I. BRIEF SUMMARY

Assessment of in-country situation. The overall situation in the country, including the economic status, is generally characterized as positive. Nevertheless, every third businessman, being unsatisfied with the situation in general, and with the economic conditions in particular, would move his/her business to a country with a more favourable business climate. This trend is quite widespread, and it calls for more sequential and proactive state policy, as well as social support, to protect the interests of the private sector. This particularly refers to the priority of the development of non-petroleum sector, set out by the government. A fact that signals the presence of numerous problems is that more than a third (35.51%) of respondents in Baku, the most representative group of businessmen who determine the business climate in the country, stated that they would readily act on an opportunity to relocate business to a different country.

Business climate dynamics. Expectations of respondents towards the outlook of economic development are positive. The share of optimists exceeds by a factor of seven those who predict a deterioration of the country's economic situation. It is interesting that two years ago the number of optimists in all groups of the population participating in the poll exceeded the number of pessimists only four-fold. This current optimism is most likely, as before, caused by the positive dynamics of economic development recently observed in the country and particularly in the capital city of Baku. Economic development has been triggered by favourable world prices for oil, and additionally by the commissioning of the Baku-Tbilisi-Ceyhan pipeline. Positive expectations held by the population in the provinces are most likely the result of promises and some actions of the government pertaining to the creation of jobs and development of the country's regions. The survey implicitly shows that measures taken by the government over the last few years have not gone unnoticed among businessmen. However, the efforts undertaken to improve the business environment have not yet yielded substantial results. Furthermore, the improvement is demonstrated unequally in various sectors.

Assessment of own living standards. The majority of businessmen assess their living standards as rather high. However, differing from the developed countries, entrepreneurship in Azerbaijan does not guarantee achievement of the highest material status.

Priority problems of the country. Unlike the previous poll, in which all groups of population participated, this survey shows representatives of business circles unconcerned with the problem of unemployment and without need for social security from the state. Resolution of the conflict over Karabakh is cited as the most important among other problems. This is the opinion of almost half of the respondent businessmen. However, non-resolution of this problem is viewed as a political rather than economic problem, given that almost none of the respondents observe a direct link between the resolution of conflict and reduction of corruption. On the other side, businessmen have not attached much importance to the issue of efficient and targeted allocation of oil revenues, improvement of the business environment and development of infrastructure, which indicates, most likely, that the respondent businessmen do not have a broad-minded political and economic outlook.

Understanding of corruption. Results of the poll conducted two years ago indicated that citizens largely understood corruption as bribery. This year's survey indicates that representatives of business circles, confront other forms of corruption in addition to bribery, for example: abuse of power, non-compliance with laws, and the use of public funds for personal gain. Nonetheless, participants of neither poll view gifts as a form of corruption.

Assessment of corruption level. The effect of the efforts taken by the government and civil society to reduce corruption is obvious. However, corruption perception is still very high.

Attitudes towards corruption. There is a substantial gap between the assessment of the level of perception and non-acceptance of corruption, which demonstrates that a certain part of business sector representatives have become accustomed to this social vice. A similar trend was observed in the general poll of citizens two years ago; however, reaction of the population was more negative than the surveyed attitudes of business people. This partially is explained by the fact that most businessmen, to a certain extent, are the beneficiaries of corrupt practices. Thus, two thirds of respondents assumed that bribes are traditional or are offered voluntarily by the bribe-giver, i.e. 'justifications' for the corruption.

Causes of corruption. Similar to the results of the 2004 survey, the first reason for corruption, according to the respondents, is corruption among the ruling elite. As a second main cause of corruption the respondents referred to low salaries in the public sector. Respondents appeared to reject the common attribution of the Soviet legacy as the main cause of corruption. Nor was significant credit was given to the argument of moral degradation in society and a lack of trust in God, a response similar to the previous poll. In fact, during the previous poll the respondents from the category of ordinary citizens assumed that in our country with inherent corruption private sector is weak as such, and therefore is not the cause but rather the consequence of corruption. But in the last poll the representatives of business sector ranked this reason as more significant, which is evidence that the private sector believes in its power to contribute in a meaningful way to reducing corruption in the country.

Among other causes are imperfection of the legislation, low awareness of the subjects of legal application, and dependence of the judiciary on the executive. Additionally, there is an understanding of the weakness of civil society in Azerbaijan, which manifests itself in a lack of societal control over the government and few free media outlets.

Distribution of corruption across the power pyramid. About half of the respondents estimate corruption as spread equally across all levels of the power pyramid. Whereas others observe that at higher levels corruption is more common than among low-level bureaucrats.

Dynamics of corruption rates over the last 3 years. As regards dynamics of the level of corruption perception for the last three years, the respondents demonstrated careful, measured optimism. About one fourth of all the respondents indicated respect for the economic policy reforms and creation of legislative and institutional basis to combat corruption, while highlighting the changes in the manpower policy conducted by the state. Involvement of civil society and media is valued much less, which indicates the insufficiency of efforts in this direction. Nevertheless, some number of respondents, by their own initiative, qualified the situation as an actual stimulation of corruption and a lack of systemic fight against it. Lack of progress in the democratization of society is also considered to be an important factor.

The business community observes certain progress in economic reform policy. At the same time, there is a prevailing, sceptical attitude about the capabilities of non-governmental organizations to exert influence in setting the public agenda and discourse.

Outlook for fighting corruption in Azerbaijan. Among the respondents there is a slight prevalence of optimists over pessimists. This fact can be interpreted as positive assessment of the measures recently undertaken by the government to establish the legislative and institutional basis to combat corruption, as well as an expression of public demand for strengthening of actions aimed at fighting corruption.

Legislative and institutional basis for fighting corruption. Most of businessmen are aware that the State Anti-corruption Commission was established and relevant legislation was adopted. However, only about half of respondents were aware of the establishment of the Anti-corruption Department within the General Prosecutor's Office of the Azerbaijan Republic and the adoption of the National Anti-corruption Program. In the context of awareness-raising among the public and mobilization of public efforts to fight corruption, the situation can not be viewed as satisfactory. In this respect the recommendation to the Department is to highlight its activities in the press, in more detail. The same recommendation should be followed by all state agencies responsible for implementation of the state anti-corruption program. Respondents are not sure how effectively and efficiently these agencies operate.

Assessment of current legislation pertaining to corruption requires special skills, which many respondents do not possess. Nevertheless, almost half of respondents assumed that it is the imperfection of laws that creates conditions for corruption. Moreover, a fifth of respondents are confident that contradictory norms create incentives for corruption, and that these were deliberately included in the legislative acts. A similar opinion was expressed by respondents in the 2004 poll.

Who should lead the fight against corruption. By and large, the assessments of businessmen are similar to those of the ordinary citizens who participated in the 2004 survey. Business representatives assess the role of business associations much higher than the non-business population, which indicates a strengthening of understanding by businessmen of their role in the country's public life. The role of other public institutions not directly linked to state power (e.g. parties, municipalities, NGOs, religious entities), was ranked rather low in comparison with the role of state agencies, even lower than in the previous survey. Some of the respondents voluntarily noted that struggle against corruption should be led by the President and people themselves (most probably through various public movements). The distribution of respondents' answers reflects the objective situation, where an effective fight against corruption is not possible unless led by the government, law enforcement agencies and personally by the head of state. Meanwhile, answers of respondents from the business sector, similar to the 2004 survey, demonstrate certain alienation of the business and public from the anti-corruption enforcement process, i.e. an obvious shift of responsibility to the authorities.

On measures for fight against corruption. Today, the representatives of the business sector are supportive of the measures from the arsenal of developed democratic states, such as implementation of reforms and provision of transparency of the public administration system, formation of independent courts, liquidation of monopolies and increase of salaries and pensions in the public sector. We can assume that businessmen are more familiar with rational methods of reducing corruption and democracy promotion than the general population. Business people are less inclined than ordinary citizens to see the public at large as a major power. The survey of 2004 indicated that although in general citizens are not prepared to resist corrupt practices, they do not encourage it either, while businessmen quite often act as initiators of corruption.

Frequency of extortions and bribes for various services, in respondents' opinion. Corruption impacts all areas of business life and penetrates areas where it should never happen, for example, even obtaining information on legislative acts, regardless of the recent adoption of the Law on Access to Information, is not bribe free, although the rate of bribery is much lower than for other services. The 'first place' for corruption is assigned by respondents to various regulating agencies controlling company implementation of various business practices. The obtaining of business licenses or various types of registration is also a very lucrative area for corruption. Local authorities and police, it appears, create various administrative impediments to "outsider companies". Customs authorities appear slightly less corrupt than tax agencies. Even the submission of reporting, which directly supports the interest of state agencies, is frequently accompanied by a bribe. Any significant business operation, whether it is purchasing, or registration of property, or court assistance, can be accompanied by a bribe.

Chances to face bribes or extortion differ depending on company size. Small companies, which constitute the bulk of all respondents, have more difficulties in setting up a business and getting a license, and obtaining relevant information. They struggle with the administrative barriers of local powers and police, regarding protection of their property and business from competitors; obtaining state or municipal orders; protecting their rights in the court; purchasing or registering property; resolving problems pertaining to export-import operations without involving bribery. On the other hand, it is easier for them to submit reports to various bodies; or resolve problems related to tax payments and other mandatory deductions, without extortions and corrupt payments.

In most cases the likelihood of facing extortion is significantly lower than chances to get service without a bribe, which means only one thing: while getting many services businessmen initiate bribes before being asked. It is particularly noticeable in receiving such services as: purchasing and registration of property; patronage of a business by a state official; import-export operations; receipt of state or municipal orders, assistance in courts; protection by law-enforcement agencies.

The main barriers for business development in the country are: poor protection of private property rights by the legislation; inefficiency of courts; excessive control and administrative barriers at the local executive offices; direct regulations and interference in business life of civil servants or their relatives; and establishment of monopolies for "insider" firms. The least frequently used methods of influence include the pressure to force the selection of the "right" suppliers or clients for the products; requests for payments to various funds established for this by the authorities (including payments for elections), which is not envisaged in under the legislation; promotion by state officials of their people to companies' top management positions.

Large businesses have better conditions for operations and survival than small companies**.** It is interesting that individual entrepreneurs are less affected by occasional, illegal actions of state authorities than small sized enterprises are, as some of them simply try to stay out of sight of state officials.

Shadow economy. It is a known fact that in the early 1990s the business environment in the country was immensely complicated due to such factors as: legislation was only being developed, ignorance of legal issues was prevalent among the businessmen, and civilized market-based relations were absent. Ultimately, this made law-abiding operations in the private sector next to impossible. As an initial hypothesis it can be assumed that around half of businessmen support the idea of amnesty of illegal capital, as current market relations in the country are more or less stable, and a certain share of the private sector is prepared to transit to the business conduct based on law and within legal framework. There is, however, concern about being penalized for the past mistakes, which would make them very vulnerable to possible sanctions by many controlling agencies. To prevent these sanctions respondents feel they have to "please" the state servicemen; amnesty could free them from this permanent risk. However, one fourth of respondents are against amnesty and the same number refused to answer this question.

It is interesting that in general companies with foreign capital are more supportive of the idea of amnesty than local companies and large enterprises support amnesty more than small ones.

Such environment in business circles prompts the necessity to organize a broad public discussion on the theme of possible amnesty of illegal capital, with opinions of all relevant parties taken into account and after consultations with international organizations and experts.

Most respondents estimate that the share of the shadow economy ranges between one and two thirds of the total volume of domestic economic activity. Most of those who were prepared to express thoughts about the size of informal payments of the private sector, assumed them to be around 10-30% of monthly profits. Interestingly enough, the same range was named by respondents who wished to answer the bloc of questions on their personal corruption experiences.

<u>Personal corruption experience</u>. Most respondents, in resolution of the problems of their companies, have either personally faced corrupt practices, or had their employees involved. The large number of those who refused to answer indicates that the issue is very sensitive to businessmen. In Azerbaijan it is sometimes difficult to see the borders between open extortion and expectation of a "gift of 'gratitude'". Nevertheless, the impression of total involvement of almost the entire, country-wide business community in corrupt practices has not been confirmed.

Respondents have noted that operating in the private sector has become easier and the level of corruption has somewhat decreased. However, the results of responses on the dynamics of the absolute volume of corrupt payments show the increase of amounts of bribes over the last three years. This contradiction is easy to reconcile, if we suppose that as the country's economy surges, private sector profits have grown, consequently, the volume of payments has increased, including corrupt payments. In such circumstances, the absolute size of payments may increase, but frequency of extortions and the total share of corrupt "payments" in the profit profile may reduce.

The biggest growth of informal payments is observed in Baku and Ganja-Kazakh regions (respondents from these regions comprise about 64% of the selection), i.e. in places with the highest concentration of the country's economic activity.

Responses of representatives of local companies, comprising the majority of all surveyed, completely comply with the above-mentioned trend.

<u>Demographic data of respondents</u>. Only 12% of the respondents, i.e. owners of small enterprises and managers of middle and large sized companies, are female, although the women constitute the majority of country's population and, respectively, of the labour force, due to mass emigration of the male population in search of employment. It is worth mentioning that Azerbaijani women do not concede to men in terms of education level. Statistical data indicates that women hold nearly half of the diplomas of higher education in the country.

Even in traditional female spheres of occupation, females do not exceed one third of all respondents. Most of women in managerial positions are employed in the utilities sector, are individual service providers, in NGOs, or working in the health and social services sector. The likelihood of females to holding leading positions is reduced significantly as the size of an enterprise grows.

There is an obvious, positive trend of active participation of the younger generations in the country's business life.

The general level of education of businessmen is high: almost all persons questioned have a professional, middle or higher educational level, which is much higher than the average level of education in the country.

Status of respondents**.** Only top managers participated in the survey, many of them are business owners. In total 200 businessmen were surveyed, 133 of them are enterprise owners, and 67 are top and middle-level managers (directors, managers, etc.).

Survey methodology and sample representation

While determining selection, we used data kindly provided by the Ministry of Economic Development and State Committee for Statistics of the Azerbaijan Republic.

One of the selection principles was the categorization of country's economy by the following sectors:

A. Agriculture, hunting, forestry
B. Fishing and fish breeding
C. Mining industry
D. Processing industry
E. Production and distribution of electrical power, gas and water
F. Construction
G. Wholesale and retail trade, repair of cars, house appliances and personal items
H. Provision of services by hotels and restaurants
I. Transport, warehousing and telecommunications
J. Financial activities
K. Operations with real estate, renting and provision of services to consumers
L. Education
M. Health and social services
N. Scientific-technical and consulting services
O. Other utility, social and individual services
P. Non-governmental organizations

With consideration of specifics of this survey, the following sectors have been excluded from the list: state administration and defence, social security; exterritorial entities and bodies.

