil prices fell in late 2014. In the absence of economic diversification, it was feared that growth would slow down once the country's oil reserves ran out, which would eventually lead to an economic decline. The actual decline in GDP in 2015 (to \$53.07 billion) and in 2016 (\$37.87 billion) confirmed these fears. In 2017, real GDP rebounded to \$40.75 billion, and in 2019, its growth exceeded 2% for the first time in five years. However, the lockdown during the COVID-19 outbreak and another slump in oil prices earlier in the year caused GDP to fall by more than 4% in 2020. Nevertheless, thanks once again to rising oil prices, GDP growth rebounded to \$54.62 billion in 2021, and, according to President Aliyev, the country's GDP reached a historic high of \$76.5 billion by the end of 2022.

Public debt has not reached a critical level. According to President Aliyev, Azerbaijan's total external debt stood at 17% of GDP at the beginning of 2022 and fell to 9.5% by the end of the year. It is manageable because the country has significant liquidity buffers. However, the budget is not effective because it is not audited. Formally, there is an independent audit by parliament. However, controlled by the executive, the parliament itself is not an independent body. The planning and execution of the state budget are not transparent. Planning does not involve the interested parties. As a result, important budget expenditures are hidden from the public. Deviations of the actual budget from the planned budget have been a common practice for many years. The current budgetary law grants the executive branch extensive independence in amending the budget without obtaining prior approval from parliament.

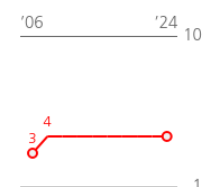
The government has introduced several examination procedures, conducted by the State Examination Center, to hire state employees based on merit principles. Although the exams have gained the public's trust, the final stages of the selection process – interviews – are still a powerful tool in the hands of the authorities to reject “potentially disloyal” candidates.

The lack of political will to decentralize has resulted in the country lagging behind its South Caucasian neighbors in reforming the territorial and administrative systems inherited from the Soviet past. There are 66 rayons in Azerbaijan, which are led by the heads of local executives who enjoy relative independence and broad administrative powers. They bear direct responsibility for economic performance and social well-being, as well as for political stability and promoting popular loyalty to the regime in their respective regions.

However, on July 7, 2021, the president signed a decree “On the New Division of Economic Regions in the Republic of Azerbaijan,” increasing the number of economic regions to 14. Subsequently, the office of the president's special representative was established for these regional units, which are larger than districts

Efficient use of assets

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(rayons). During the reporting period, the president also appointed special representatives for two of these economic regions. In addition, in December 2022, he appointed a special representative as the highest executive authority in the Nakhchivan Autonomous Republic. It can thus be assumed that these regions will soon replace the rayons as the country's new and much larger administrative units. However, it is not yet a transformation into regional self-administration since the regions are governed by appointed heads of the executive who are not accountable to the local population, while there is no elected body such as regional councils and governors.

It should also be noted that the majority of these new appointees to high executive positions are specifically trained individuals who started or built their careers in the ruling family's companies, such as Pasha Holding. The new chair of the central bank, Taleh Kazimov, who was appointed in July 2022, had also held a senior position at the Holding's Pasha Bank since 2015.

Traditionally, the government has faced a significant challenge in coordinating its policies. Some ministers and high-ranking officials have operated independently, without much regard for accountability or responsibility to their peers. The Cabinet of Ministers has often lacked a sense of functioning as a cohesive institution. Oligarchs with significant economic interests have pursued their private ventures, frequently resulting in near-monopolies within specific sectors of the economy. The role of the prime minister has historically been more bureaucratic than political, and this continues to be the case.

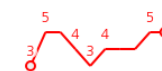
Nonetheless, in recent years, the head of state has substantially bolstered his decision-making authority by removing influential members of the "old elite," including former head of the presidential administration Ramiz Mehdiyev and Interior Minister Ramil Usubov. This process continued during the reporting period with the dismissal and replacement of two other influential oligarchs: Rovnag Abdullayev, the head of the State Oil Company (SOCAR), and Vasif Talibov, who had governed the Nakhchivan Autonomous Republic since 1995.

These changes are remarkable in that all of the mentioned figures were in some way associated with the powerful Nakhchivan clan, one of the two traditional power bases of the Aliyev regime. The Nakhchivanis and the other power base, the Azerbaijani-born Armenians, have historically enjoyed privileged status. However, the ruling family has also pitted these two clans against each other. When Aliyev's son assumed power in 2003, the Nakhchivan clan was instrumental in sidelining several officials from the Armenian-born Azerbaijani clan. During the reporting period, Aliyev's sidelining of the powerful Nakhchivan clan members led to a policy of reconciliation with previously marginalized but influential members of the Armenian-born Azerbaijani clan.

