

## 2016 ANNUAL REPORT OF TRANSPARENCY AZERBAIJAN

### Message from the chair

On behalf of the Board and members of Transparency Azerbaijan I would like to thank you for your interest in our work. The year 2016 was important for our organization and Azerbaijan. Azerbaijan continues its efforts to ensure consistency of measures in the combat against corruption and promotion of good governance, to increase transparency in the work of government agencies and to promote principles of open government. Major achievements of 2016 by the government of Azerbaijan were adoption of legal acts such as Law on Non-Cash Payments and 12 Strategic Road Maps of the national economy and its key sectors, as well as substitution of monetary targeted social aid with startup grants to low-income people to set up businesses and create jobs.

In 2016, TI Azerbaijan elected new Board of Directors and established a Council of Founders consisting of the previous board members. This year, TI Azerbaijan completed the implementation of the 1<sup>st</sup> phase of a project entitled Azerbaijan Partnership for Transparency (APT) with the financial support of United States Agency for International Development (USAID). TI Azerbaijan started implementing 2<sup>nd</sup> phase of the APT project, financed by USAID, that enables activities over a three-year period (September 2016 – September 2019) that offer to strengthen the vital role of Transparency Azerbaijan and other civil society organizations' (CSOs) and/or individual experts in the fight against corruption, promote increased government's responsiveness to people's demands for transparency, accountability and integrity as well as contribute to corruption free business environment.

We lived through difficult times this year due to the problems with the extension of APT project: NGO legislation that was amended in 2014, required foreign donors to obtain an authorization from the government before awarding grants, until the regulation changed in early 2017. We take seriously the government's assurances that the grant regulations shall be further simplified to address the NGOs' concerns and we remain optimistic about the future of the government-civil society relations.

Transparency Azerbaijan is pleased with strengthening its strategic cooperation with the Commission on Combating Corruption of the Republic of Azerbaijan and Anti-corruption department under the Prosecutor General's Office, and building partnership with the State Committee for Architecture and Urban Building, State Registry of Real Estate and State Social Protection Fund.

Alimammad Nuriyev,

Chairman of the Board



## **About Transparency International**

Transparency International is an international non-governmental organization, leading anti-corruption movement all over the globe. The Berlin-based Transparency International Secretariat coordinates anti-corruption activities in more than 100 countries through its national chapters. The chapters are independent local NGOs, free to choose their own polices and to raise funds for their activities. Transparency International is based on the principle that, as corruption is a country-specific phenomenon, local organizations can be much more efficient than any efforts made or imposed from the outside.

## **About TI Azerbaijan**

TI Azerbaijan was established in October 2000 by representatives of civil society and academia, fully accredited as a national chapter in October, 2001, and re-accredited on 29 July 2016. We work mainly in the areas of raising public awareness, researching into the reasons and forms of corruption in Azerbaijan, as well as ways to reduce this destructive social phenomenon. We also render legal aid to witnesses and victims of corruption and assist the Government of Azerbaijan (GoAJ) in drafting policy and legislative acts.

## **Global Corruption Barometer 2016**

Transparency International released Global Corruption Barometer 2016 on 16th of November 2016. This is the only worldwide public opinion survey on views and experiences of corruption by ordinary citizens. As the only global poll of the general public, it provides an indicator of how corruption is affecting individuals on a national level and how efforts to curb corruption around the world are viewed on the ground. This year, the global report is released in the format of regional series with Azerbaijan included into the report for Europe and Central Asia, summarizing opinions of nearly 60,000 people across 42 countries of the region.

The survey shows that the *level of corruption in Azerbaijan is gradually decreasing*; this opinion is shared by 45% of respondents in 2016, while in 2013 this opinion was shared by 41% and in 2010 by 28% of respondents. *The number of people who have paid a bribe is also decreasing*. Thus, 38% of the 2016 respondents admitted having paying a bribe as compared to 47% in 2010. As compared to 2013 Global Corruption Barometer results, less people (21% of the 2016 respondents) believe that corruption in the public sector is a serious problem. Though the public service in general is not corruption free, the level of corruption in the police and judiciary are seen as less than in the past. The least level of corruption is seen in the application for state issued documents.

On the other side, in contrast to the previous survey when more than a half highly assessed government's efforts to combat corruption, in 2016 only one in every four shares this opinion. Still, very few people (15%) are not satisfied with the government's anti-corruption efforts, and more than a half were not well enough informed to make a judgement.

## **Corruption Perception Index 2016**

On 25 January 2017, Transparency International released its most well-known product – the “Corruption Perception Index” 2016, which ranks countries in terms of the degree to which business people and country analysts, both residents and non-residents, perceive corruption to

exist in the public and political sectors. The CPI 2016 is presented on a scale of 0 to 100 with 0 being very corrupt and 100 being very clean. This year Azerbaijan received a score of 30, and was ranked 123rd out of 176 countries. The country score increased 1 point from the previous year.

**Table 1.** Corruption Perception Index (CPI) 2000-2016, ranking and score of Azerbaijan

| Year | Place among other countries | No of countries surveyed the year | Score from 0 (very poor) to 10 (excellent) |
|------|-----------------------------|-----------------------------------|--------------------------------------------|
| 2000 | 87                          | 90                                | 1.5                                        |
| 2001 | 84                          | 91                                | 2.0                                        |
| 2002 | 95                          | 102                               | 2.0                                        |
| 2003 | 124                         | 133                               | 1.8                                        |
| 2004 | 140                         | 146                               | 1.9                                        |
| 2005 | 137                         | 159                               | 2.2                                        |
| 2006 | 130                         | 163                               | 2.4                                        |
| 2007 | 148                         | 179                               | 2.1                                        |
| 2008 | 159                         | 180                               | 1.9                                        |
| 2009 | 143                         | 180                               | 2.3                                        |
| 2010 | 134                         | 178                               | 2.4                                        |
| 2011 | 143                         | 183                               | 2.4                                        |
| 2012 | 139                         | 176                               | 27 <sup>1</sup>                            |
| 2013 | 128                         | 177                               | 28                                         |
| 2014 | 126                         | 175                               | 29                                         |
| 2015 | 119                         | 168                               | 29                                         |
| 2016 | 123                         | 176                               | 30                                         |

### **Transparency Azerbaijan’s specific place among the country’s civil society institutions**

TI Azerbaijan is the first civil society organization in the country, which started to assist people in building up resistance against corrupt practices of petty officials by providing them with legal advice through the ALAC and LRC projects. The Chapter has clearly demonstrated that civil society does not only serve as an efficient barrier between the populace and corrupt officials, but also enhances the productivity of government – NGO cooperation in combating corruption. TI Azerbaijan has changed attitudes of parts of society towards corruption and demonstrated that extortions by officials can and shall be successfully contested without any repercussions.