The next important factor of the representation sample is classification of companies by type: foreign enterprises- 10, joint ventures - 5; private local enterprises- 183, and finally NGOs- 2.

The third factor was division of Azerbaijan into 11 (including Baku) economic regions. With the occupation of the Upper Karabakh and Kelbajar- Lachin economic regions, as well as potential insecurity of interview operations, these regions were excluded from the selection.

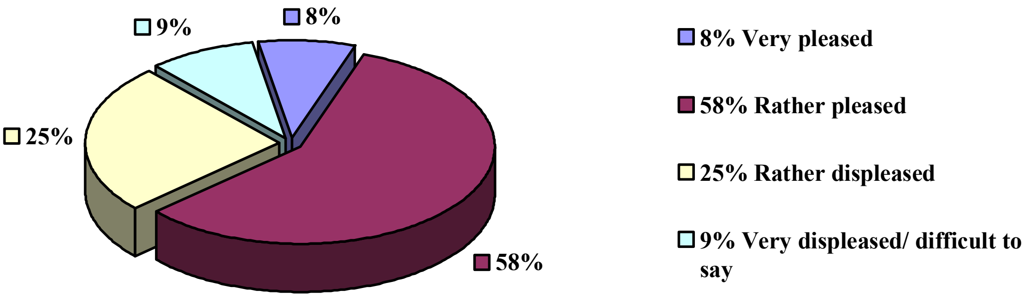
And finally, another important factor was the definition of size of enterprises. Among the surveyed 14 are large enterprises, 170 are small enterprises, and 16 are individual entrepreneurs. Preparation of the survey sample revealed that that there is no common legislative definition of middle and large enterprises in Azerbaijan.

II. ASSESSMENT OF CORRUPTION LEVEL IN THE COUNTRY

ASSESSMENT OF IN-COUNTRY SITUATION

A 1. How do you assess the current situation in Azerbaijan in general?[1]

Diagram 1

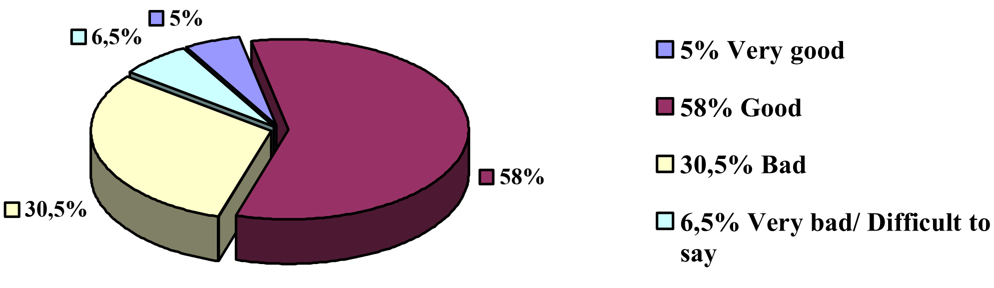


As seen from the distribution of the respondents' answers, generally the assessment of situation is seen as positive (66%). Those who are displeased make almost one third of all respondents, which is quite substantial. It should be noted that two years previously, in with poll results implemented by the Transparency Azerbaijan among the general population, those who were pleased and displeased with the general situation split almost equally, while among businessmen the ratio is 2 to 1 in favour of those who are pleased.

ASSESSMENT OF ECONOMIC SITUATION AND ITS DEVELOPMENT PERSPECTIVES

A 2. How would you assess the current economic situation in Azerbaijan?

Diagram 2



As seen from Diagram 2, the positive indication in the assessment of the economic situation is a little less expressed, as compared to the general in-country situation assessment; however, here too those who are satisfied represent the majority (63% satisfied versus 33% not satisfied). If the prevalence of positive and moderate responses can be viewed as verification of actual economic growth in the country, then, as seen from the existence of a significant number of dissatisfied persons, this process is not without its problems and difficulties.

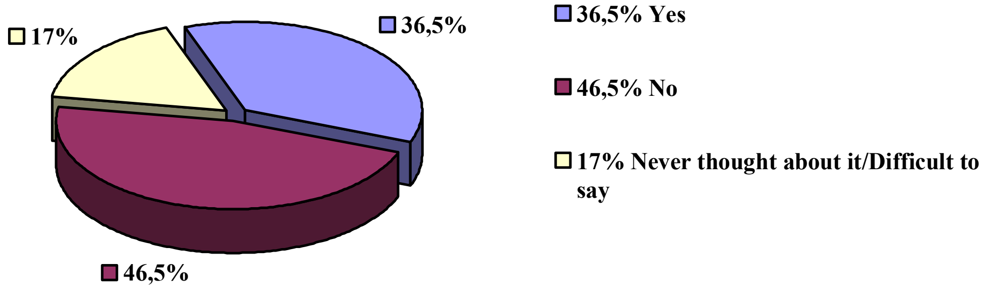
It is interesting that the highest assessment of the economic situation in the country come from respondents in Nakhichevan and Lenkoran (100% assess the situation as good or very good), followed by businessmen of Guba- Khachmas (85.71%) and Apsheron (72.73%) regions, finally the list is closed by businessmen of Aran (67.85%) economic region. Businessmen of the most

[1] Report is made on the basis of questionnaire, however, the sequence of questionnaire and the report does not always coincide.

developed and rich region - the city of Baku, as well as Ganja-Kazakh, Sheki-Zakatala and Mountainous Shirvan regions have almost equal numbers of pessimists and optimists. Almost all respondents have answered this question easily.

A 5. Could you say, please, whether you would move your business to a country with more favourable business climate, should you have the opportunity?

Diagram 3



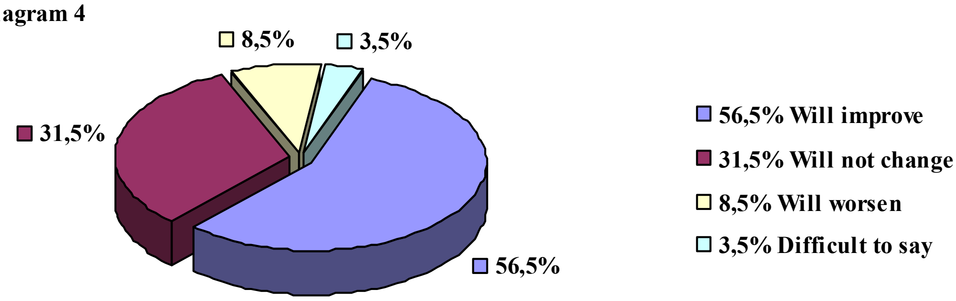
As seen from Diagram 3 above, one third of businessman, being unsatisfied with the situation in general, and with the economic conditions in particular, would move his/her business to a country with a more favourable business climate. This trend is quite widespread, and it calls for more sequential and pro-active state policy to protect the interests of private sector. This particularly refers to the priority of the development of non-petroleum sector set out by the government. It is interesting that poll of 2004 among population indicated that only 22.2% of all respondents wished to leave Azerbaijan, which can be related mostly to the absence of jobs and low living standard, which is not applicable to the business representatives (See responses to Question D8 below). This question was rather difficult and almost 17% of respondents could not answer it. This is quite understandable, as many entrepreneurs, especially from among those representing small sized businesses, do not imagine how realistic it is to transfer their business to a different country.

A fact that signals the presence of numerous problems is that more than a third (35.51%) of respondents in Baku, the most representative group of businessmen who determine the business climate in the country, stated that they would readily act on an opportunity to relocate business to a different country.

BUSINESS CLIMATE DYNAMICS

A 3. What do you think the economic situation in Azerbaijan will be a year from now? Will it improve, remain the same, or worsen?

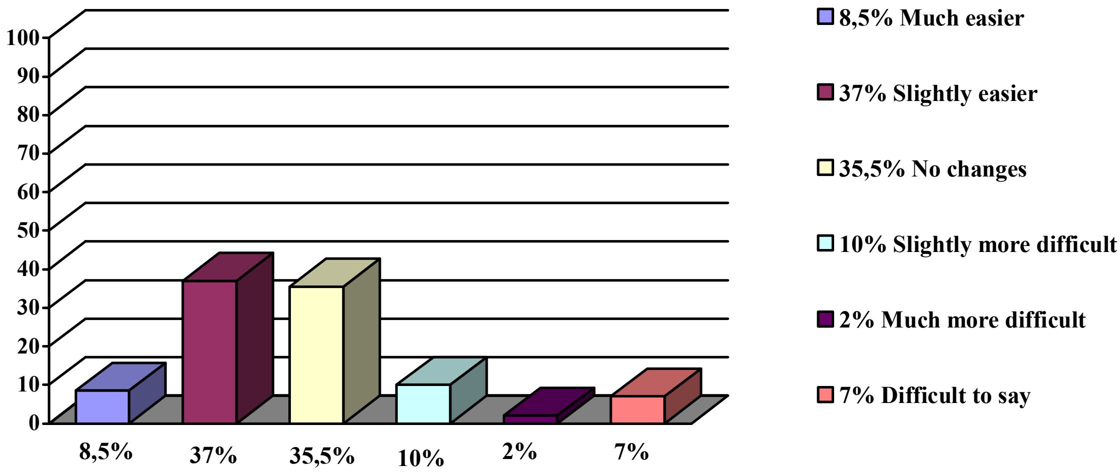
Diagram 4



Expectations of respondents with regards to the outlook of the country's economic development are rather optimistic. The share of optimists exceeds nearly by seven-fold those who predict the worsening of the economic situation. It is interesting that two years ago, the number of optimists in all groups of population participating in the poll had exceeded the number of pessimists only by four times. Such optimism most likely is fed by the positive dynamics of economic development over the recent years, and favourable world market prices, as well as commissioning of the Baku-Tbilisi-Ceyhan pipeline. A certain portion of these positive expectations of population in provinces is most likely the result of promises and some actions of government in creation of jobs and development of the country's regions.

C 10. Could you say, please, whether in your opinion the measures taken by government over last three years have changed the business climate in the country, i.e., is it easier or more difficult to operate in the private sector?

Diagram 5



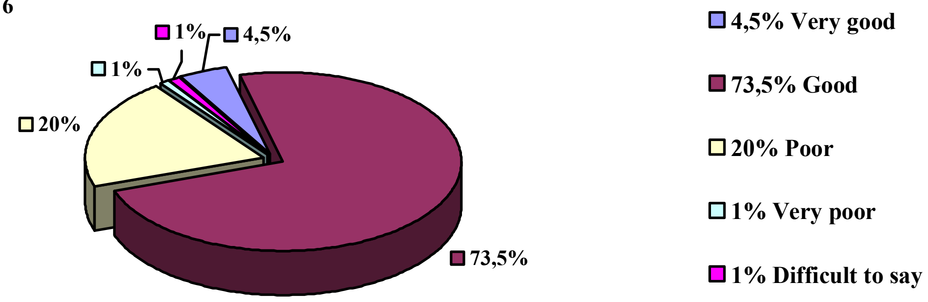
It should be noted that almost half of respondents claim that it is a little easier to operate currently, while one third do not see any changes and only every tenth think that operations have become more difficult. The surveys indirectly shows that measures taken by the government over the last few years have not escaped the notice of businessmen, however, the efforts taken have not resulted yet in quality improvement of the business climate.

In various sectors of the economy changes in the business climate appear as follows. It is easier to operate (improvement is noted by 50% of all respondents) in education, mining industry, fishery and fish breeding; health and provision of social services, agriculture, hunting and forestry. No particular changes are noted in the financial sector and in construction, which is noted by more than half of all respondents of these industries.

ASSESSMENT OF OWN LIVING STANDARDS

D 8. How would you assess your own standard of living or quality of life?

Diagram 6

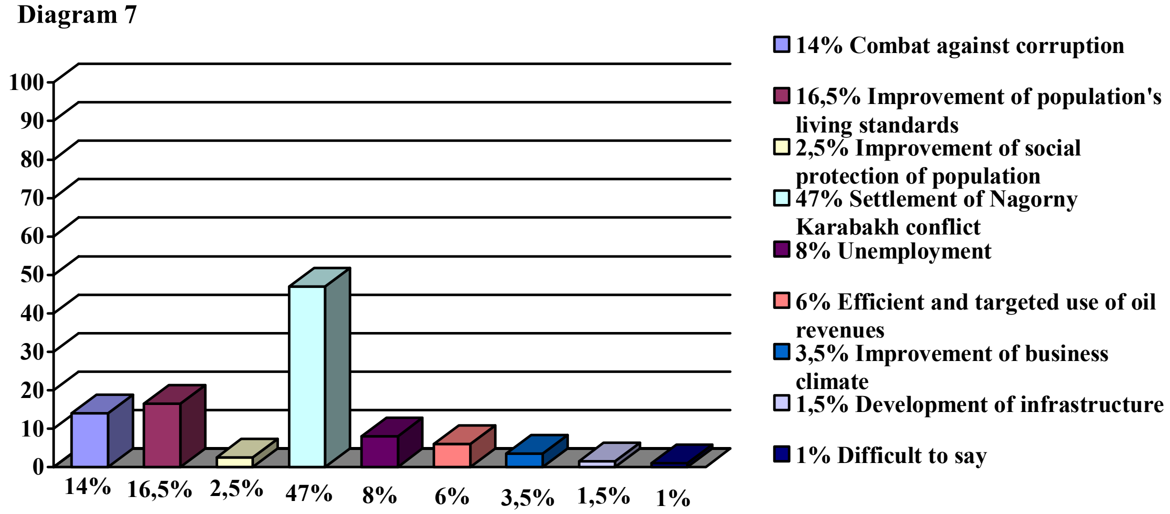


As expected, the absolute majority of businessmen assess their living standards as rather high and only one fifth consider it to be low. It should be noted that in accordance with the results of earlier polls, subjective self-assessment in Azerbaijan tends towards overestimation of living standards, as a result of comparison with the groups below the poverty level. It is interesting that only very small percentage of respondents, 4.5%, have assessed their level as very good. Thus, different from developed countries, entrepreneurship in Azerbaijan does not guarantee the achievement of highest material status.

PRIORITY PROBLEMS OF THE COUNTRY

A 7. What problem faced by the country is the most serious?