Policy
coordination

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Furthermore, the office of the first vice president (currently held by the president's wife from the influential Pashayev clan) has increasingly sidelined long-standing ministers and oligarchs from both regions. Newly appointed officials and ministers have assumed control of the country's economic management. These changes significantly enhanced the government's ability to coordinate policies during the reporting period. At the same time, they consolidated the ruling family's uncontested monopoly over the country's economy and politics.

Corruption in Azerbaijan is widespread and centralized. The government has implemented several anti-corruption regulations and initiatives, but they have limited impact due to inconsistent enforcement and a weak judiciary.

ASAN, a state agency for providing public services to citizens, was established in 2012 and has since been expanded. It has successfully reduced corruption at the lower and middle levels of public administration and has proven to be effective.

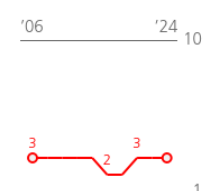
Traditionally, students at universities pay bribes to professors in order to receive satisfactory exam grades. However, teaching staff at some institutions founded in the post-Soviet period – such as Caucasus University, ADA University, French-Azerbaijani University and the Baku Higher Oil School – are exceptions. Other higher education institutions have also seen significant improvements in curbing these corrupt practices since Mikayil Jabbarov was appointed minister of education in 2013. This trend has continued during the tenure of his successors. However, bribery is still widespread in state-run kindergartens and secondary schools. High levels of bribery in the civil service remain a major problem. Corruption also remains one of the biggest problems in government spending, procurement procedures, the state health system, the police, the courts and municipalities.

In 2017, Mikayil Jabbarov was appointed minister of taxes, a position he currently holds. Since January 2021, he has also served as the chair of the Supervisory Board of the State Oil Company of the Republic of Azerbaijan. Throughout his tenure, significant efforts have been made to combat rampant corruption in taxation. This commitment to reducing corruption has persisted during the reporting period, leading to a decrease in both the shadow economy and bribery practices within the tax authorities. Additionally, the government has implemented the green corridor access system in customs for foreign trade participants since February 1, 2019, as part of their policy. However, opaque procedures and allegations of corruption continue to persist.

Despite legislation such as the Law on Ethics and Conduct of Public Officials and the Law of the Azerbaijan Republic on Prevention of Conflicts of Interest in the Activities of Public Officials, conflicts of interest due to overlapping family interests of public officials at the central and local administrative levels remain a significant problem for decision-making and the functioning of state institutions.

Anti-corruption policy

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By law, civil servants are required to disclose their finances, but this requirement is only marginally enforced in practice. Most significantly, the reports are not made available to the public. In 2005, Azerbaijan also enacted a transparency law that ensures access to information. However, it is often very challenging, and at times even impossible, to obtain information from the authorities. For instance, in 2012, following the revelation of questionable business transactions involving the ruling family by independent and international media, the government amended state laws to limit access to company information.

16 | Consensus-Building

Until recently, the government and key political actors claimed that they were embarking on a path to democratization but insisted that stability, security and social order were prerequisites for democracy and that the democratization process should be gradual, cautious and based on cultural modernization. However, the opposition has always accused the oligarchs – particularly the ruling family – of monopolizing political power and the economy and of using stability, social order and cultural progress as pretexts to turn the republic into a de facto monarchy. Events following the 2003 presidential election have, to some extent, validated this criticism, and the appointment of the first lady as first vice president in 2017 has further substantiated it.

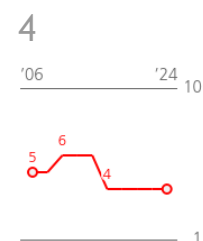
All major political parties in Azerbaijan agree on the need for a market economy, with the exception of some radical left-wing youth groups. However, the corrupt, oligarchic and monopolistic nature of the ruling regime has hindered the development of a fully functioning market economy. Only the economic downturn in 2014/2015 put pressure on the government to make some changes to its past corrupt practices and to move forward with market economy reforms, albeit with little success thus far.

During the reporting period, the ruling family further consolidated its power, which is vested in individuals rather than state institutions. As in the previous two years, old, established members of the elite were replaced in key government posts in 2021 and 2022 by relatively young officials, many of whom received education in the West and had greater contact with the outside world.