<sup>1</sup> The methodology of Index compilation changed in 2012, therefore the country’s score is not comparable with the old data; however, rankings can be compared.

### Our projects in 2016

- ❖ APT (ALACs in Baku, Ganja, Guba; project partner Constitution Research Foundation and a group of about 20 experts from the civil society), donor – USAID/Caucasus, \$1.5 million, period 14 September, 2012 – 15 September, 2016;
- ❖ APT 2<sup>nd</sup> round (ALACs in Baku, Ganja, Guba); donor – USAID/Caucasus, \$1.5 million, period 16 September, 2016 – 17 September, 2019.

### **AZERBAIJAN PARTNERSHIP FOR TRANSPARENCY (APT) PROJECT**

Azerbaijan Partnership for Transparency (APT) Project was launched at the end of 2012. The project enabled activities over a four-year period that offer to strengthen the vital role of key civil society organizations in the fight against corruption, as well as promote government's increased responsiveness to people's demands for transparency, accountability and integrity. Under APT project we work on different project components: (a) anti-corruption policy development and strategy implementation; (b) monitoring and evaluation (including data collection and analysis); (c) public awareness and outreach; (d) media, including social media; (e) track record in working with the Government and also continue to run three ALAC centres in Baku, Ganja and Guba.

**The project has been successfully completed by 15 September 2016, allowing for the next phase of the project to start.**

The 2<sup>nd</sup> round of APT project enables activities over a three-year period (September 2016 – September 2019) that offer to strengthen the vital role of Transparency Azerbaijan and other civil society organizations' (CSOs) and/or individual experts in the fight against corruption, promote increased government's responsiveness to people's demands for transparency, accountability and integrity as well as contribute to corruption free business environment. The project components include a) Citizens' engagement through Advocacy and Legal Advice Centers operation and online civic activism, public awareness raising; b) Business' engagement by analyzing and preparing materials on newly adopted legal acts, needs assessment and advocacy round tables; c) Government engagement by improving efficiency of public services and accountability for public revenue and expenditure; d) Civil society engagement by developing TA's institutional capacity and improving CSOs governance and internal procedures through training.

*The descriptions below include activities from both – 1<sup>st</sup> and 2<sup>nd</sup> phases of the project, performed through 2016.*

### **Monitoring of implementation of National Action Plan on Combating Corruption 2012-2015**

APT partner organization "Constitution" Research Foundation (CRF) monitored the implementation of National Action Plan on Combating Corruption for 2012-2015. CRF represents Anti-Corruption Network, uniting 23 specialized NGOs. Main activities implemented by CRF in 2016:



- *Photos above:* On August 8, 2016, CRF released the 3<sup>rd</sup> monitoring report on implementation of the Anti-corruption National Action Plan (NAP) for 2012-2015. In a roundtable attended by 12 state officials, 23 civil society representatives and 6 representatives of international missions/embassies, CRF experts discussed their findings on progress made in the NAP's materialization.
- On September 7, 2016, CRF released the final monitoring report on the implementation of Anti-corruption National Action Plan. Participants from state agencies and civil society attended the roundtable. The report found that state agencies implemented 83% of commitments undertaken under the NAP.

### **Monitoring of implementation of OGP National Action Plan 2012-2015**

TI Azerbaijan expert team monitored the implementation of the commitments by the GOAJ under Open Government Partnership (OGP) National Action Plan 2012-2015. Main activities implemented in 2016:



- *Photos above:* On August 4, 2016, TA released the 3<sup>rd</sup> monitoring report on implementation of OGP National Action Plan (NAP) for 2012-2015. In a roundtable attended by 36 public officials and 7 civil society representatives, TA experts underlined the key achievements and problems in the third year of the NAP.
- On September 8, 2016, TA released its final monitoring report on the implementation of OGP National Action Plan in years 2012-2015. Representatives of 25 state agencies, 3 embassies/international mission and 8 NGOs attended the roundtable. The report found that state agencies implemented 71% of commitments undertaken under the NAP.
- We also provided substantive input into the new National Action Plan for 2016-2018 on Promotion of Open Government approved by the Presidential Decree of 27th April 2016.

## Capacity building training for NGOs

Transparency Azerbaijan (TA), with support from the United States Agency for International Development (USAID), organized 4 trainings – each containing 2-day sessions on “Developing NGOs’ management skills” and “Writing a project proposal” for starting and advanced NGOs. The training programs were designed to enhance the knowledge and use in Azerbaijan of the existing international and local policies and guidelines designed for the management of civil society organizations.



- *Photos above:* 39 participants (20 women, 19 men) representing various organizations from diverse fields, such as work with young people, building peace and tolerance, economic development, protection of people with disability, gender equality and women’s empowerment, attended the trainings delivered by TA managerial staff and experts.
- 16 participants (7 women and 9 men) representing various organizations from distinct areas attended the trainings delivered in English by TA managerial staff and experts. Participants of the 2-day training sessions received knowledge on different stages of project proposals, as well as principles of monitoring and evaluation of projects.

## E-development Index

E-development Index is a new methodology developed by Transparency Azerbaijan. The methodology aims to define the index of electronic development of the national level public agencies in Azerbaijan that is understood as the ability of the public agencies to render public services online, ensure high quality e-services, make an efficient use of the existing e-infrastructure, including exchange of information with other public agencies and create e-participation tools. The E-Development Index of public agencies is based on the following components.

- *The share of e-services in the overall pool of services rendered by public agencies* – The registry of public services available at [www.dxr.az](http://www.dxr.az) was analyzed to define the scope and types of public services per each public agency.
- *Level of development of e-services* – This component will assess the level of development of e-services (based on 2 to 5 stage level).
- *Assessment of e-information Exchange between public agencies* – E-information exchange stands for the ability of public agencies to give and to receive information electronically.