Diagram 7

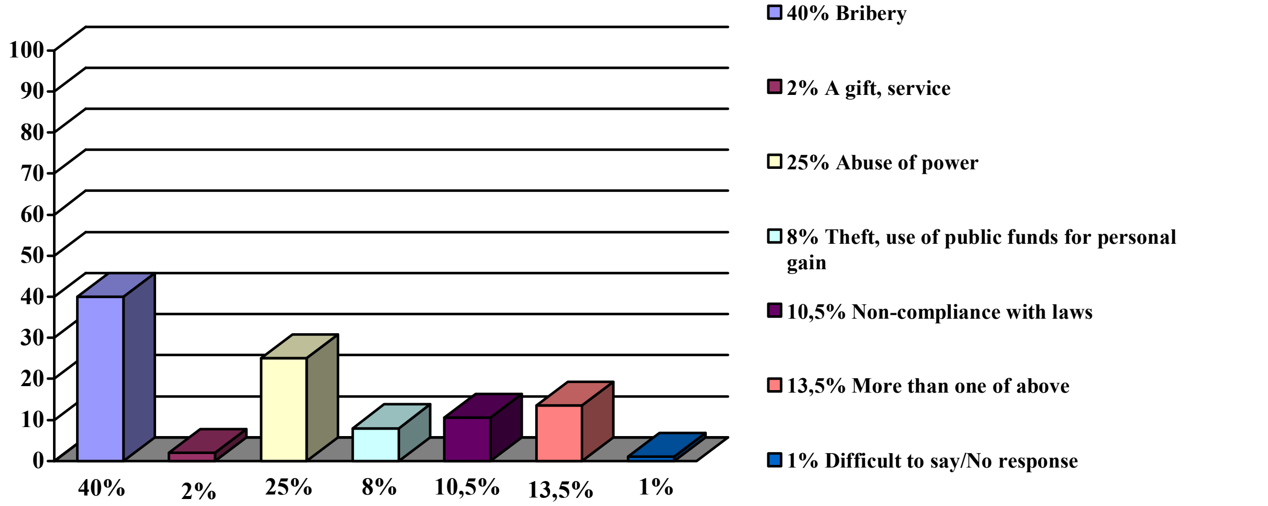


The representatives of business circles, as might have been expected, are not concerned with the problems of unemployment and social protection. Almost half of businessmen consider resolution of the conflict over Karabakh to be the most important of all of the country's problems. It should be noted that only 16.5% of the respondent businessmen attach priority to the improvement of the living standards of the population (noting that 20% of respondents have considered their living standard as low or even very low). Provided that almost one third of respondents are not satisfied with the general and, in particular, the economic situation in the country, businessmen have not attached much importance to the issue of improvement as efficient and targeted use of oil revenues, improvement of business climate and development of infrastructure.

DEFINITION OF CORRUPTION

B 1. How do you understand "corruption"?

Diagram 8



If the results of the poll conducted two years ago indicated that citizens understood corruption as exclusively bribery (three fourths of citizens said so), the representatives of business circles in addition to bribery face other forms, such as abuse of power, non-compliance with laws and use of public funds for personal gain.

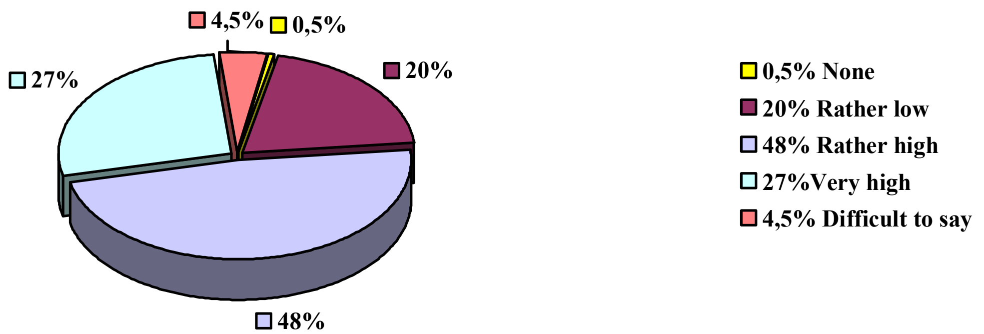
It can be assumed that two years ago the public awareness of the problem of corruption was low (with the exception of bribery and such form of corruption as pressurizing in decision making– 4.9%, and other forms have been excluded from public opinion), today businessmen have better awareness of various forms of corruption, which they face in their daily operations.

Still, a gift is not considered to be an indicator of corruption by the participants of either poll. It can be assumed that against the background of more obvious and wide scale forms of corruption, gifts are considered to be an acceptable form of expression of gratitude. Unfortunately, this notion is deeply rooted in public opinion.

ASSESSMENT OF THE LEVEL OF CORRUPTION

B 3. How do you assess the level of corruption in our country?

Diagram 9

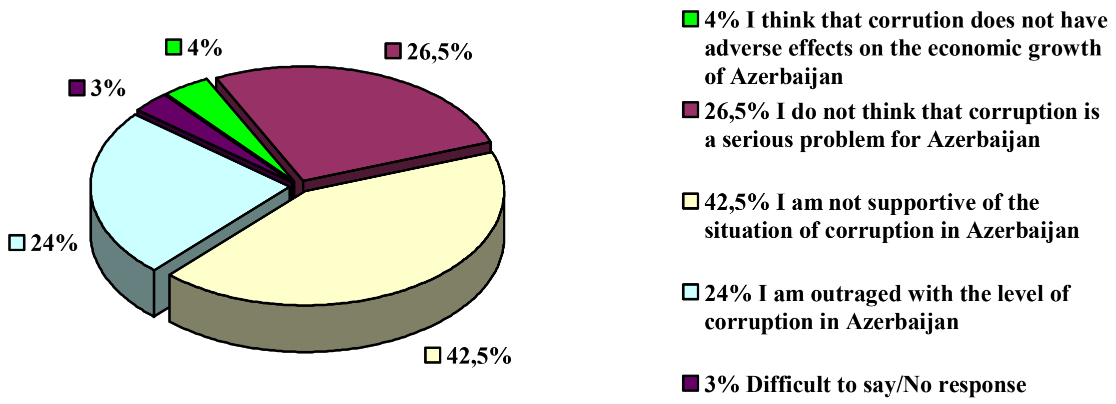


Only a minor portion of respondents had difficulties or refused to answer this question. The distribution of responses undoubtedly demonstrates that the respondents perceive the level of corruption in the country as high. Results of the 2004 survey were more negative in terms of perception of the level of corruption (86.9% against 75.0%), the effect of the efforts taken by the government and civil society to reduce the corruption is obvious.

ATTITUDE TOWARDS CORRUPTION

B 2. Which of the following statements best reflect your attitude towards corruption in general?

Diagram 10

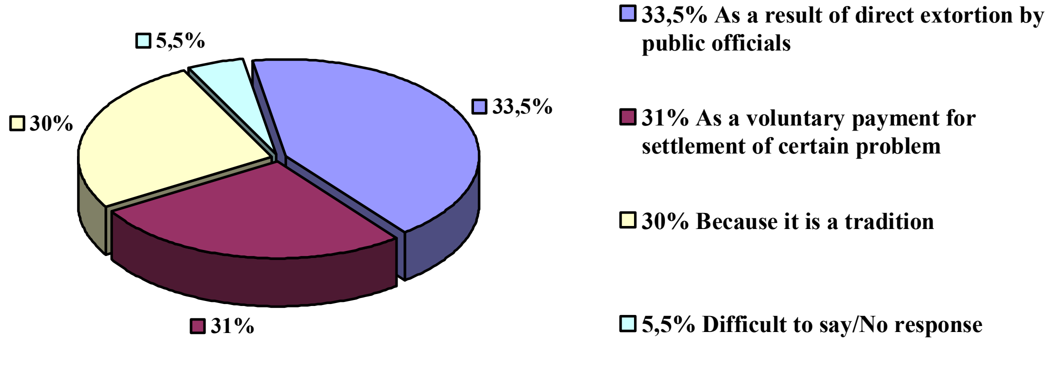


Only a minority (4%) of respondents supported the opinion that a benefit of corruption is as a "lubricating mechanism" of the inefficient system of state management. On the other hand, if during the answers to previous question only 20.5% of respondents considered the level of corruption in Azerbaijan at zero or low level, the number of those, who do not consider this to be a serious or harmful problem for Azerbaijan is much higher – 30.5%. There is a tangible gap between the assessment of the level of perception and non-acceptance of corruption, which demonstrates that a certain part of business circles have become accustomed to this social vice.

Similar trends were observed in the general poll of citizens two years ago, as well, where the relevant numbers were 8% against 13.5%. In this, the reaction of population towards this social phenomenon was more negative than attitude of business circles. This partially is explained by the fact that most businessmen, to a certain extent, are the beneficiaries of corrupt practices in the short-term, and this is indirectly confirmed by the analysis of responses to the next question.

B 5. How do people pay bribes?

Diagram 11



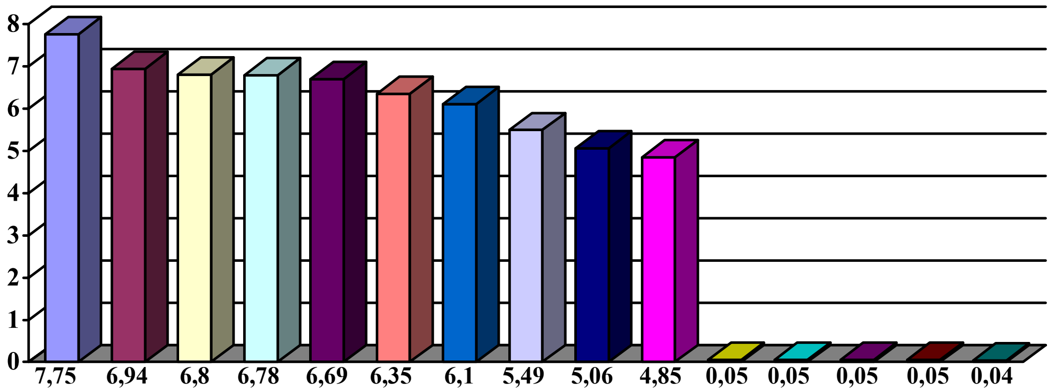
Despite general aversion to corruption, which is quite obvious from the answers to previous questions (B.2 and B.3), the distribution of responses on the issue of corruption practices indicates that bribery has become a part of normal life of the population, as well as of the representatives of business circles. Only one in every three respondents indicated that bribes are paid as a result of extortion of public officials, with two thirds indicating that bribes are traditional or voluntarily offered by bribe givers, i.e. a justification for corruption. For comparison, the results of the 2004 survey indicated that about a half of respondents considered bribery as the result of direct extortion.

CAUSES OF CORRUPTION

B 4. What are causes of corruption in our country?

Respondents were asked to assess the level of importance of each of the following causes of corruption, on a scale from 1 to 10, with 1 addressing the least and 10 addressing the most important cause. Diagram 12 provides average weighted values.

Diagram 12



7,75 - Corrupt ruling elite
6,94 - Low salary of all public employees, especially at the low level
6,8 - Dependence of courts on the executive power
6,78 - Absence of public control over the actions of state authorities
6,69 - Imperfection of legislation and low awareness of legal provisions
6,35 - Weakness of independent private sector (i.e. the private control of state power representatives over the business)
6,1 - Inefficiency of democracy and state authority institutions
5,49 - Weak independent press and television
5,06 - Morale degradation of community and lack of trust in God
4,85 - Heritage of the Soviet system
0,05 - Anarchy in the state power
0,05 - The problem of Nagorny Karabakh is not settled
0,05 - Control of situation over the corruption is assigned to the corrupt individuals
0,05 - Emigration of intelligence from the country
0,04 - Insufficient education among the population

As in 2004, the primary cause of corruption, according to the respondents, is corruption among the ruling elite. As a second main cause supporting corruption, respondents referred to low salaries of public employers. It is interesting to note that respondents from among ordinary citizens did not think this reason to be substantial enough to justify the high level of corruption.

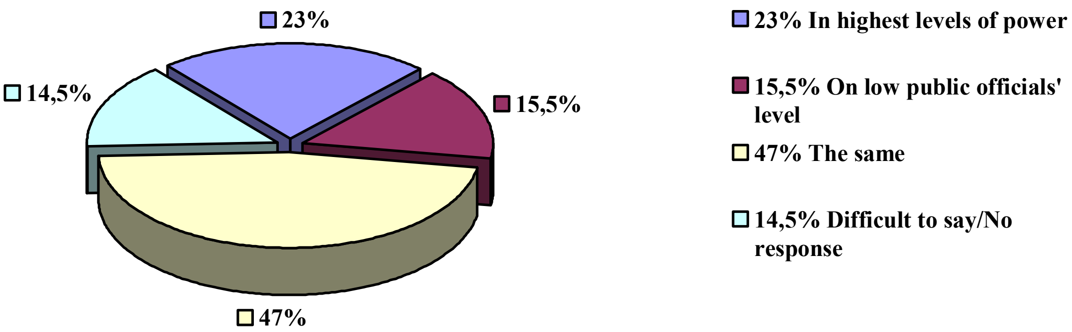
Respondents appeared to reject the common attribution of the Soviet legacy as the main cause of corruption (a low score of 4.85 was returned). Nor was significant credit was given to the argument of moral degradation in society and a lack of trust in God, a response similar to the previous poll. In fact, during the previous poll the respondents from the category of ordinary citizens assumed that in our country with inherent corruption private sector is weak as such, and therefore is not the cause but rather the consequence of corruption. But in the last poll the representatives of business sector ranked this reason as more significant (a score of 4.84), which is evidence that the private sector believes in its power to contribute in a meaningful way to reducing corruption in the country.

The remaining causes can be united into two main groups, with the first being more substantial: the imperfection of legislation and low awareness of the legal provisions, as well as dependence of justice from the executive power. Also there is an understanding of the weakness of civil society in Azerbaijan, expressed in absence of public control over the power and few independent media outlets.

DISTRIBUTION OF CORRUPTION OVER LEVELS OF THE POWER PYRAMIDE

B 6. At what level of the power pyramid has corruption spread the most?