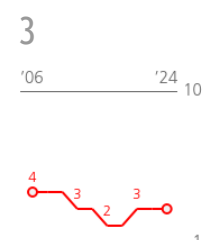
This series of replacements raised hopes that the government might eventually shift in the right direction. So far, though, the country has moved in the opposite direction of democracy and a market economy. Both political and economic power still reside with the ruling family, who are neither fostering democratization nor relinquishing their monopolistic control over the country's economic sector.

In addition to rigged elections and the elimination of the last vestiges of the rule of law, the crackdown on independent media, domestic and foreign NGOs, civil society and human rights activists, as well as the persecution of political dissenters and the

Consensus on goals



Anti-democratic actors



further restriction of civil liberties, are among the most important indicators of the undemocratic nature of the regime. Laws on the media and political parties – both of which were passed during the reporting period – are expected to further worsen the situation.

The government prioritizes maintaining stability as the most important political goal. Accordingly, the country's stability is praised as the government's greatest achievement. All potential conflicts – whether religious, ethnic or social – are prevented and suppressed. The government has often sought to suppress dissent rather than build consensus. The lack of a comprehensive long-term policy, authoritarian measures for short-term ends, and, above all, the government's rejection of genuine democratic opposition all contribute to perpetuating and even exacerbating the problems.

The fact that the ruling elite is often seen as consisting mainly of Azerbaijanis from Nakhchivan and Armenia is also a source of potential tension in society, as people from other regions resent the unequal access to power and wealth. However, it appears that policies and changes implemented under the auspices of the first lady, Mehriban Aliyeva, who was appointed first vice president in 2017, aim to address this unease.

The government often praises religious tolerance in the country as part of the national tradition. It holds many international pro forma events on multiculturalism, religious tolerance and dialogue. However, critics frequently accuse the government of suppressing religious freedom.

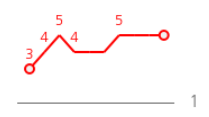
Since 2013, the government has attempted to crack down on independent activities and critical voices in order to close public spaces. Both domestic and international NGOs now face significant restrictions, causing numerous international donors and NGOs to be forced out of the country. Strict laws have been enacted, fabricated criminal cases have been filed and many local NGO activists have been imprisoned, with some activists seeking refuge abroad. Almost no room has been left for independent NGO activity. Although detained NGO activists have been released later on, the government continues to arrest and release activists, although at a slower pace and with less intensity. As a result, civil society in Azerbaijan has been effectively suppressed, and the government's response has been to replace real NGOs with GONGOs (government-organized non-governmental organizations) in an attempt to mimic their existence. However, there are a few independent civil society groups that are trying to survive and adapt to these challenging conditions.

It should be noted that since the advent of social media in 2010, as well as the introduction of high-speed internet in the country a few years earlier – now widespread – the government's monopoly on information no longer exists. Social networks have thus played an important role in strengthening the vox populi, including local civil society. However, during the reporting period, the authorities managed to gain dominance in the realm of social media by mobilizing extensive financial, organizational and human resources.

Cleavage / conflict management

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Public consultation

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A genuine and comprehensive process of reconciliation with political opponents can only be initiated by the ruling elite, which has shown no interest in doing so thus far, unless former rivals pledge loyalty to the regime.

In the previous reporting period, the government initiated a dialogue process with the secular opposition, which was viewed with skepticism by government critics. The main negotiator on the government side has been Adalat Valiyev, head of the Department for Relations with Political Parties and the Legislative Authority of the Presidential Administration. The process began immediately after the early parliamentary elections in February 2020, which were heavily criticized by independent and international observers as another missed opportunity. However, the public does not view the majority of the political parties involved as genuine opposition to the government.

The only true opposition party that has actively participated in these meetings so far has been the Republican Alternative Party. As a result of this dialogue, the Supreme Court acquitted the leader of the Republican Alternative Party, Ilgar Mammadov, who spent several years in prison, and compensated him with AZN 234,000 (about €110,000) for moral damages. The public immediately criticized Mammadov for this agreement. And indeed, Mammadov subsequently moderated his criticism of the government. Another significant opposition party, Musavat, joined the dialogue process later in 2020, but there was no indication during the reporting period that this party was actively engaged in the process.

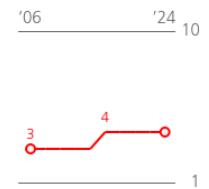
The largest and most vocal opposition group, the Popular Front Party, has refused to participate in the dialogue from the beginning. The party's leader, Ali Karimli, insisted that a specific dialogue agenda be announced in advance and argued that the talks were in fact an imitation of political dialogue. Members of his party and its allies continue to be persecuted by the government because of their staunch opposition.