- *Assessment of the e-infrastructure* – E-infrastructure is understood as the systems if e-signature and online payments tools existing in the Azerbaijan Republic that are the key mechanisms of any e-service.
- *Assessment of e-participation* – E-participation is understood as the ability of a public agency – service provider to efficiently inform their users and receive their feedback.



- *Photos above:* TA released “E-government Development Index” of state bodies in the roundtable held on September 9, 2016. Per the results of the report, Agency for Citizens Services and Social Innovations, Ministry of Communication and High Technologies, Ministry of Taxes, State Examination Commission and State Statistics Committee performed the best in terms of E-development Index.

### **Working through media**

TI Azerbaijan carried on the media coverage of anti-corruption developments in the country. A sub-category created on its website – [www.transparency.az/cnews/](http://www.transparency.az/cnews/) was used as an awareness raising and information dissemination tool on corruption issues. In 2016, TI Azerbaijan’s media team produced 27 online news bulletins with more than 2,400 pieces of news, interviews and research articles on anti-corruption issues.

### **Engaging youth in anti-corruption activities**

TI Azerbaijan arranges youth anti-corruption events within the APT project, as part of the series designed to increase youth awareness of transparent and accountable practices in governance. Overall in 2016, TA organized 2 theater-based training programs each lasting 5 days with participation of 35 young people and 4 seminars with participation of 83 young people. TA collaborated with the Y-PEER Azerbaijan and the US-Educated Azerbaijani Alumni Association in organization of several events. Main youth anti-corruption activities implemented by TI Azerbaijan in 2016:



- *Photos above:* On February 24-28, 2016, TA-supported team of dedicated youth activists (Y-PEER) organized a 5-day theater-based training program on the topic of “Transparency and good governance” at Hilton Hotel. The program, which consisted of a series of interactive workshops on corruption-related issues, such as accountability and transparency in public sector, budget transparency, public procurement, procedures of complaints to public agencies, NIS findings on anti-corruption potential of institutions in Azerbaijan, and socialization and theatric skills, ended up in the staging of short sketches on varied faces of corruption problem.

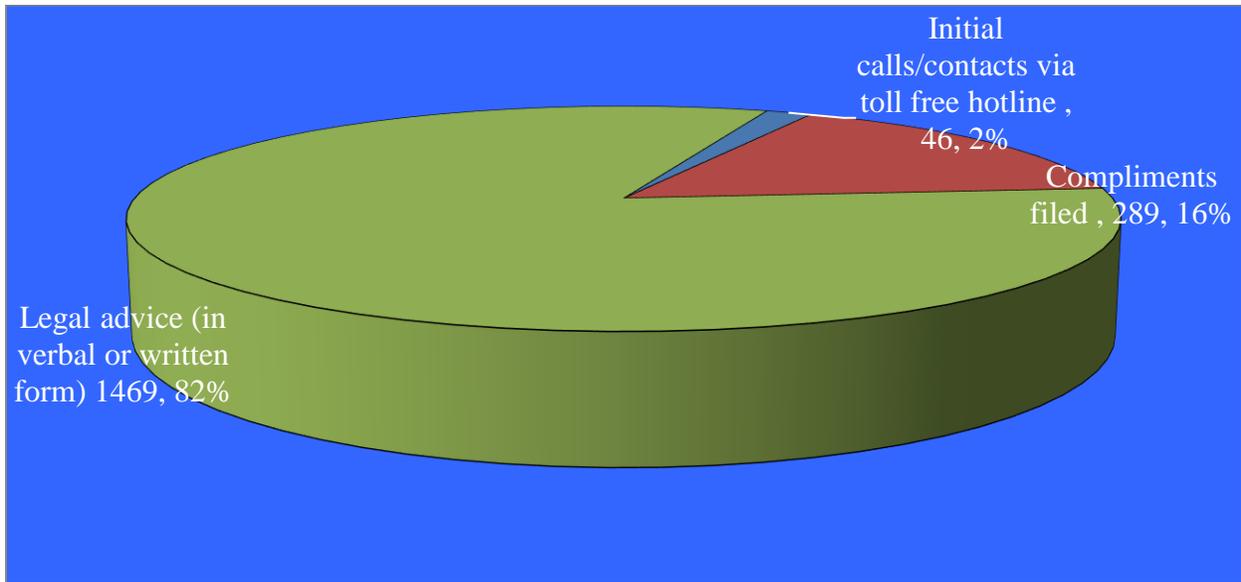


- *Photos above:* On May 7, 2016, APT Baku Office organized the seminar on “Sunshine laws” with the participation of 23 young people (of them 8 women and 15 men). The speaker, Alasgar Mammadov, legal expert, delivered a presentation on the importance of freedom of information to good governance. He spoke about the institutional mechanisms in the developed world that ensure the public’s steady access to information on a wide array of state activities and finances.

### Legal Aid Centers

Legal aid is the activity by which a citizen is given help on how to use the legal procedures efficiently to protect their rights once they encounter potential or actual corruption. Citizens receive case-specific legal advice, both at the TI Azerbaijan centers and during on-site legal sessions.