Diagram 13



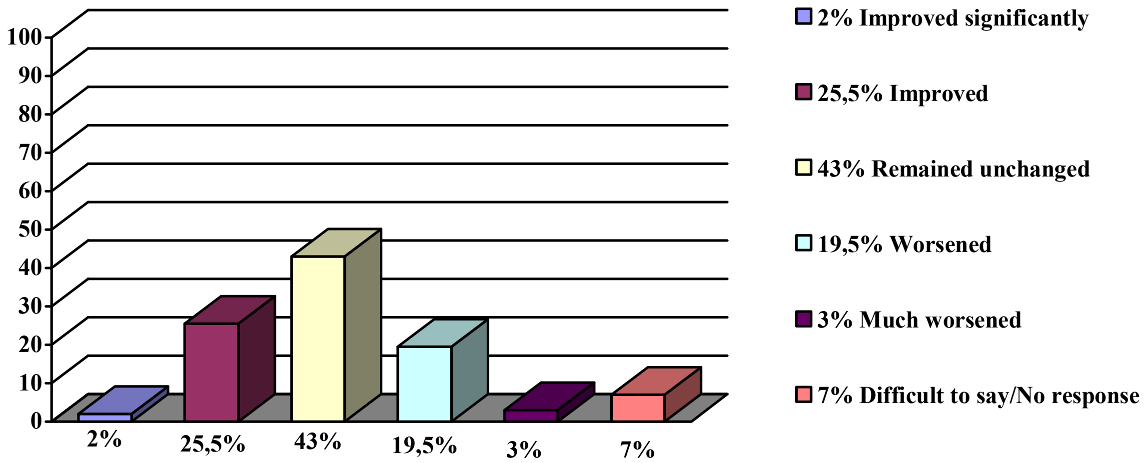
About half of respondents deem that corruption is equally spread over all levels of the power pyramid, while others note that at higher levels corruption is more common than among petty officers. This is a subjective opinion, as in their direct experiences of corruption, mid-level managers and owners of small enterprises (93% of the selection represent small sized enterprises or are individual entrepreneurs), as well as the broader population, face mainly the lower level civil servants, rather than higher ranking representatives. However, the lower level public employees extorting the bribes or gifts do not make much of a secret of the fact that the lion's share of their "collections" goes to the upper level. In all cases the opinion of respondents verifies how deeply corruption has penetrated the social relations system in Azerbaijan.

Obviously, a high percentage of respondents had difficulty in answering this question, however, considering that about 30% of respondents later indicate the absence of personal experience of corrupt relations, this is quite understandable.

DYNAMICS OF THE CORRUPTION LEVEL OVER THE LAST 3 YEARS

B 7. How have the dynamics of the corruption level in Azerbaijan changed, as compared to 10 years ago?

Diagram 14

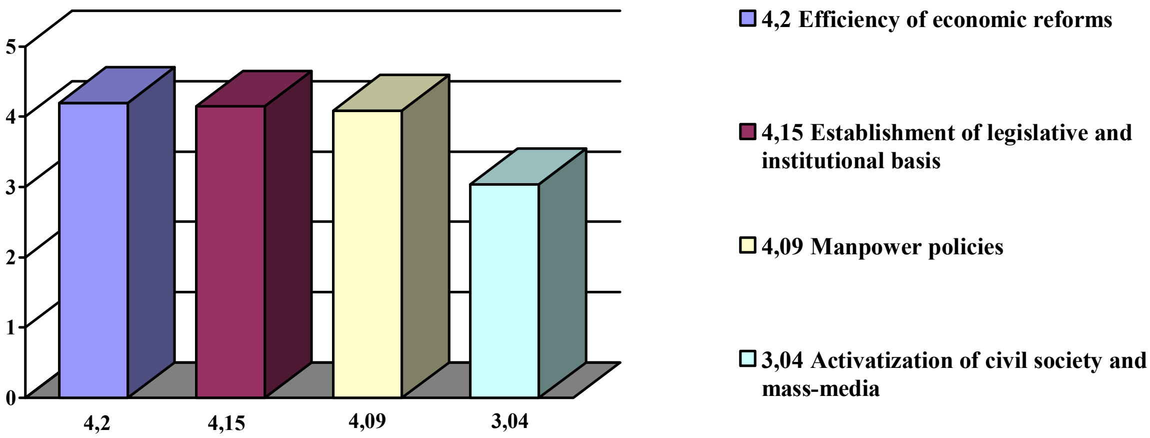


In relation to dynamics of the level of corruption perception for last three years, respondents have noted slightly positive trends. The optimists prevail over pessimists, yet, the main portion of respondents considers the situation to be without change. Such results are in line with Transparency International data, which registered a slight reduction of the level of corruption perception in Azerbaijan by investors in 2005 and 2006.

B 8. What are the reasons for the improved situation with corruption in the country, as compared to 3 years ago?

This question was given only to those respondents who answered question B7 «Improved significantly» or «Improved». Thus, 27.5% of the total number of respondents was queried, with results summed as average weighted values on a scale from 1 to 5.

Diagram 15



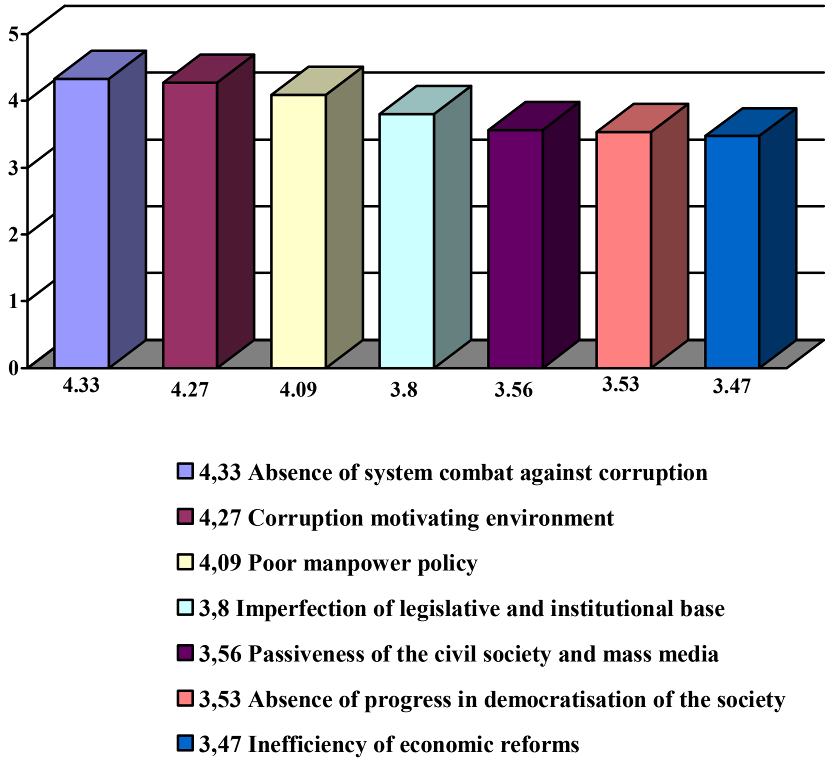
Respondents who consider the situation with corruption in country as improved, relate this primarily to the activities of the state institutions (economic reforms, improvement of legislation and changes in manpower policy), while activation of civil society and its institutions, returned a lower score.

On their own initiative about 1% of respondents mentioned such factors as the increase of wages of policemen, improvement of the taxation system, success of democratic reforms and influence of the European Council and international entities.

B 9. What is causing aggravation of the corruption problem in Azerbaijan, as compared to 3 years ago?

This question was given only to those respondents, who answered question B7 «Much worsened» or « Worsened». Thus, 22.5% of the total number of respondents were queried, with results, as noted below, summed as average weighted values on a scale from 1 to 5.

Diagram 16



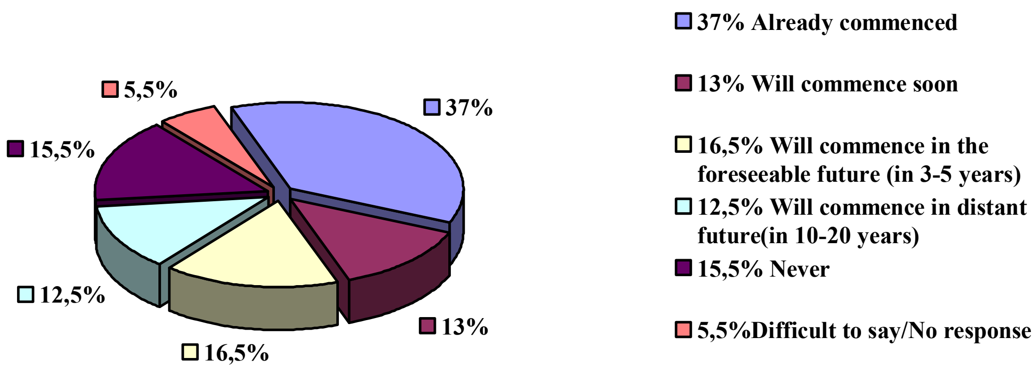
It is interesting that respondents believing in an increase of the level of corruption have qualified the situation as an actual stimulation to corruption; they noted absence of systemic struggle (against corruption), as well as absence of progress in democratization, as important factors in the growth of the level of corruption. The last three reasons were suggested by those surveyed at their own discretion.

A comparison of answers to questions B8 and B9 indicates that respondents, assuming that the level of corruption has reduced, gave the highest score (4.12), and those who deem that the level of corruption has increased, have assigned the lowest score (3.47)—to the policy of economic reforms. This allows us to draw the conclusion that the business community closely links the level of corruption with implementation of economic reforms. A similar correlation is observed in assessment by respondent businessmen of the legislative and institutional basis for combating corruption. Simultaneously, there is a prevailing, sceptical attitude of the capabilities of non-government organizations to influence important public processes.

OUTLOOKS FOR STRUGGLE WITH CORRUPTION IN AZERBAIJAN

B 11. What is the outlook for combat against corruption in Azerbaijan, i.e. when it will commence?

Diagram 17



Among respondents the number of optimists, ie those who deem that the fight against corruption has already commenced, will commence soon or within the next 3-5 years, exceeds by a factor of two the number of pessimists, who do not trust it will ever happen or deem that it will commence in the distant future. That optimists outweigh the number of pessimists can be interpreted as an expression of high expectations of the respondents, who give positive evaluation of the measures taken recently by government to establish the legislative and institutional basis. However, most likely, this optimism is fed by the growing understanding by business circles that the actual fight against corruption cannot be postponed any longer. It should be noted that during the survey of 2004 the optimists also had a numerical advantage (although less expressed) over the pessimists, which is an expression of public demand for strengthening of actions directed to combating corruption.

LEGISLATIVE AND INSTITUTIONAL BASIS FOR COMBATING CORRUPTION

B 12. Are you aware of establishment in the country of legislative and institutional basis to combat against corruption?

Diagram 18A

Adoption of Law on Struggle with Corruption

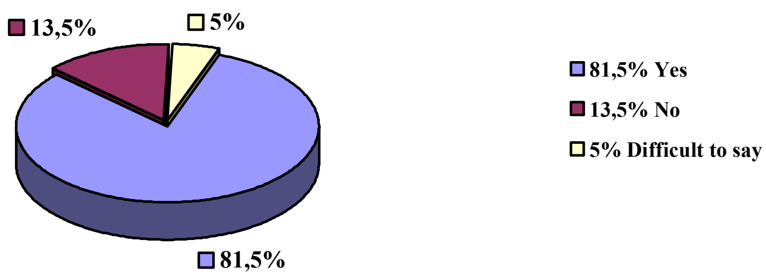


Diagram 18 B

Adoption of the National Program on Struggle with Corruption

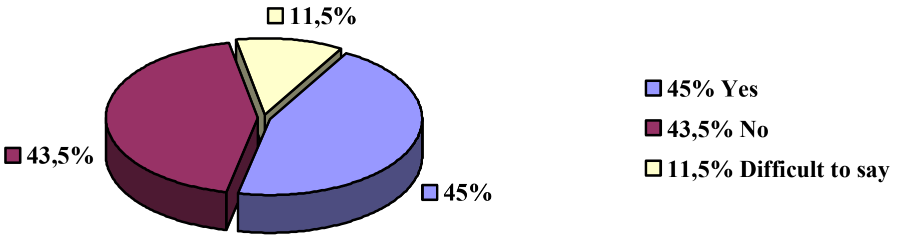


Diagram 18 C

Creation of State Commission on Struggle with Corruption

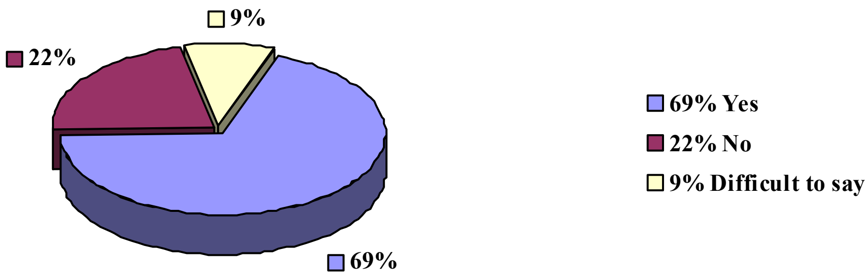
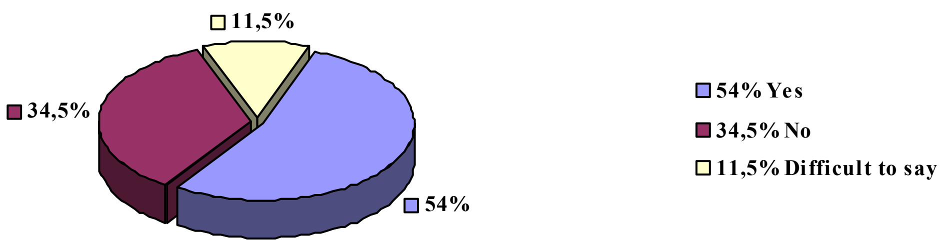


Diagram 18 D

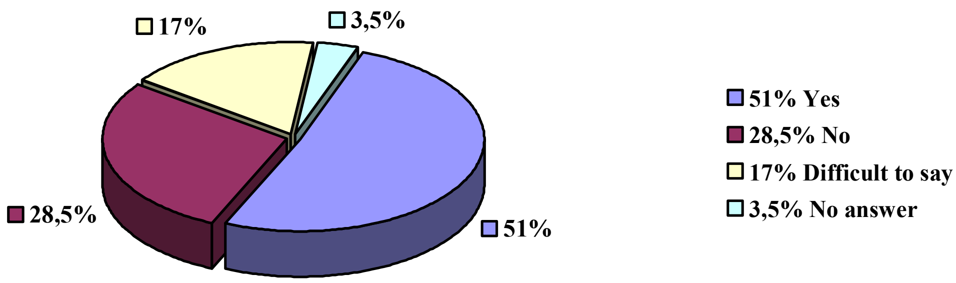
Creation of Corruption Enforcement Division by the General Prosecutor's Office of the Azerbaijan Republic



The distribution of answers by businessmen respondents indicates that businessmen are quite well aware of the adoption by the Milli Mejlis of the Law on Combating Corruption. By comparison, in 2004 slightly more than half of respondents from the general population were aware of this Law. The majority of questioned businessmen also knew about the establishment of both the State Anti-corruption Commission and Anti-corruption Department at the General Prosecutor's Office of the Azerbaijan Republic. A little less than half of respondents were aware of the adoption of the National Program on Combating Corruption. A significant number of respondents had difficulty answering this question, which can be explained by the fact that all the above structures were established simultaneously and most respondents do not remember clearly about which institutions they have learned.