During the reporting period, Ali Insanov, the leader of the Law and Justice Party, also participated in the dialogue process and expressed his loyalty to the president. Ali Insanov has long been regarded as a prominent figure among Azerbaijanis from Armenia, one of the two main sources of support for the ruling regime. However, while serving as health minister, he became entangled in internal power conflicts and was consequently confined in prison for over a decade. Throughout his imprisonment, Ali Insanov openly criticized the ruling family and denounced the accusations against him as politically motivated.

During the reporting period, no comprehensive peaceful reconciliation process was launched with the Armenian population of the remaining Karabakh region. Azerbaijani authorities instead pursued a forceful policy that encompassed threatening rhetoric, blockades and military pressure.

Reconciliation

4



17 | International Cooperation

The government typically collaborates with international partners and neighboring countries in economic development and technical cooperation. Foreign partners play a crucial role in executing significant economic projects. Azerbaijan also recruits international experts, primarily from Western countries, to oversee critical local projects and state enterprises. Challenges stem from the fact that the current ruling elite's long-term development strategy does not encompass democratization and the establishment of the rule of law.

Azerbaijan is part of the European Neighbourhood Policy (ENP) and the Eastern Partnership initiative. The European Union (EU) worked with Azerbaijan to finalize the EU-Azerbaijan Partnership and Cooperation Agreement in 1999. However, negotiations for an association agreement did not yield outcomes, primarily because the government was not willing to commit to genuine democratic reforms. Nonetheless, the European Union serves as Azerbaijan's most important trading partner, its largest market for exports and imports, and the largest foreign investor in the country (with direct investments totaling nearly €7 billion). Azerbaijan has also become a member of the Eastern Europe Partnership for Energy Efficiency and Environment (E5P). Furthermore, the European Union aims to support Azerbaijani civil society through specific thematic instruments, such as the European Instrument for Democracy and Human Rights (EIDHR) and the 'Non-State Actors' program.

During the reporting period, two developments drew international criticism of the Azerbaijani authorities. First, fighting broke out along the Armenia-Azerbaijan border in the early hours of September 13, 2022, resulting in the deaths of hundreds of people on both sides. This escalation was the deadliest between the two countries since the 44-day war in 2020, with Azerbaijani forces penetrating some border areas of Armenia. Second, on December 12, 2022, the Azerbaijani government-organized protests in the so-called Lachin Corridor, the only road connecting Azerbaijan's Armenian-inhabited Nagorno-Karabakh region with Armenia. The protesters, claiming to be environmental activists, began blocking the road, which lasted well beyond the reporting period – not to mention cutting Nagorny Karabakh off from electricity and natural gas supplies.

On the other hand, the Azerbaijani government complains that some international organizations have ignored its concerns about the destruction of culture and nature in the greater Karabakh region caused by Armenian occupation.

The Azerbaijani government has consistently fulfilled its international economic and trade commitments in the oil and gas industry. Since Russia's invasion of Ukraine, energy cooperation between Azerbaijan and the European Union has intensified.

Effective use of support

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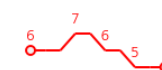


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Credibility

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Problems arise with compliance with international human rights norms when the political interests of the ruling elite are directly affected. Such was the case when Azerbaijan was unable to negotiate an association agreement with the European Union and join the WTO. The Council of Europe and the OSCE have raised significant concerns regarding Azerbaijan's commitment to democracy and human rights, triggering doubt. These organizations have become increasingly critical of the government, which has faced condemnation for its deficient human rights record from various international organizations, although no substantial progress has been made.

Due to historical and cultural ties, Türkiye has become Azerbaijan's most important political partner and military ally, moving ever closer in the military field in particular. The Azerbaijani government has also prioritized trilateral cooperation with Türkiye and Georgia. Energy transportation pipelines, such as the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline, have solidified this trio's interdependence in the past. The Baku-Tbilisi-Kars (BTK) railroad line runs from the port of Baku in Azerbaijan to Türkiye via Georgia and is an important part of the Trans-Caspian International Transport Route (Middle Corridor).

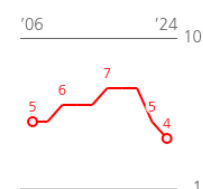
Energy cooperation between the European Union and Azerbaijan has become even more significant since the Russian-Ukrainian war. In mid-November 2020, the Trans-Adriatic Pipeline, which connects Azerbaijan with Europe, officially started operating in the European part of the southern gas corridor. Subsequently, in early 2021, natural gas exports to other European countries through this pipeline commenced. Ursula von der Leyen, the president of the European Commission, visited Azerbaijan on July 18, 2022, and during the visit, a new gas export agreement was signed between the European Union and Azerbaijan. According to the agreement, the parties aim to increase the volume of gas exports from Azerbaijan to Europe to approximately 20 billion cubic meters by 2027.