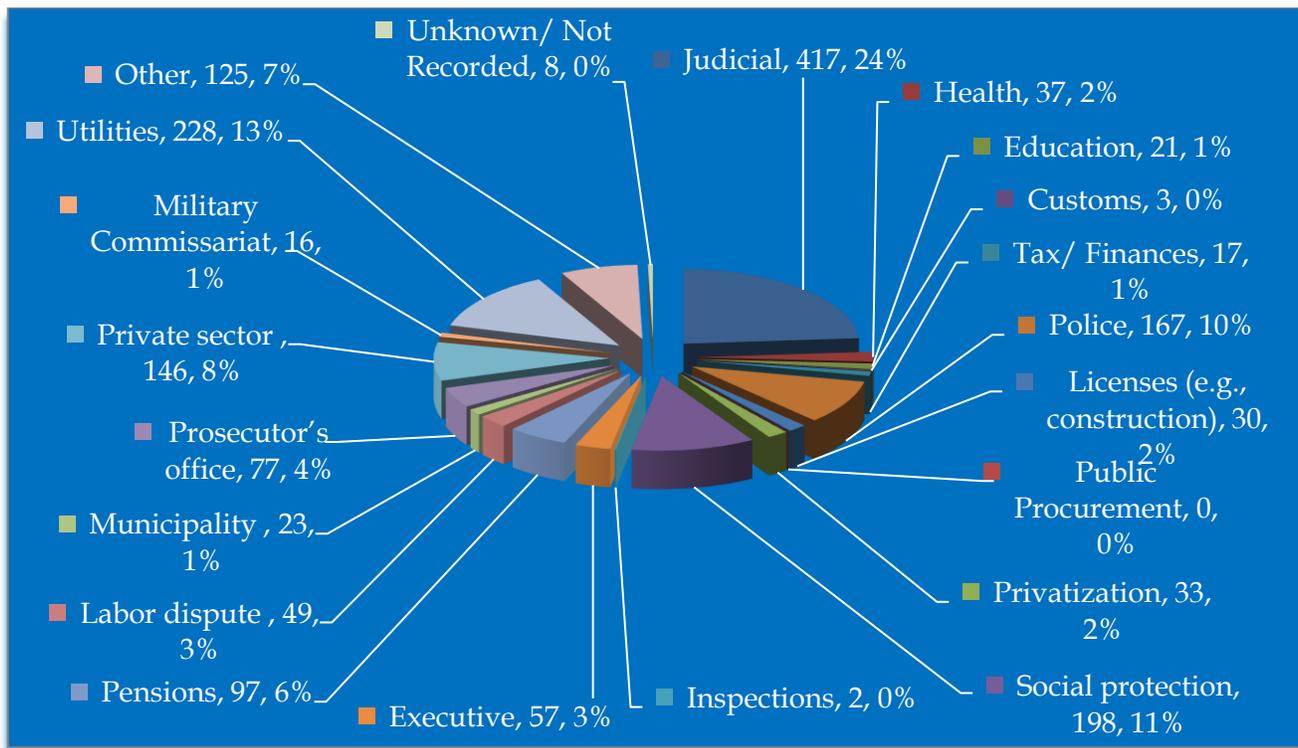
**Figure 1. Number of ALAC clients in 2016 by type of service (total 1804)**



**Anti-corruption analysis**

Statistical data is gathered and processed by all three centres to identify customer profile and areas in utmost need of profound anti-corruption reforms. As observed from the diagram below, the judicial system remains the object of most grievances. A substantial portion of complaints were made of utilities, social protection, police and private sector.

**Figure 2. Areas of complaints brought to ALACs in 2016 (total 1751 complaints)**



## Legal Aid Sessions

Based on the analysis of the statistics on corruption complaints reported to ALACs, onsite legal aid sessions are arranged onsite to bring later aid closer to citizens in rural areas to reinforce them legal knowledge.

In 2016, our centers in Guba and Ganja held 10 onsite legal sessions in total, benefiting 216 people.



*Photos above:* On August 9, 2016, APT Ganja Office organized a legal aid session for the residents of Mahmudlu village of Shamkir region. APT staff informed the participants (18 people, of them 17 women and one man) about the APT project, Azerbaijan's anti-corruption legislation and addressed questions from the audience on issues related to assignment of disability pension, labor rights, the right of housing, alimony, etc. The participants were provided with excerpts from Penal Code, copies of Law on "combating corruption" and Law "on review of citizens' applications", as well as APT fliers.

## Targeted Civic Education Workshops

Work under this program element seeks to foster a culture that is generally law-abiding, including through legal literacy, public awareness, constituency building, and citizen engagement in legal processes. Results of this activity are expected to increase public anti-corruption education and enhance public engagement in the fight against corruption.

Our centres in Guba and Ganja held mobile civic education workshops to outreach the rural population. 11 civic education workshops benefiting 252 people were delivered in 2016.



*Photos above:* On August 4, 2016, APT Ganja Office held a public awareness event with the residents of Goygol region in the central library. APT staff informed the participants (25

women) of the importance of anti-corruption legislation and the role of APT Project in helping citizens uphold their rights in their interaction with state bodies. Later, they addressed the questions from the audience on issues related to child custody, the right of housing, public healthcare, as well as the problems when traveling abroad with a child. The participants were provided with excerpts from Penal Code, copies of Law on "combating corruption" and Law "on review of citizens' applications", as well as APT fliers.

## **Advocacy**

In 2016, TI Azerbaijan continued to arrange anti-corruption roundtables as well as produce analysis papers around issues identified by TI Azerbaijan legal specialists as most pertinent and of immediate interest to the public (registration of undocumented real estate, social protection and pension provision, notary services, taxation of real estate sales, etc.). A set of recommendations were developed on each issue and further submitted to the government. Some of the recommendations implemented through 2016 are described below.

On separate roundtables with Baku Electric Network, Azerigas and Azersu, TA repeatedly recommended breaking monopoly of these major natural monopolists – suppliers of electricity, gas and water, and creating conditions of fair competition. ASAN Communal Center No 1 opened on 29 December 2016 and put into operation as of 15 January 2017. The center renders 45 services related to utilities run by the three companies.<sup>2</sup> Another development in communal sector, after TI Azerbaijan exposure of multiple cases – particularly newly built residential apartment houses, and other consumers – of unjustified decline of requests to connect to gas supply, i.e. refusal to award technical specification, which is a pre-condition for gas supply, are changes made to the law on gas supply and supporting presidential decree. The changes aim to streamline legislation in supply of gas to consumers and to design clear guidelines regulating procedures giving technical specification, including justification for refusal.<sup>3</sup>

In 2015, TA suggested to help unemployed with business startup. State Social Protection Fund will allocate 4 thousand manats to unemployed that can start up their own business.<sup>4</sup> This allowance will be offered to 1500 individuals, mostly in the regions. The process is already launched.<sup>5</sup>

TI Azerbaijan consistently stated the need to simplify and digitalize procedures for disability status. Changes have been made to the legislation and now individuals applying for disability status will no longer come in person and stand before the Medical and Social Inspection. Applicants will apply to the State Social Protection Fund that will forward dossiers to the above Inspection. Dossiers will be submitted electronically and scanned versions of medical resumes issued by medical institutions will be forwarded by the Fund to the Commission. Moreover, the Commission members will not know the names of applicants or of medical institutions.<sup>6</sup>

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<sup>2</sup> 1 sayılı "ASAN Kommunal" mərkəzi fəaliyyətə başlayıb <http://www.vxsida.gov.az/redirect/post/pid/1691/>

<sup>3</sup> Changes to the law on gas supply, 30.09.2015, [www.e-qanun.az](http://www.e-qanun.az), Presidential decree, 18.07.2016 <http://www.president.az/articles/20639>