B 13. Do you think that the above mentioned structures will improve the situation with corruption in the country?

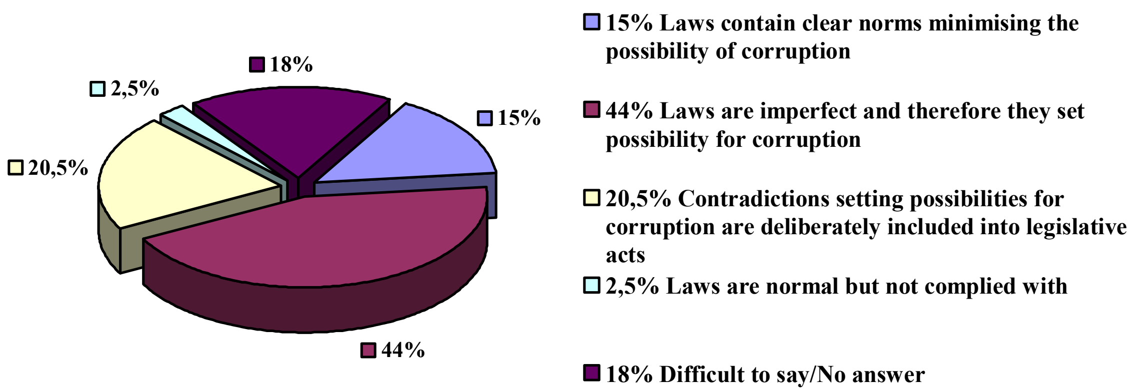
Diagram 19



As is observed from the distribution of answers, almost half of respondents hope for that the structures will effectively combat corruption. The fact that almost a fifth of the questioned had difficulty in answering the question is not a surprise, as the relevant structures have not yet started their activities to their full scope.

B 10. How do legislation and corruption in our country interrelate?

Diagram 20



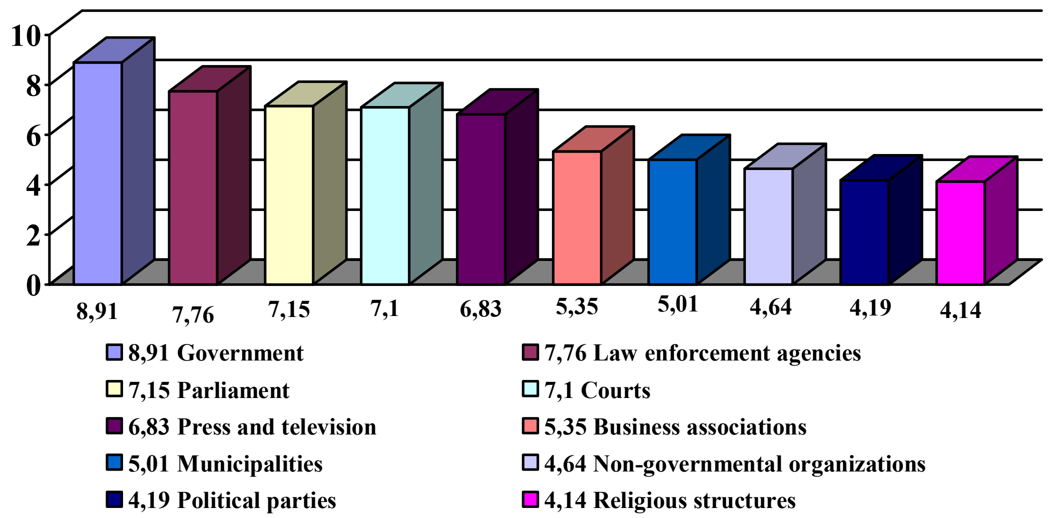
As seen from Diagram 20, this question put respondents in a quandary. Assessment of current legislation for its correlation to corruption requires special knowledge, which many respondents do not possess, even at the minimum level. It is not a surprise that 18% of respondents (14.6% during population poll of 2004) had difficulty or avoided answering this question. Nevertheless, almost half of respondents have assumed that imperfection of laws sets the stage for corruption, while a fifth is certain that contradicting norms, setting possibilities for corruption, are deliberately included into legislative acts.

WHO SHALL LEAD THE STRUGGLE AGAINST CORRUPTION?

B 14. What structures shall lead the fight against corruption?

Respondents were asked to assess the role to be played by the most important state and public institutions in regards to fighting corruption, on a scale from 1 to 10, where 1 is the least and 10 the most important role. Average weighted scores are provided in Diagram 21.

Diagram 21



The question evoked animated discussion by the respondents and none attempted to avoid answering. The absolute majority of respondents gives the primary role in the fight against corruption to the government, followed by law enforcement agencies. The Parliament, as a legislative body of the state, and simultaneously representing the public will, is staged at the same level with courts, and also very high. It is interesting to note that mass-media is a bit behind. By and large, businessmen assessments are similar to those of the ordinary citizens who participated in the 2004 survey.

Representatives of business circles give an average assessment to the potential of business associations in combat against corruption. The role of other public institutions not directly linked to state power (e.g. parties, municipalities, NGOs, religious entities), was ranked rather low in comparison with the role of state agencies.

Some of the respondents voluntarily noted that the struggle against corruption should be led by the President and the people themselves (most probably, by various public movements). Respondents also added foreign states, elders' councils, social research centres and Ministry of National Security to the list of active fighters against corruption. The distribution of respondents' answers reflects the objective situation, where an effective fight against corruption is not possible unless led by the government, law enforcement agencies and personally by the head of state.

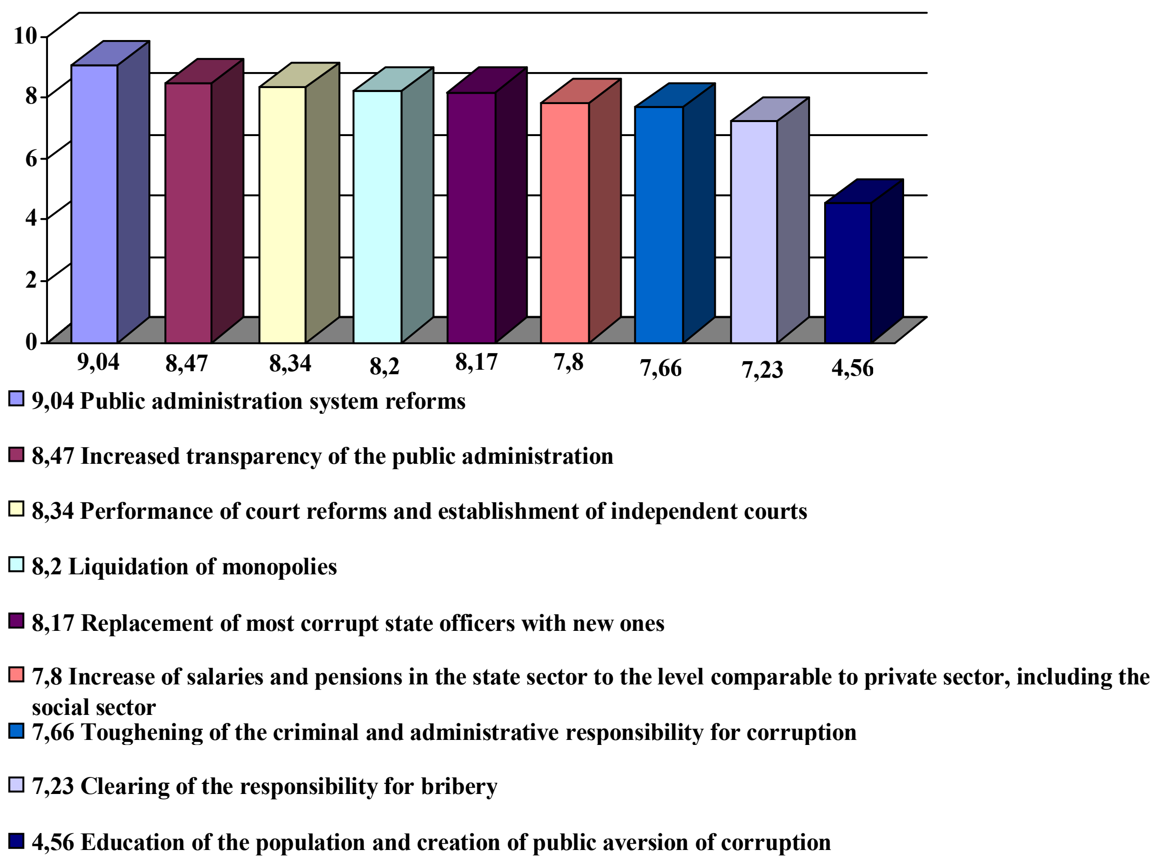
Meanwhile, answers of respondents from business sector, similar to the 2004 survey, demonstrate certain alienation of the business and public from the anti-corruption enforcement process, i.e. an obvious shift of responsibility to the authorities.

ON MEASURES OF FIGHTING AGAINST CORRUPTION

B 15. Which measures, in your opinion, can significantly improve the situation with corruption in the country?

Respondents were asked to assess, by the level of importance, each of the following measures of fighting corruption, on a scale from 1 to 10, with 1 being the least and 10 being the most important measure. Responses are provided in average weighted values.

Diagram 22



This question also raised the interest of respondents (none avoided answering). All suggested measures enjoyed a high level of support. The underestimation of public education and creation of an atmosphere of aversion to corruption most likely results from understanding of Azerbaijan realities, where the public is powerless in its efforts to struggle against corruption, unless supported by the authorities.

Representatives of business circles deem that release from liability for bribes given will not significantly influence the reduction of the level of corruption, assessing this at 7.23 points, meanwhile, they deem that administrative and criminal punishment shall be more strictly effective.

III. FREQUENCY OF EXTORTIONS AND BRIBERY IN RECEIVING OF VARIOUS SERVICES IN RESPONDENTS' OPINIONS

C 1 How often does a company like yours, in your opinion, face the bribery, corruption in various situations of routine operations, specified below?

Questions C1 and C2 reveal the public perception of the level of corruption of various structures, whose services are listed below.

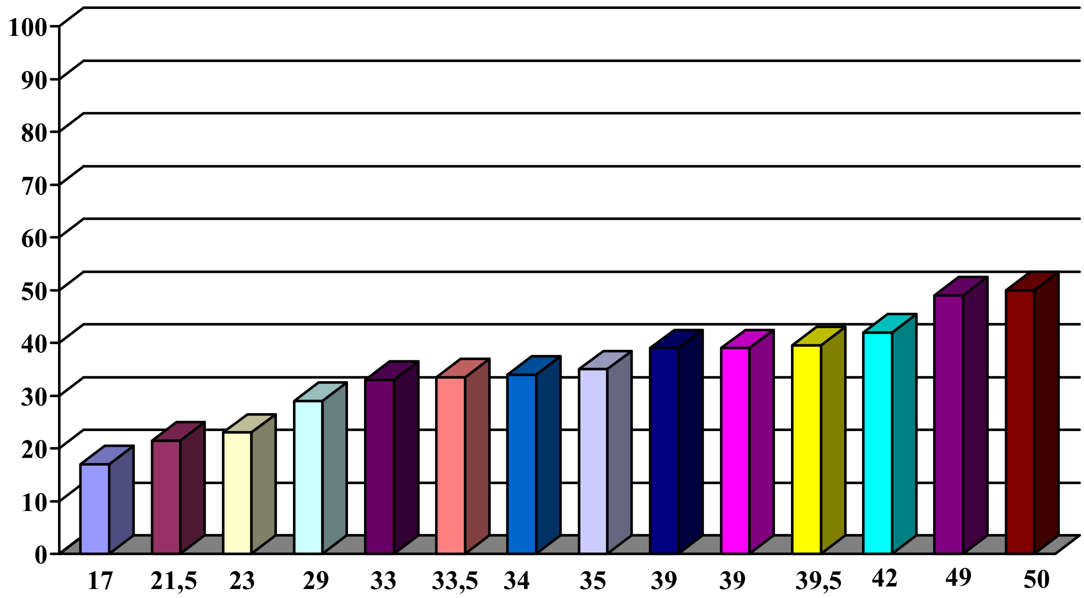
Table 1

TYPES OF SERVICES	Never	Seldom	From time to time	Quite often	Very often	Difficult to say/ No answer
To set up a new business, to obtain a license, to register a business with various entities	17	20.5	26	22.5	9	5
To overcome administrative barriers of local authorities and police	23	13.5	33	14	10	6.5
To receive relevant information (on new legislative acts, statutes, resolutions)	50	17.5	17	8	2	5.5
To mitigate the requirements of audits by regulatory authorities (fire security, sanitary and epidemiology, etc.)	21.5	14.5	29.5	18.5	12.5	3.5
To protect property and business from competitors	39	17	20.5	7.5	5	11
To resolve the issue of submission of reporting (to various control authorities)	33	18	24	13	5	7
To receive the state or municipal orders	49	13.5	8.5	9	3.5	16.5
To get the required court decision	34	18.5	18.5	10.5	8.5	10
To purchase or register the property, including via privatization auctions	29	22	16	17	6.5	9.5
To ensure patronage for a business by a state official	39	17	17.5	7.5	5	14
To provide the approval of required legislative decision	42	13	19	7	4	15
Resolve problems related with import and export operations	33.5	10.5	18	11.5	10	16.5
To get protection for the business from law enforcement agencies	39.5	17	14.5	10	4	15
To resolve problems with payment of taxes and other mandatory payments	35	16	24	9.5	10	5.5

Diagram 23 below demonstrates the descending of answers "never" to question C1, depending on a type of a service required. Thus, from left to right as the bar level rises, the possibility of facing extortion for the identified services is reduced.