The reporting period was also marked by the deepening of Azerbaijan's strategic partnership with the Turkic states of Central Asia. Joint efforts were made to develop trans-Caspian transcontinental freight transport via the aforementioned Middle Corridor. The agreement between Azerbaijan and Turkmenistan on joint exploration and development of hydrocarbon resources in the Dostlug field in the Caspian Sea, signed in Ashgabat on January 21, 2021, has left behind previous disputes and opened a new perspective for gas supply to Europe.

A few days prior to the invasion of Ukraine, Russian President Putin pressured his Azerbaijani counterpart into signing a comprehensive agreement on "allied cooperation." The aim of this agreement appeared to secure Azerbaijan's support for Russia during its assault on Ukraine. It is worth mentioning, however, that since the Russian invasion of Ukraine began in February 2022, the Azerbaijani government has been the principal provider of humanitarian aid to Ukraine in the South Caucasus region.

Regional cooperation

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In the early fall of 2021, Azerbaijani-Iranian relations significantly deteriorated because the Azerbaijani side began imposing tariffs on Iranian trucks delivering goods to Armenia and Nagorno-Karabakh via the road that crosses the unmarked border between Azerbaijan and Armenia. This incident infuriated the Iranian side and swiftly escalated into an unprecedented crisis in Iranian-Azerbaijani relations, which persisted throughout the reporting period. It should be noted that there exist fundamental antagonisms between the two countries, and recent developments have further exacerbated their rivalry.

The issue of the “Zangezur corridor,” demanded by Baku to connect with its exclave Nakhchivan, has reignited the latent antagonism between Iran and Azerbaijan. It is seen as part of a comprehensive peace agreement with Armenia following the 2020 war, which is still unresolved. This failure has led to multiple military skirmishes between Azerbaijani and Armenian forces during the reporting period. Baku, in particular, has exerted significant pressure on the significantly weakened Armenian side. The situation has been further complicated by geopolitical rivalries, particularly the regular undermining of peacebuilding efforts by the Russian authorities, which have hindered the European Union and United States.

Strategic Outlook

The Azerbaijani government has succeeded in maintaining its power by providing security and stability. The influx of large sums of oil money has given the government the means to meet the basic needs of the population, reduce poverty and carry out a certain amount of modernization and renovation of infrastructure. Authoritarian rule has been consolidated by expanding the power of the executive and giving it full control over all areas of public life. The president's heightened popularity following Azerbaijan's success in occupying a sizable chunk of Nagorno-Karabakh in the fall of 2020 enabled the government to limit the space for independent political and economic activities. However, despite this, no peace agreement with Armenia was reached during the review period.

The existing economic framework has notable flaws. The concentration of the nation's wealth in the ruling family's hands stifles economic competition and hinders the development of a market economy. Additionally, despite the progress made in diversifying sectors like agriculture and tourism, the economy remains heavily reliant on fuel prices.

It comes as no surprise that the ruling family is reluctant to pursue substantial political and economic reforms. Focused primarily on retaining power and wealth, they view genuine reforms as a significant threat to these objectives. The government's imitation of political dialogue with political parties, efforts to replace independent civil society with government-sponsored NGOs, and continued suppression of independent media demonstrate their faith in simulation as a means of preventing true political reform.

However, for Azerbaijan to achieve lasting stability and sustainable development, it must undertake extensive political, economic and legal reforms, and it must work toward comprehensive peace with Armenia. The nation's future and long-term prospects hinge on political liberalization, greater flexibility in negotiating with the European Union, and a substantial shift toward economic liberalization. Institutional and structural reforms, coupled with adherence to the rule of law, are essential to healthy economic development.

Half-hearted measures will yield only limited results. To combat high-level corruption effectively, promote market reforms and expedite economic diversification, the government must act decisively. Azerbaijan should also finalize its negotiations to join the World Trade Organization, which would facilitate a healthy integration into the global economy and attract foreign direct investment.

Engaging in genuine dialogue with Armenian society is crucial, and resorting to peace enforcement tactics with Armenia is unlikely to foster lasting regional stability. Azerbaijan's leadership should actively leverage opportunities provided by Western partners to secure a comprehensive and enduring solution to the Karabakh conflict.