<sup>4</sup> Əhalinin özünüməşğulluğunun təmin olunması sahəsində əlavə tədbirlər haqqında Azərbaycan Respublikası Prezidentinin Sərəncamı, 7 aprel 2016-cı il, <http://www.president.az/articles/18718>

<sup>5</sup> Azərbaycanda işsizlər üçün biznes imkanı – BİZNES PLAN YİĞİLİR, <http://fins.az/biznes/909351/azerbaycanda-issizler-uchun-biznes-imkani-biznes-plan-yigilir.html>

<sup>6</sup> Order of the Cabinet of Ministers on Medical and Social Inspection dated 17 Nov 2016

In a roundtable on registration of private houses in 2015 with the State Registry of Real Estate, TA suggested to digitalize or annul permission from executive authorities for private houses under 12 metr high (i.e., thus do not requiring inspection by the Ministry of Emergency Situations). Per the changes to the Article 8.0.9.1 of the respective law, registration procedures by the Real Estate Registry are simplified for individual houses built before 1 January 2013 and up to 12 m high; no approvals from executive authorities are required.<sup>7</sup>

TI Azerbaijan roundtable in 2015 emphasized the need to introduce a flat rate based on the size (footage), geography and destination (residential, commercial, and agricultural), instead of profit tax principle to the sales of property. In January of 2016<sup>8</sup>, this recommendation was adopted with regards to buildings/constructions, but the taxation of land was unchanged. Per the changes made in December 2016<sup>9</sup> proceeds from sales of land will also be taxed upon a simplified formula based on the size of the land and respective coefficients, depending on the land destination and geographic location. In addition, in line with our recommendations, proceeds from sales of agricultural land plots will be taxed upon the same formula with the quality of land (bonitet schedule) considered.

Pursuant to TI Azerbaijan recommendations to minimize the number of licensed procedures and streamlining licensing process, the Cabinet of Ministers by its decree approved of the Rules to Maintain a Single E-Registry of Licenses by the Ministry of Economy.<sup>10</sup>

In 2015 TA presented a policy paper on ASAN business center that was a spin off the fundamental research of its National Integrity Systems project. The 23 September presidential decree approved the establishment of ABAD window (short for “easy support to family businesses”) under ASAN. ABAD implies provision of business oriented public information, public services and state support (financial, legal, etc) to household enterprises and, in full accordance with TA recommendation, small and medium-sized businesses through one stop shop system – ASAN service centers.<sup>11</sup>

In summer of 2016 TI Azerbaijan presented E-development Index providing recommendations to the assessment of online services on several criteria, including medium, timing, customer satisfaction, feedback mechanisms, transparency, etc. ASAN service index methodology has been developed and presented close to the end of 2016.

In a roundtable on E-government development in 2016, TI Azerbaijan underlined the need to expand and upgrade the scope of e-services and improve e-data sharing between public agencies. By the end of the year, a new e-service was added: Ministry of Ecology and Natural Resources will accept online applications for permission to produce and publish few types of

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<sup>7</sup> Presidential decree to approve Changes to the Law on the State Real Estate Registry dated 24 Nov 2016  
Həyat evlərinin qeydiyyatı sadələşdi, 24 Nov 2016

<http://fins.az/emlak/910720/heyet-evlerinin-qeydiyyatı-sadelesdi-qanuna-dayisiklik.html>

<sup>8</sup> Amendments to the Tax Code dated 7 December 2015. Changes will enter into force as of 1 January 2016.

<sup>9</sup> Changes to the Tax Code of 16 December 2016 that entered into force as of 1 January 2017.

<sup>10</sup> Lisenziyaların və icazələrin vahid reyestrinin aparılması qaydası'nın təsdiq edilməsi haqqında 16.09.2016 tarixli nazirlər kabineti qərarı  
<http://www.cabmin.gov.az/?/az/pressreliz/view/2018/>

<sup>11</sup> Azərbaycan Respublikasının Prezidenti yanında Vətəndaşlara Xidmət və Sosial İnnovasiyalar üzrə Dövlət Agentliyinin tabeliyində “ABAD” publik hüquqi şəxsin yaradılması haqqında Azərbaycan Respublikası Prezidentinin Fərmanı 23.09.2016, [www.president.az](http://www.president.az)

maps.<sup>12</sup> Alongside with this, Strategic Road map approved by presidential decree initiated the next stage of E-government concept – Mobile Government and will design G- Cloud system to store all public data on internet.<sup>13</sup>



*Photos above:* On September 8, 2016, TA presented its final monitoring report on the results of implementation of TA recommendations by state agencies in the roundtable attended by 19 state (including, public enterprises') officials, one international organization and 6 civil society representatives. The monitoring report summarizes implementation of the recommendations in the areas of labor and social protection of people, registration of real estate and taxation on its sale, notary services, utilities, as well as several other areas of public services during APT project period from 2012 to 2016.

### **Taxation of land sale is simplified in Azerbaijan:**

#### **advantages and remaining problems**

Reforms on usage and management of land areas based on principles of social justice and economic freedom are essential in order to develop market economy and improve business initiatives. The reforms may either encourage or discourage the use of land by its owners, and affect sale and purchase and dimensions of entrepreneurial activities and investment.

Since 2012, Transparency Azerbaijan (TA), with financial support of United States Agency for International Development (USAID), has monitored the registration process of real estate, including land, the difficulties citizens were facing through the process, as well as problems occurring during taxation of real estate. Subsequently, TA prepared and presented to relevant state agencies its findings and recommendations in writing and verbally through advocacy roundtables. The monitoring was conducted and recommendations prepared based on applications to TA's legal aid centers in Baku and the regions.

That is to say, TA repeatedly stated its concern regarding the *income tax* approach applied mechanically to the sale of real estate, including land, applied since early 2015. Income tax from the sale of real estate was calculated from the difference between initial purchase and

<sup>12</sup> Cabinet of Ministers decree updating the List of Types of E-services dated 15 Dec 2016  
Nazirlər Kabineti "Elektron xidmət növlərinin Siyahısı" nı təsdiqləyib, 15 Dec 2016  
<http://fins.az/emlak/912241/nazirlər-kabineti-elektron-xidmet-novlerinin-siyahisini-tesdiqleyib.html>

<sup>13</sup> Strategic Road map approved by presidential decree dated 6 Dec 2-16

proceeds from the sale of real estate. For commercial real estate the formula was even more complicated, as it involved VAT calculations for expensive property.