Companies are not facing the corruption in various situations

Diagram 23



17% - Licensing or registration of a new business
21,5% - Audits by regulatory authorities
23% - Overcoming the admin. barriers
29% - Purchasing and registration of property
33% - Submission of reports to control authorities
33,5% - Import and export operations
34% - Court assistance
35% - Tax payments
39% - Protection of business from competitors
39% - Patronage of business by state officials
39,5% - Protection from law enforcement agencies
42% - Provision of required legislative decision
49% - Receipt of state or municipal order
50% - Obtaining of information

The frequency extortion is assessed on a scale of «from time to time, often and very often». As seen from the responses, corruption impacts all areas of business life and has penetrated the areas where it should never happen, for example, even obtaining information on legislative acts, regardless of the recent adoption of the Law on Access to Information, is bribe free only half the time. The highest frequency of corruption is assigned by respondents to various regulating agencies controlling implementation by companies of various business practices. Obtaining of licenses by business or registration with various instances is also a very lucrative area for corrupt civil servants. Local authorities and police, as it appears, create various administrative impediments to "outsider companies". Customs authorities appear slightly less corrupt than tax agencies. Even submission of reporting, which is in the direct interest of state agencies, is frequently accompanied by a bribe. Any significant business operations, whether it be purchasing, or registration of property, or court assistance in two thirds of instances can be accompanied by a bribe.

C 2. In your opinion, can assistance or service be obtained from the below listed structures without bribing?

If question C1 of the questionnaire was designed to reveal how often, in respondents' opinions, bribes are extorted when receiving various services, question C2 was intended to identify how realistic it is to obtain services without corrupt payments, i.e. to resist the extortion.

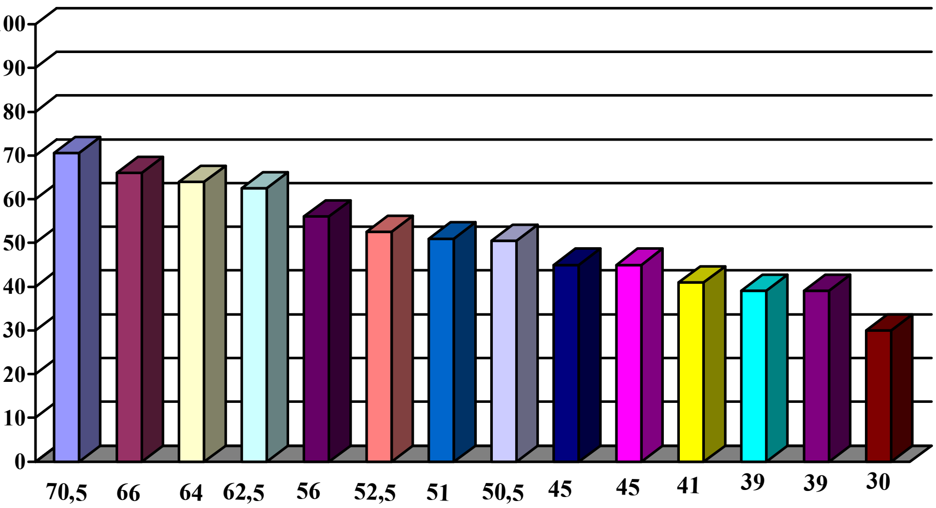
Table 2

	TYPES OF SERVICES	Yes	No	Difficult to say/ No answer
1	To set up a new business, to obtain a license, to register a business with various entities	25	70.5	4.5
2	To overcome administrative barriers of local authorities and police	23.5	66	10.5
3	To receive relevant information (on new legislative acts, statutes, resolutions)	63	30	7
4	To set up a new business, to obtain a license, to register a business with various entities	33	62.5	4.5
5	To protect property and business from competitors	48	39	13
6	To resolve the issue of submission of reporting (to various control authorities)	46.5	45	8.5
7	To receive the state or municipal orders	38	41	21
8	To get the required court decision	32	56	11.5
9	To purchase or register the property, including via privatization auctions	25	64	13
10	To ensure patronage for a business by a state official	25.5	51	24
11	To provide the approval of required legislative decision	38	39	23
12	Resolve problems related with import and export operations	25	52.5	22.5
13	To get protection for the business from law enforcement agencies	29.5	45	25.5
14	To resolve problems with payment of taxes and other mandatory payments	42.2	50.5	7

Diagram 24 below demonstrates descending distribution of responses "No" to the question C2 above, depending on the type of service required. Thus, from left to right with reduction of the level of the bar, the possibility to face corruption in obtaining a service also decreases.

Impossible to obtain a service required without a bribe

Diagram 24



70.5% - Licensing or registration of a new business
66% - Overcoming the admin. Barriers from local powers and police
64% - Purchasing and registration of property
62.5% - Audits by regulatory authorities
56% - Court assistance
52.5% - Import and export operations
51% - Patronage of business by state officials
50.5% - Tax payments
45% - Protection from law enforcement agencies
45% - Submission of reports to control authorities
41% - Receipt of state or municipal order
39% - Provision of required legislative decision
39% - Protection of business from competitors
30% - Obtaining of information

Distribution of respondent answers indicates that in most of instances, it is difficult to obtain a required service without a bribe. Similar to answers to question C1, here such services as obtaining of a license or registration of new business, overcoming of administrative barriers from local powers and police, as well as inspections (by fire department, sanitary and epidemiology station etc.) lead the list.

Comparison of answers to questions C1 (extortion) and C2 (possibility to obtain a service without a bribe) provides a depressing picture. In most cases the chance of encountering extortion is significantly lower than the possibility of getting serviced without a bribe, which means only one thing: while getting many services businessmen initiate bribes before being asked. It is particularly noticeable in receiving such services, as purchasing and registration of property; patronage of a business by a state official, import-export operations; receipt of state or municipal orders, assistance in courts, protection by law-enforcement agencies.

Chances to face a bribe extortion differ depending on the company size. The table below summarizing the response “No, it is impossible to obtain a service required without a bribe”, broken down by the size of respondent companies. Numbers in the first row are in line with the order number of service in the Table 2 above.

Impossible to obtain a service required without a bribe

Table 3

Type of enterprise	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Average weighted
Large enterprise	42.86	71.43	14.29	57.14	14.29	42.86	28.57	21.43	35.71	35.71	14.29	35.71	42.86	57/14	60.20
Small enterprise	72.35	65.88	32.35	63.53	38.82	45.88	43.53	59.41	66.47	53.53	40.59	52.94	44.71	52.35	38.19
Individual entrepreneurs	75.00	62.50	18.75	56.25	62.50	37.50	25.00	50.00	62.50	37.50	43.75	62.50	50.00	25.00	43.30

Small companies, which constitute the bulk of all respondents (85% of all respondents), have more difficulties to set up a business, or get a license; obtain relevant information; struggle with administrative barriers of local powers and police; protect their property and business from competitors; obtain state or municipal orders; protect their rights in the court; purchase or register property, resolve problems pertaining to export-import operations without bribery involved. On the other side, it is easier for them to submit reports to various bodies or resolve problems, related to tax payments and other mandatory deductions, without extortions and corrupt payments.

C 9. Indicate please, whether the following actions of official authorities disturb your business?

The table below summarizes answers of respondents in assessing actions of state authorities from the point of view of their negative impact on business climate.

Table 4

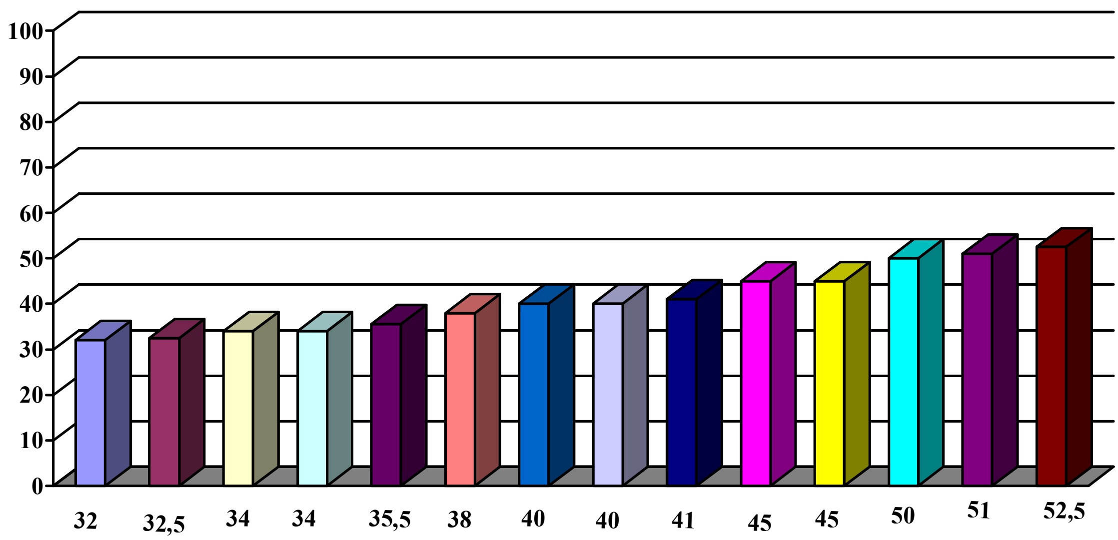
	AUTHORITY ACTIONS	Yes, very disturbing	Yes, disturbing	Almost no disturbance	D/S, N/A
1	Excessive control and administrative barriers	11	52.5	33.5	3
2	Free interpretation of licensing rules	8	41.5	38	12.5
3	Setting of tax and other privileges for some firms close to certain officials	11.5	41.5	41	6
4	Actual participation of high level public officials in management of companies with state or municipal shares	13.5	36	40	10.5
5	Establishment of artificial monopolies for “own” firms	18	38.5	34	9.5
6	Poor protection of private property rights by legislation	15	46	32	7
7	Poor performance of courts	16.5	39.5	35.5	8.5
8	Requests for payments to various funds set by authorities (including elections), not stipulated under legislation	14.5	23.5	51	11
9	Promotion by officials of their men to management of companies	12	27.5	52.5	8

10	Protection of "insider" or controlled firms	14.5	36.5	40	9
11	Private business in regions is managed by public officials or their relatives	20	38	34	8
12	Pressure to enforce the selection of "right" suppliers or customers for products	13	30.5	50	6.5
13	Power bodies (including law enforcement agencies) promote their protection or patronage to business	8	34	45	13
14	Use of various regulatory authorities and inspections to exercise pressure on independent firms	8	34	45	13

Diagram 25 below assesses the actions of state authorities from the point of view of their influence on business climate. In other words, from left to right with increase of the height of bars, the level of negative impact of various actions of state authorities reduces.

Actions of state authorities practically DO NOT disturb the business

Diagram 25



32% - Poor protection of private property by legislation
32.5% - Excessive control and administrative barriers
34% - Private business in regions is managed by officials or their relatives
34% - Establishment of artificial monopolies for insider firms
35.5% - Poor performance of courts
38% - Free interpretation of licensing rules
40% - Protection of insider or controlled firms
40% - Actual participation of high level officials in management of companies with state or municipal shares
41% - Setting of tax and relevant privileges for some firms close to certain officials
45% - Power bodies (including law enforcement agencies) promote their protection or patronage to business
45% - Use of various regulatory authorities and inspections to exercise pressure on independent firms
50% - Pressure to enforce the selection of "right" suppliers or customers for products
51% - Requests for payments to various funds set by authorities (including elections), not stipulated under legislation
52.5% - Promotion by officials of their men to management of companies

As seen from the responses, the main barriers for business development in the country are: poor protection of property rights by the legislation; inefficiency of courts, excessive control and administrative barriers at the local executive offices; direct regulations and interference in business life of civil servants or their relatives; establishment of monopolies for "insider" firms. The least frequently used methods of influence are: the pressure to force the selection of the "right" suppliers or clients for products; requests for payments to various funds established for this by the authorities (including payments for elections), which is not envisaged in under the legislation; promotion by state officials of their people to companies' top management positions.

The size of an enterprise, to a certain extent, affects the chances of authorities to set barriers for the business. Table 5 below summarizes the answers regarding those that "Practically do not disturb", broken down by the size of questioned enterprises. The numbers in the first row relate to the order number of actions set in Table 4 above.

Table 5

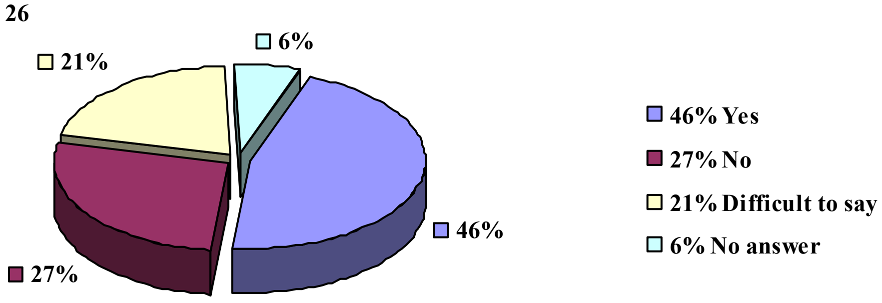
Type of enterprise	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**Average weighted**
Large enterprise	45.14	64/29	57.14	57.14	64.29	71.43	42.86	57.14	64.29	71.43	50.00	64.29	64.29	57.14	60.20
Small enterprise	31.76	37.65	39.41	39.41	30.00	27.65	35.29	50.00	51.18	35.29	31.18	48.82	43.53	52.35	38.19
Individual entrepreneurs	31.25	18.75	43.75	31.25	50.00	43.75	31.25	56.25	56.25	62.50	50.00	50.00	43.75	37.50	43.30

From the entire block of questions regarding relations between business and power we can draw a conclusion: large businesses have better conditions for operations and survival than small sized companies**.** It is easier for large businesses to operate and survive than for their smaller counterparts. It is interesting that individual entrepreneurs are less affected by the illegal actions of state authorities than small sized enterprises are, as some of them simply try to stay out of sight of state officials.

SHADOW ECONOMY AND ITS SIZE

C 11. Shall the government announce the amnesty of illegal capital, i.e. propose all citizens to legalize their property by a certain date, pay relevant taxes and obtain pardon for all previous possible violations?

Diagram 26

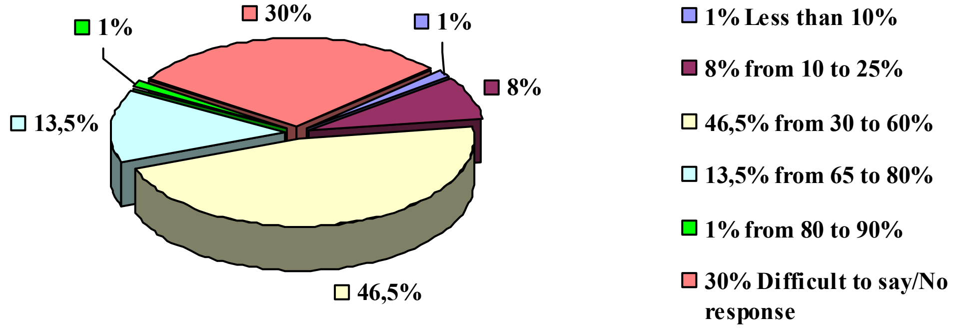


It is interesting that almost half of businessmen supported the amnesty of illegal capital. One fourth of respondents have not supported the idea of amnesty, most likely because they consider this to be a social injustice or have no need for such an act. Overall, this question was complicated for business circles representatives - almost every fourth could not or did not want to answer this question. Obviously, the supporting opinion of almost half of respondents does not allow the rejection of this idea of amnesty altogether.

By regions, distribution of answers to this question is not equal. The opinions of representatives of Baku, the majority of those sampled (107 people), were distributed as follows: 40% supported amnesty and 35% were against it, which reflects the general trend. This question was complicated for everybody, but respondents from Nakhichevan turned out to be the least prepared to answer. It is interesting that large enterprises and individual entrepreneurs support the amnesty more actively (64% and 62% support amnesty, respectively), than small sized businesses (only 43% support the idea), which have more complications in operations, and as we saw in responses to questions C1 and C9, are more exposed to extortion from state civil servants.

C 12. What percentage of economic activities in the country is accounted for by the shadow economy, which is understood to be the permitted by law but unregistered business?

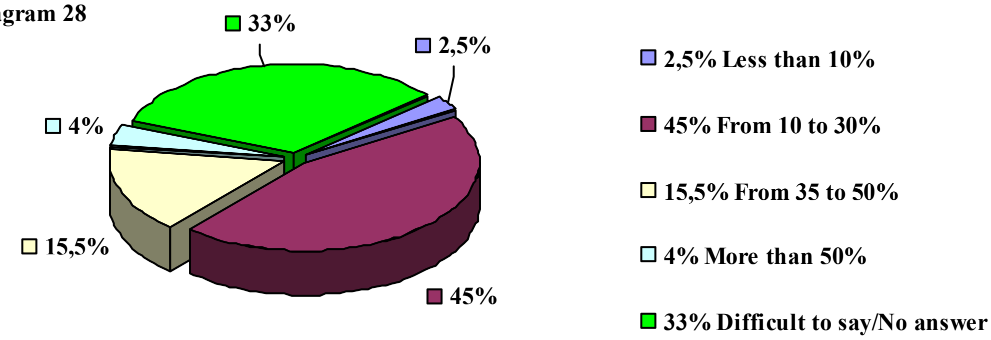
Diagram 27



This question was very difficult for respondents and almost a third could not answer. As we can see, a small number deem that the volumes of the shadow economy are not great or, on the reverse, believe that the legal sector in the country is negligible. Most respondents estimate that the share of the shadow economy ranges between one and two thirds of the total volume of domestic economic activity.

C 13. What percentage of their monthly profits do companies spend on informal payments to officials?

Diagram 28

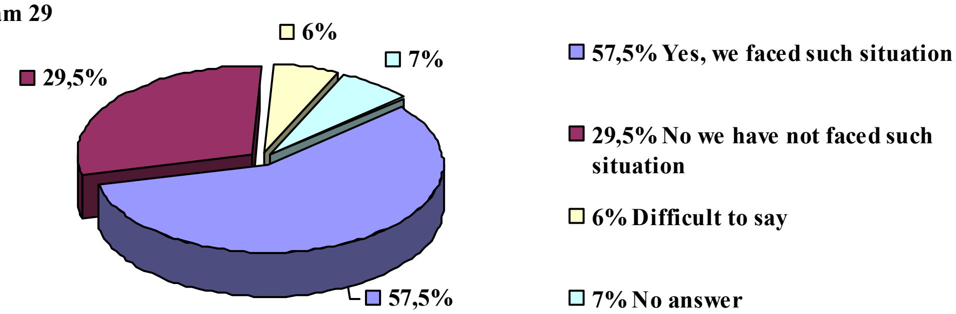


Just as a previous question related to the assessment of corrupt flows, this question was rather difficult and a third avoided answering. Most of those who were prepared to express thoughts about the size of private sector informal payments assumed them to be at 10-30% of monthly profits. However, the percentage of those who deem that these payments comprise from one third to half of their profits is rather high, which probably can be explained by various appetites of state officials in different sectors and different economic regions of the country. The maximum reported level is half of profits, with no one mentioning a figure above 75%.

PERSONAL EXPERIENCE WITH CORRUPTION

C 3. Have you or representatives of your company personally faced extortion?

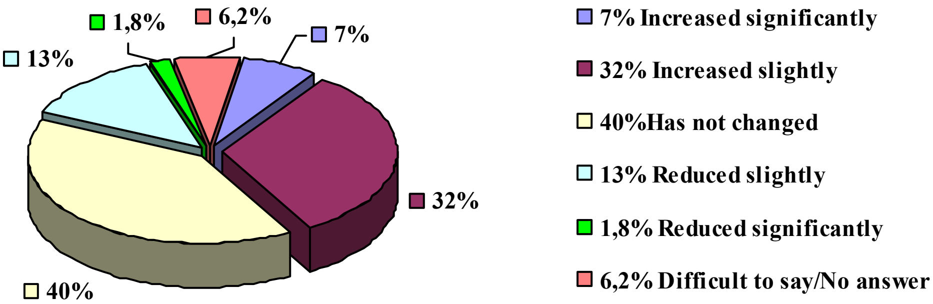
Diagram 29



As we can see from distribution of answers, most respondents, in resolution of problems of their companies, have either personally faced with corrupt practices or had their employees involved. The large number of those who refused to answer indicates that the issue is very sensitive to businessmen. In Azerbaijan it is sometimes difficult to see the borders between an open extortion and expectation of a "gift of gratitude". Nevertheless, the impression of the total involvement of almost the entire business community in the country into corrupt practices has not been confirmed.

C 14. Could you indicate please, whether over last 3 years the total volume of bribes, which your company has had to pay, has changed? If yes, how?

Diagram 30



The number of those who state that the volume of bribes paid by their companies has increased over the last three years almost equals the number of those who have not observed any change. The number of respondents who deem that volumes of bribes have reduced is much less—only 14.8% of those who responded. Here one finds an obvious contradiction between the responses to this Question and Questions C10 and B7 above. Earlier respondents noted that it has become easier to operate in the private sector, and that the level of corruption has somewhat reduced. This contradiction may easily be explained, if we suppose that as the country's economy surges, profits of private sector grow, consequently the volume of payments increases, including corrupt payments. In such circumstances, the absolute size of payments may increase, but the frequency of extortions and the total share of corrupt "payments" in profit profile may reduce.

The largest growth of informal payments is observed in Baku and Ganja-Kazakh regions (respondents from these regions comprise about 64% of the selection), i.e. in places with the highest concentration of the country's economic activity. Their responses are provided in Table 6 below.

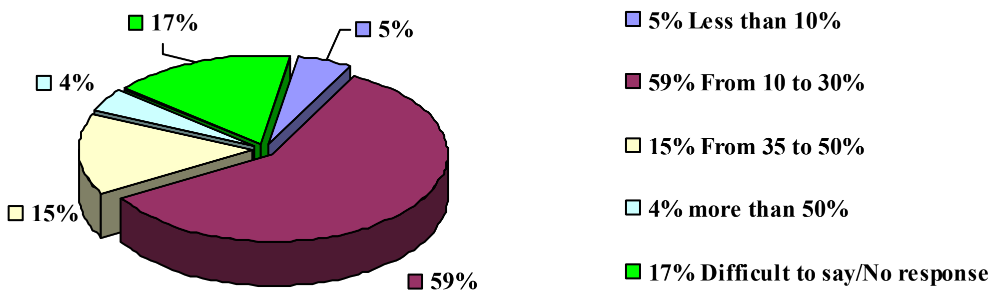
Table 6

Economic region	**City of Baku**	**Ganja -** Kazak
Increased significantly	10.53	11.11
Increased a bit	38.60	44.44
Has not changed	42.11	22.22
Reduced a bit	8.77	11.11
Reduced significantly	0	0
Difficult to say/No response	0	11.11

Responses from representatives of local companies, comprising the majority of those surveyed, fully comply with the above described trend. About 40% observe the growth and the same number see no changes, with about 15% claiming a reduction and about 5%, unable to answer the question.

C 15. Please indicate what percent of your monthly profit, companies like yours, spend on informal payments to state officials?

Diagram 31

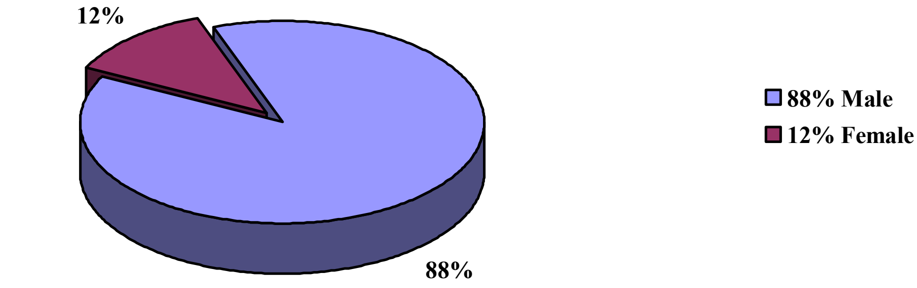


Although this question was not answered by all respondents, but rather only 57.5% of the total number or 115 respondents, another 20 respondents or a fifth of respondents could not or did not risk assessing volumes of informal payments of their companies. However, although this question was not answered by everybody, the general trend is similar to the responses to Question C13 above. A majority of respondents assume that informal payments of companies comprise 10 to 30% of profits, although a significant portion has to pay much more, from one third to two thirds of profits. Obviously, in this case sector and regional differences play their role. Almost nobody pays more than half and none of respondents have mentioned an amount, exceeding 70%.

III. DEMOGRAPHIC DATA OF RESPONDENTS

D 1. Respondents' sex

Diagram 32

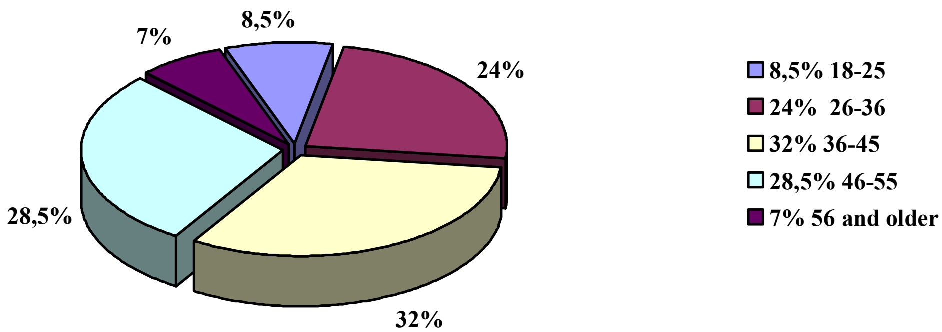


Only 12% of the selection, i.e. owners of small enterprises and managers of middle and large sized companies, are female. This is despite the fact that women constitute the majority of the country's population and, respectively, the labour force, due to mass emigration of the male population in search for a job. In business, as well as state management and politics there is much less involvement of women. It is worth to mentioning that Azerbaijani women do not concede to men in terms of educational attainment levels. Statistical data indicates that women hold nearly half of higher education diplomas in the country.

Most women in managerial positions are employed in the utilities sector, are individual service providers, NGO representatives, or work in the health and social services sector. The likelihood of females holding leading positions are reduced significantly as the size of an enterprise grows.

D 2. Age of respondents

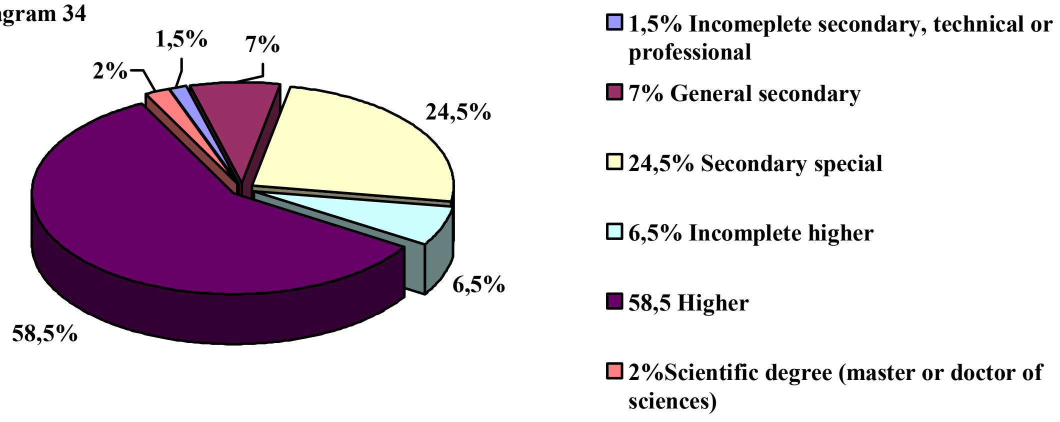
Diagram 33



As seen from Diagram 33, one quarter of respondent businessmen of the managerial level or higher is under 35 years of age and one tenth under 25.

D 7. Educational level

Diagram 34

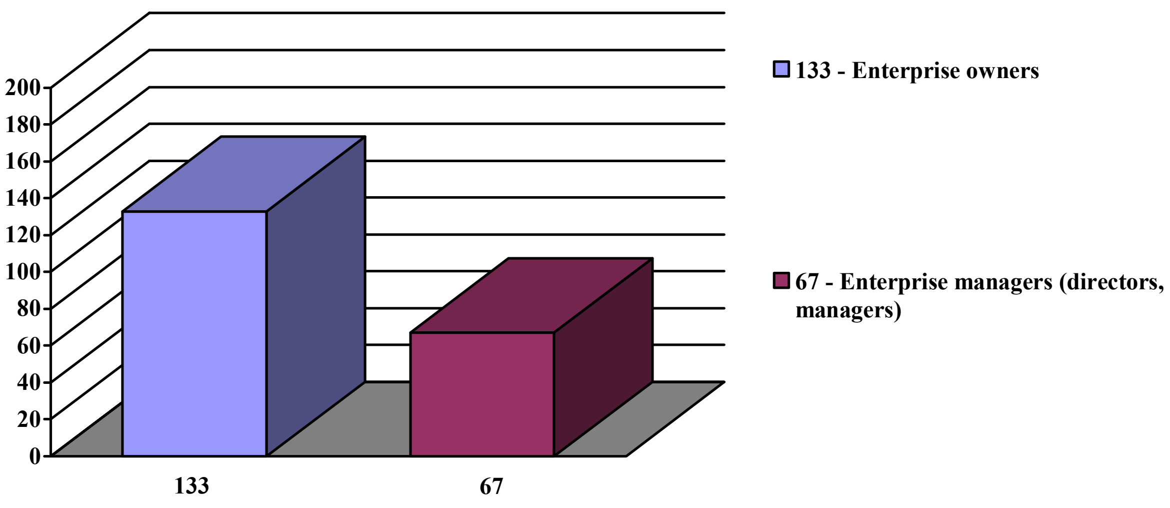


General level of education among businessmen is high, almost all questioned (91.5%) have mid special or higher education, which is in line with general education trends in business.