As it was not possible to fairly define the initial price of real estate, this situation negatively influenced interests of ordinary citizens trying to sell their residential real estate and entrepreneurs wishing to sell their non-residential buildings and lands. For instance, if a house or a land plot had been purchased 20 years ago, its initial price was significantly lower than the current market price for similar land areas. Also, certain land areas have been privatized right after the demise of the former Soviet Union and their official value was much lower at the time. Finally, although many sellers were investing in renovation of their land plots and houses (building communication lines, planting trees, etc.), they did not have any documents (invoices for materials used, contracts with workers) to make the costs be considered during such a taxation format.

In cases when it was not possible to determine the initial price of the land, taxation rate was based on conventional profitability indicator, calculating 20 percent of the sales price divided by six. Application of various formulas for different cases was making it difficult for the ordinary citizens to calculate taxes on their own. This in turn, led to rising number of corruption cases. Taking all into consideration, it is not a surprise that since the second half of 2015, the turnover of real estate sale in primary and secondary markets has decreased significantly.

Transparency Azerbaijan, in cooperation with the Ministry of Taxes, on 20 November 2015 organized a roundtable financed by USAID with the aim to encourage discussion with the civil society members of the draft of "Changes to the Tax Code" to enter into force on 1 January 2016. In the event, TA listed certain legal gaps in the taxation of real estate, as well as the related problems citizens face in practice and gave recommendations on the simplification of procedures. Although simplification of taxes applied to real estate based on its place and area was included into the draft of the proposed changes to the Tax Code, taxation of land was excluded from the final amendments, keeping the old practice.

Guided by its research and analysis of income tax formulas applied to the sales tax, TA stated in its recommendations that calculation of taxes for certain land areas is not clear and sometimes the amount of taxes was very high. Therefore, it was necessary to tax land plots basing on fixed indicators and decrease the tax rates from the sale of lands. Besides, TA noted that it was not right to apply income tax to the sale of agricultural lands, as this would slow down agricultural development in the long-run and lead to increase of prices for agricultural products. TA suggested that low-rate simplified tax, with geographical indicator and bonitet scale (quality of the land) taken into account, should be applied to the sale of agricultural lands, as compared to other types of land.

TA is pleased that pursuant its recommendations, sale of land plots will be subject to *simplified tax* from 1 January 2017, according to the last changes to the Tax Code. In other words, taxes from the sale of land plots will be calculated through fixed *simplified tax* rate based on the *size of the land, destination and geographic location*, rather than the difference

between sale proceeds and purchase price. Also, according to the recent changes, proceeds from the sales of agricultural lands will be taxed upon the same formula with respective coefficients and the lower tax rate, in comparison to the other land types.

Application of simplified tax rate to the sale of land with more objective indicators makes it easier for the ordinary citizens to calculate their taxes and decreases possibility of arbitrariness by removing indefinite circumstances. When comparing the tax amounts calculated based on previous (*income tax*) and new (*simplified tax*) principles for the same land area, we can see that the latter benefits citizens substantially. Simplification of taxes from the sale of land is a significant step in improvement of tax system and decrease of citizen's tax burden. Simplification and reduction of such taxes contributes to the revitalization of real estate market in the country. In the long-run, taxation of sales of land based on simplified procedures gives a stimulus to entrepreneurs to purchase agricultural land. In general, this will also reinforce development of economy by supporting stabilization of taxes entering the state budget and learning the statistics based on real numbers in real estate marketing.

Regardless of recent changes, some problems remain in this area:

- First, court cases related to the previous application of income taxes, which led to officials' arbitrariness during sale of real estate (both construction and land) still continue.
- Second, a document by respective executive bodies is required to certify to actual use of agricultural land or impossibility of its use for agro-technical reasons, otherwise a higher annual land tax rate for agricultural lands is applied. Under the legislation, if such a document is obtained, the lower tax rate is paid to local municipality and if it is not availed, a much higher tax is paid to the state budget. This opens corruption possibilities at the level of three local executive bodies whose opinions are required to extend such a document. This, in its turn, affects taxation from sales, as annual land tax for agricultural lands serves as a basis for taxation of proceeds from sales. We believe it is vital to design online and centralized mechanisms to issue the above certification to prevent negative tendencies in order to ensure development of the agricultural sector.

### **Our volunteers**

Since its inception in 2000 and by the end of 2016, the number of TI Azerbaijan trained volunteers reached up to 555, including 7 new volunteers of 2016.

### **Media coverage**

In 2016, TI Azerbaijan activities were covered by 206 media hits, including print, TV and electronic media with some of the most interesting links provided below.

➤ “The most sensitive moment is related to the whistleblowers”

<http://hurriyyet.org/7036-en-hessas-meqam-korrupsiya-faktlari-haqda-melumat-veren-shexslerle-baglidir.html>

- ASAN service was honored to the 1<sup>st</sup> place on "Electronic Development Index"  
<http://www.asanradio.az/news/4463>
- Every Fifth Inhabitant of Azerbaijan Considers Corruption Major Problem  
<http://www.contact.az/docs/2016/Politics/111600174937en.htm#.WC2JcfmLTIU>

### **Our Partners in 2016**

- ✓ Commission on Combating Corruption of the Republic of Azerbaijan
- ✓ Anti-corruption Department under General Prosecutor's Office
- ✓ Ministry of Justice
- ✓ Civil Service Commission
- ✓ Ministry of Labor and Social Protection of Population
- ✓ State Social Protection Fund
- ✓ State Committee on Property Issues
- ✓ State Registry of Real Estate
- ✓ Ministry of Communications and High Technologies
- ✓ State Committee for Architecture and Urban Building
- ✓ Ministry of Economy
- ✓ Ministry of Taxes
- ✓ Ministry of Emergency Situations
- ✓ the Local Executive Authority of Guba
- ✓ State Agency on Citizens' Services and Social Innovations
- ✓ ASAN Public Council
- ✓ Azerigas PU
- ✓ Azersu OJSC
- ✓ Azerishiq OJSC
- ✓ Eurasia Partnership Foundation
- ✓ Institute for Development of Freedom of Information
- ✓ the US-Educated Azerbaijani Alumni Association
- ✓ Azerbaijan Anti-Corruption Academy (AZAKA)
- ✓ Entrepreneurship Development Foundation
- ✓ Law and Development NGO
- ✓ "Constitution" Research Foundation
- ✓ Open Government Initiative Government - Civil Society Dialogue Platform
- ✓ Y-PEER Azerbaijan
- ✓ Centre of Broadcast Monitoring
- ✓ Towards a Civil Society Public Association
- ✓ "Youth-Club" Public Union
- ✓ Social Rehabilitation Center for Children with Disability (under United Aid for Azerbaijan (UAFA))

- ✓ School No 23 in Ganja

### **Cooperation with state agencies**

TI Azerbaijan has established good working relations with several public agencies that were expanded in 2016 pursuant to roundtables organized with Anti-Corruption Commission, State Committee for Architecture and Urban Building, State Registry of Real Estate and State Social Protection Fund.