D 8. Status of respondents

Only top level respondents were invited for to take part in the survey, many of them also were enterprise owners. Diagram 35 below represents the status of respondents.

Diagram 35



IV. METHODOLOGY OF SURVEY AND SELECTION REPRESENTATION

Method of selection

Data which was kindly provided by the Ministry of Economic Development and the State Committee for Statistics of the Azerbaijan Republic formed the basic parameters for sampling.

The main parameter of sampling was formed by the principle of categorizing the country's economy into the following sectors:

A. Agriculture, hunting, forestry
B. Fishing and fish breeding
C. Mining industry
D. Processing industry
E. Production and distribution of electrical power, gas and water
F. Construction
G. Wholesale and retail trade, repair of cars, household appliances and personal items
H. Provision of services by hotels and restaurants
I. Transport, warehousing and telecommunications
J. Financial activities
K. Operations with immovable property, leasing and provision of services to consumers
L. Education
M. Health and social services
N. Scientific-technical and consulting services
O. Other utility, social and individual services
P. Non-governmental organizations

With consideration of the survey specifics, the following sectors were excluded from the list of sectors:

- Public administration and defence, social security (L)
- Exterritorial entities and bodies (Q)

In Table 7 are provided the surveyed enterprises in distribution by sectors.

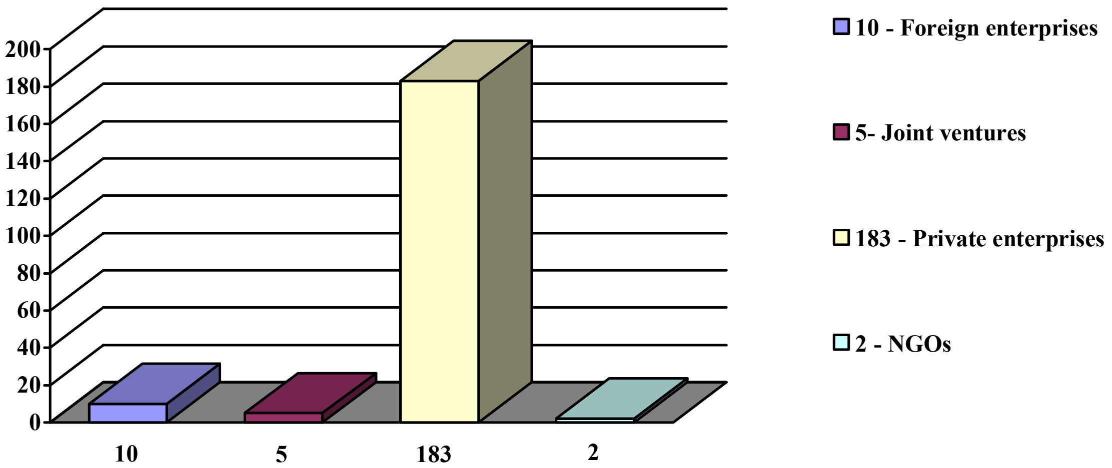
Table 7

	Sector	Survey facilities	Number of interviews
A	Agriculture, hunting, forestry	Farmer economies (cattle and poultry farms, wheat, tobacco, citruses, fruit, vegetable, cotton farms, bee breeding and honey production, forage production)	28
B	Fishing and fish breeding	Fishery	1
C	Mining industry	Quarry	1
D	Processing industry	Enterprises for treatment of petroleum products and skins; production of furniture, plastic and timber products, bakeries, dairy products and cloth production	18
F	Construction	Construction companies, enterprises for repair, rehabilitation and construction of buildings	15
G	Wholesale and retail trade, repair of cars, household appliances and personal items	Trading enterprises on sale of men's, women's and children's clothing and footwear; cars, food, construction materials, computer equipment, medical equipment,	83

		stationary, electrical equipment for power facilities, household products, electrical appliances, furniture, curtains, enterprises for repair and maintenance of cars	
H	Provision of services to hotels and restaurants	Café, restaurant	4
İ	Transport, warehouses and telecommunications	Travel agency, enterprises for bus and taxi transports of passengers.	4
J	Financial activities	Bank, insurance company	2
K	Operations with real estate, leasing and provision of services to consumers	Enterprises for sale and purchase and leasing of real estate; supplies and development of software for computer equipment; provision of services in advertisement, photography, recruiting, security agency, Internet club, translation centre and printing services.	21
M	Education	Training courses for university applicants	1
N	Health and social services	Dental office, cabinets, pharmacies, veterinary services	4
O **P** **V**	Other utility, social and individual services Non-governmental organizations Scientific-technical and consulting services	Chamber of Commerce, Association of Entrepreneurs of Sheki-Zakatali regions Enterprise on provision of services to population: male and female barber shop, beauty parlour, dry cleanings, fitness centre	18
	Total		**200**

The next important principle of sample construction was a breakdown of companies dependent on origin of capital, as summarized in Diagram 36 below.

Diagram 36



The basis for selection of the objects of survey by sectors and forms of ownership has been in accordance with information of the Ministry of Economic Development; this is provided in Table 8 below.

Table 8

		Private (local) companies			Foreign companies			Joint ventures			Total		
		Number	%	Number of respondents	Number	%	Number of respondents	Number	%	Number of respondents	Number	%	Number of respondents
	Total	50743	93.2	186	2629	4.8	10	1052	1.9	4	54424	100.0	**200**
	Including :												
A	Agriculture, hunting, forestry	8138	15.0	30	19	0.0	0	33	0.1	0	8190	15.0	30
B	Fishing and fish breeding	69	0.1	0	0	0.0	0	1	0.0	0	70	0.1	0
C	Mining industry	353	0.6	1	67	0.1	0	17	0.0	0	437	0.8	1
D	Processing industry	4164	7.7	15	240	0.4	1	275	0.5	2	4679	8.6	18
E	Manufacture and distribution of the electric power, gas and water	30	0.1	0	5	0.0	0	2	0.0	0	37	0.1	0
F	Construction	3845	7.1	14	240	0.4	1	83	0.2	0	4168	7.7	15
G	Wholesale and retail trade, repair of cars, households appliances and personal items	20818	38.3	77	887	1.6	4	386	0.7	2	22091	40.6	83
H	Provision of services by hotels and restaurants	785	1.4	3	42	0.1	0	18	0.0	0	845	1.6	3
İ	Transport, warehouses and telecommunications	1169	2.1	4	181	0.3	1	77	0.1	0	1427	2.6	5
J	Financial activities	469	0.9	2	29	0.1	0	28	0.1	0	526	1.0	2
K	Operations with real estate, leasing and provision of services to consumers	4697	8.6	17	778	1.4	3	88	0.2	0	5563	10.2	20

M	Education	215	0.4	1	31	0.1	0	2	0.0	0	248	0.5	1
N	Health and social services	727	1.3	3	65	0.1	0	9	0.0	0	801	1.5	3
V **O** **P**	Other utility, social and individual services Scientific-technical and consulting services Non-governmental organizations	5264	9.7	19	45	0.1	0	33	0.1	0	5342	9.8	19

The third, crucial factor for sampling is the division of Azerbaijan into 11 (including Baku) economic regions. In the view of the occupation of Upper Karabakh and Kelbajar-Lachin economic regions, as well as the non-security of interview operations in these regions, the Upper Karabakh and Kelbajar Lachin economic regions are excluded from selection.

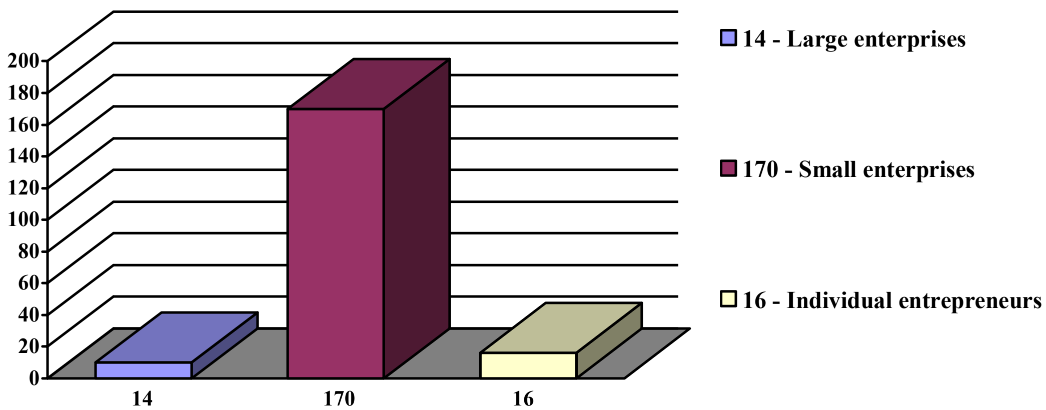
Basis for selection of objects for survey by economic regions, in accordance with information of the Ministry of Economic Development, is provided below.

Table 9

Division of legal entities by economic regions				
		Number of enterprises as of 01.10.2005 г.	%	Number of respondents
	Total	66644	100	**200.0**
1	Baku	35889	53.9	107
	Economic regions			
2	Apsheron ER	3773	5.7	11
3	Ganja- Kazakh ER	4958	7.4	15
4	Sheki- Zakataly ER	2863	4.3	9
5	Lenkoran ER	3904	5.9	12
6	Guba- Khachmas ER	2208	3.3	7
7	Aran ER	9248	13.9	28
8	Mountainous Shirvan ER	1336	2.0	4
9	Nakhichevan ER	2465	3.7	7

Finally, development of sampling took into consideration the information of the Ministry of Economic Development on the functioning in Azerbaijan of more than 70% of small sized enterprises, including individual entrepreneurs. The diagram below illustrates the classification of respondents by size of enterprise.

Diagram 37



It should be noted that there is no legislative definition for middle and large size enterprise in Azerbaijan today.

With consideration of the above, this sampling included 200 survey objects, who define and form the opinions of entrepreneurs in Azerbaijan. Thus, the information obtained from the survey can be applied for the wider general population.

Reactions of respondents towards the theme of survey

Interviews were conducted anonymously, by a "face-to-face interview" method. In total, 264 visits were made, of these 9 recurrent, while 55 encountered rejections, i.e. the proportion of rejections is 0.25 to 1, which is much lower than the correlation (1 to 2) for marketing surveys in Azerbaijan. It indicates that businessmen did not feel any risks in answering the questions on corruption. Table 10 below illustrates the number of visits by regions.

Table 10

№	Region	Rejection by respondent	Recurrent visit	Questionnaire filled in	Total
1	Baku	21	7	107	135
2	Apsheron ER	5		11	16
3	Ganja- Kazakh ER	10		15	25
4	Sheki- Zakataly ER	4	2	9	15
5	Lenkoran ER	2		12	14
6	Guba- Khachmas ER	2		7	9
7	Aran ER	11		28	39
8	Mountainous Shirvan ER			4	4
9	Nakhichevan ER			7	7
	TOTAL	**55**	**9**	**200**	**264**

Field study

30 interviewers and two supervisors were involved in the field study.

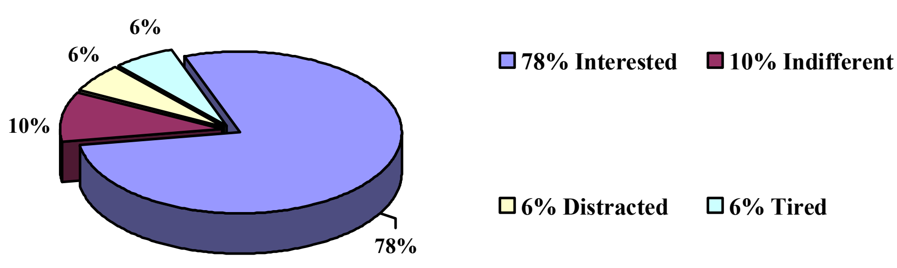
Principles of questionnaire development

Sociologic measurement of corruption perception was conducted with the help of a questionnaire, containing questions of two types: assessment and personal corruption experiences. Organizers of the survey were relying to their previous experience, showing that respondents are more willing to answer assessment questions. However, the comparative potential of the data received is very limited. Questions on corrupt practices are more informative but many respondents are reluctant to answer them.

Organizers have considered the experience of a similar survey by INDEM Foundation of Russia, which has demonstrated that answers of respondents to assessment questions considerably correlate with their trust or distrust of various state authorities. Thus, assessments by respondents regarding corruption level in various institutions more testifies to the attitude of people towards these institutions, rather than their knowledge of the actual status quo. Therefore, to ensure the accuracy of the results of survey, the questionnaire has questions related to assessment of trust regarding various public institutions, as well as questions related to personal corrupt practices.

The method of "corrective rate for non-sincerity" was not used during the survey, as the block on personal experience of corruption, included into the questionnaire (opening with question C3), provided an opportunity to evade responding to the following questions (C14 and C15), an option used by 42.5% of all respondents. Interviewers also have noted the behaviour of respondents during the interviews, especially of those who preferred to answer the questions on personal practices – 78 % of all questioned behaved as interested, 10% were indifferent and 6% looked either tired or distracted. Attitudes of respondents towards the interview are summarized in Diagram 38 below.

Diagram 38



Most of citizens answered the questions willingly and without fear. The average time spent for an interview was 30 minutes, while the shortest interview was 16 minutes long, and the longest lasted 77 minutes.

Control and verification

Work of interviewers was controlled by telephone along the route and recurrent visits to 10% of all respondents.

Introduction and processing of data

Quality control during the filling in of questionnaires was ensured. The survey data was computerized and processed with SPSS for Windows 11.0 statistical software. Input files and questionnaires themselves have been preserved.