### **Monitoring of recruitment to public agencies**

In 2016, TI Azerbaijan was invited by the Electoral Committee of Judges to be a part of independent observers at the examination of candidates for judges.

### **Monitoring of examination at educational institutions**

In 2016, TI Azerbaijan was invited by the Pedagogical University to monitor master degree exams.

### **2016 publications by Transparency Azerbaijan**

- 3<sup>rd</sup> Monitoring Report on the implementation of the Open Government Initiative National Action Plan for 2012-2015 (Reporting period January 2015 – December 2015)  
[http://transparency.az/alac/files/OGP\\_report\\_2016\\_FINAL\\_EN.pdf](http://transparency.az/alac/files/OGP_report_2016_FINAL_EN.pdf)
- Final Monitoring Report on the Implementation of the Open Government Initiative National Action Plan For 2012-2015 (September 2012 – December 2015)  
[http://www.transparency.az/alac/OGP\\_AZ\\_Report\\_Final\\_EN\\_Nov\\_2016.PDF](http://www.transparency.az/alac/OGP_AZ_Report_Final_EN_Nov_2016.PDF)
- 3<sup>rd</sup> Monitoring Report on Implementation of the National Anti-Corruption Action Plan for 2012-2015 (December 2014 – December 2015)  
<http://transparency.az/alac/files/Monitoring%20Report-3-CRF.pdf>
- Final Monitoring Report on the Implementation of the “National Anti-Corruption Action Plan 2012-2015” (September 2012 – December 2015)  
[http://www.transparency.az/alac/KAF\\_report\\_ENG.PDF](http://www.transparency.az/alac/KAF_report_ENG.PDF)
- 3<sup>rd</sup> Monitoring Report on the Implementation of Recommendations Provided To Public Agencies 2016  
[http://transparency.az/alac/files/MONITORING\\_REPORT\\_ON\\_IMPLEMENTATION\\_OF\\_RECOMMENDATION\\_2016.docx](http://transparency.az/alac/files/MONITORING_REPORT_ON_IMPLEMENTATION_OF_RECOMMENDATION_2016.docx)
- Final Monitoring Report on the Implementation of Recommendations Provided To Public Agencies (2012-2016)  
[http://transparency.az/alac/FINAL\\_REPORT\\_ENG.PDF](http://transparency.az/alac/FINAL_REPORT_ENG.PDF)
- Report on E-Development Index of State Agencies of Azerbaijan 2015-2016  
[http://www.transparency.az/alac/E-gov\\_report\\_eng.pdf](http://www.transparency.az/alac/E-gov_report_eng.pdf)

- The conclusion and recommendations of a roundtable dated 3 February 2016 on Registration of undocumented real estate  
<http://transparency.az/alac/files/R%C9%99smil%C9%99%C5%9Fdiril%C9%99%20bilinm%C9%99y%C9%99n%20da%C5%9F%C4%B1nmaz%20%C9%99mlak%C4%B1n%20d%C3%B6vl%C9%99t%20qeydiyyat%C4%B1%20%E2%80%9D%20m%C3%BCzakir%C9%99%20edibl%C9%99r%2024%20Fevral%202016.pdf>
- The conclusion and recommendations of a roundtable dated 19 February 2016 on social security and pension provision  
<http://transparency.az/alac/files/tovsiyeler.docx>
- Monitoring report on the quality of services in notary publics  
<http://transparency.az/alac/files/Notariat%20Kontorun%20Monitoring%20v%C9%99%20Qiyml%C9%99tl%C4%B1ndirm%C9%99%20Yekun%20Hesabat%C4%B1.pdf>
- Brochure on the new rates to property and land taxes with detailed explanation and the calculation procedure, along with examples  
<http://transparency.az/alac/files/emlak.pdf>
- Brochure on obtaining medical certificate for people willing to conclude marriage  
<http://transparency.az/alac/files/nikah.pdf>

**The link of online news bulletins:**

<http://transparency.az/cnews/bulleten/>

**Administrative issues**

- TA received re-accreditation in July 2016 by Transparency International. TI conducts review of its national chapters every three years to extend or withdraw accreditation or the right extended to national NGOs to represent the global network. (the previous accreditation was made in 2013).
- We have considerably upgraded our internal managerial documentation to reflect changes in the Azerbaijan legislation, regulating civil society and recommendations from the TI, pursuant re-accreditation.
- TI Azerbaijan elected new Board of Directors (see Table 2 below)
- A Council of Founders (consisting of previous board members: Fuad Suleymanov, Sabit Bagirov, Durdana Mamedova, Rena Safaraliyeva) was established under the new Board with advisory functions and approved Terms of References.
- The term of Rena Safaraliyeva as the Executive Director was extended for the third term of five years by the decision of Annual General Meeting dated 9 March 2016.
- Transparency Azerbaijan's Statute, 2<sup>nd</sup> edition was registered by the Ministry of Justice on 11 July 2016.

## Members of the Board and Executive

**Table 2.**

|   | <b>Name</b>      | <b>Main occupation</b>                                                                                          | <b>Role within TI Azerbaijan</b> |
|---|------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------|
| 1 | Alimamed Nuriyev | President, Constitution Research Fund, Coordinator, Information and Cooperation Network of Anti-Corruption NGOs | Board member, Chairman           |
| 2 | Hafiz Hasanov    | Chairman of "Law and Development" Public Association                                                            | Board Member                     |
| 3 | Vugar Askerov    | Head of the Legal Department, Civil Service Commission under the President of the Republic of Azerbaijan        | Board Member                     |
| 4 | Jeyhun Atayev    | Lead Manager on Corporate Social Responsibility and Public Relations, PASHA Bank                                | Board Member                     |
| 5 | Sevinj Samadzade | National coordinator, Youth Peer Education Network (Y-PEER)                                                     | Board Member                     |

### **Our employees and contact details**

Website: [www.transparency.az](http://www.transparency.az)

Facebook Page: <http://www.facebook.com/TransparencyAzerbaijan>

E-mail: [info@transparency.az](mailto:info@transparency.az)

**Table 3.**

| <b>Baku central office</b>                                                                |                                          |                   |                                                                                                                                 |                                                                    |
|-------------------------------------------------------------------------------------------|------------------------------------------|-------------------|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Baku, Azerbaijan, AZ 1009 Jafar Jabbarly street 16, floor 1, apt 7                        |                                          |                   |                                                                                                                                 |                                                                    |
| Tel: (994 12) 497 81 70; 497 68 15 Tel/Fax: (994 12) 596 20 38 Toll free: (088) 707 07 07 |                                          |                   |                                                                                                                                 |                                                                    |
|                                                                                           | <b>Position</b>                          | <b>Name</b>       | <b>Education</b>                                                                                                                | <b>E-mail</b>                                                      |
| 1                                                                                         | Executive Director                       | Rena Safaraliev   | Ph. D. degree in General Linguistics, Foreign Languages University, Moscow; Full Doctor degree, Azerbaijan Languages University | <a href="mailto:rena@transparency.az">rena@transparency.az</a>     |
| 2                                                                                         | Project Director                         | Elvin Yusifli     | Duquesne University, Master of Social and Public Policy, PA, USA                                                                | <a href="mailto:elvin@transparency.az">elvin@transparency.az</a>   |
| 3                                                                                         | Grantees Manager/PR and Media Specialist | Zumrud Ismayilova | MA in International Relations and European Studies, Central European University                                                 | <a href="mailto:zumrud@transparency.az">zumrud@transparency.az</a> |

|    |                                                       |                   |                                                                                     |                                                                          |
|----|-------------------------------------------------------|-------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| 6  | E-services and Business component project coordinator | Mahammad Muradov  | University of Paris-Sud 11<br>Master degree in diplomacy and strategic negotiations | <a href="mailto:mahammad@transparency.az">mahammad@transparency.az</a>   |
| 5  | Finance & Admin Manager                               | Zamina Aliyeva    | Baku Computer College, Diploma in Administration and IT                             | <a href="mailto:zamina@transparency.az">zamina@transparency.az</a>       |
| 7  | Accountant                                            | Natavan Hajiyeva  | Master's degree in Accounting, Public Economy Institute, Tashkent                   | <a href="mailto:natavan@transparency.az">natavan@transparency.az</a>     |
| 3  | Senior Lawyer                                         | Azer Talibov      | PhD student in Law, Baku State University                                           | <a href="mailto:azer@transparency.az">azer@transparency.az</a>           |
| 4  | Legal Analyst                                         | Ayten Alizamanli  | Bachelor Degree in Law, Baku State University                                       | <a href="mailto:ayten@transparency.az">ayten@transparency.az</a>         |
| 9  | ICT and Social Networks coordinator                   | Agil Mammadzade   | Bachelor in Computer Science, Academy of Public Administration                      | <a href="mailto:agil@transparency.az">agil@transparency.az</a>           |
| 10 | Youth component coordinator                           | Bakhtiyar Aslanov | Master degree in Peace Studies, Uppsala University, Uppsala, Sweden                 | <a href="mailto:bakhtiyar@transparency.az">bakhtiyar@transparency.az</a> |
| 11 | Office assistant                                      | Elnara Valiyeva   | Bachelor degree in Physics, Baku State University                                   | <a href="mailto:elnara@transparency.az">elnara@transparency.az</a>       |

**Ganja center**

Ganja - H.Aliyev pr. 321/2

Tel/fax: (+994 22) 266 26 05 Toll free: (088) 202 02 02

|    |                        |                   |                                                               |                                                                    |
|----|------------------------|-------------------|---------------------------------------------------------------|--------------------------------------------------------------------|
| 12 | Lawyer/Office Director | Sevinj Suleymanli | Bachelor's degree in Law, Azerbaijan International University | <a href="mailto:sevinj@transparency.az">sevinj@transparency.az</a> |
| 13 | Project Assistant      | Lala Abdullayeva  | Bachelor's degree in Journalism, Baku State University        | <a href="mailto:lala@transparency.az">lala@transparency.az</a>     |

**Guba centre**

Guba AZ 4000, Azerbaijan Fatalikhan str, 65

Tel/fax: (994 169) 35 14 91 Toll free: (088) 404 04 04

|    |                        |               |                                                                                                      |                                                                  |
|----|------------------------|---------------|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| 14 | Lawyer/Office Director | Eldar Kerimov | Master's degree in Law, St. Petersburg State University                                              | <a href="mailto:eldar@transparency.az">eldar@transparency.az</a> |
| 15 | Assistant              | Imran Askerov | Certificate in Collective Farm Inspecting, Baku Executive Committee Trade Enterprise Training Centre | <a href="mailto:imran@transparency.az">imran@transparency.az</a> |

**Financial Data:**

**Table 4. Summary of TI Azerbaijan 2016 financial data in Euro**

|                                                           |         |
|-----------------------------------------------------------|---------|
| Revenue                                                   | 294,710 |
| Equity/ reserves at the beginning of the reporting period | 289,907 |
| Expenses                                                  | 289,692 |
| Net reserves at the end of the reporting period           | 294,926 |
| Surplus/Deficit for the year                              | 5,019   |

**Control mechanisms**

We employ the “four eyes” internal control mechanism, i.e. all financial reports are compiled and cross checked by our financial manager and accountant. Financial statements and originals of supporting documents are regularly checked by donors (currently USAID) in line with their procedures. Some of the projects are audited individually. The project activities, as well as annual financial transactions and records keeping activities in 2016 at Transparency Azerbaijan were subject to an independent audit conducted by GACC, a Georgian auditing firm in April 2017. (See table 4 for the results) Annual audit reports are available on TI Azerbaijan website.

**Compiled by:**

Zumrud Ismayilova

APT Grantees Manager/PR and Media Specialist