

Azerbaijan

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Azerbaijan	
Sanctions:	OSCE - Weapons
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	US Dept of State Money Laundering Assessment Non - Compliance with FATF 40 + 9 Recommendations
<p>Major Investment Areas:</p> <p>Agriculture - products: cotton, grain, rice, grapes, fruit, vegetables, tea, tobacco; cattle, pigs, sheep, goats</p> <p>Industries: petroleum and natural gas, petroleum products, oilfield equipment; steel, iron ore; cement; chemicals and petrochemicals; textile</p> <p>Exports - commodities: oil and gas 90%, machinery, cotton, foodstuffs</p> <p>Exports - partners: Italy 25.9%, France 7.7%, India 6.7%, Indonesia 6.6%, Germany 5.6%, Israel 5.1% (2012)</p> <p>Imports - commodities: machinery and equipment, oil products, foodstuffs, metals, chemicals</p> <p>Imports - partners: Turkey 18.6%, Russia 14.3%, China 7.8%, Germany 7.2%, UK 7.1%, US 5.1%, Ukraine 5% (2012)</p>	

Investment Restrictions:

The Law on Protection of Foreign Investments permits foreign direct investment in any activity in which a national investor may also invest, unless otherwise prohibited by law. Prohibited areas include those relating to national security and defense. The Government of Azerbaijan also exerts some measure of control over other key sectors, such as energy and communications.

In sectors of interest to certain senior government and political figures, competition is actively impeded through administrative barriers.

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Section 1 - Background

Azerbaijan - a nation with a majority-Turkic and majority-Shia Muslim population - was briefly independent (from 1918 to 1920) following the collapse of the Russian Empire; it was subsequently incorporated into the Soviet Union for seven decades. Azerbaijan has yet to resolve its conflict with Armenia over Nagorno-Karabakh, a primarily Armenian-populated region that Moscow recognized in 1923 as an autonomous region within Soviet Azerbaijan after Armenia and Azerbaijan disputed the status of the territory. Armenia and Azerbaijan began fighting over the area in 1988; the struggle escalated after both countries attained independence from the Soviet Union in 1991. By May 1994, when a cease-fire took hold, ethnic Armenian forces held not only Nagorno-Karabakh but also seven surrounding provinces in the territory of Azerbaijan. The OSCE Minsk Group, co-chaired by the United States, France, and Russia, is the framework established to mediate a peaceful resolution of the conflict. Corruption in the country is widespread, and the government, which eliminated presidential term limits in a 2009 referendum, has been accused of authoritarianism. Although the poverty rate has been reduced and infrastructure investment has increased substantially in recent years due to revenue from oil and gas production, reforms have not adequately addressed weaknesses in most government institutions, particularly in the education and health sectors. In January 2012, Azerbaijan assumed a nonpermanent seat on the UN Security Council for the 2012-13 term.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Azerbaijan is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Azerbaijan was undertaken by the Financial Action Task Force (FATF) in 2015. According to that Evaluation, Azerbaijan was deemed Compliant for 4 and Largely Compliant for 25 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

Key findings

Azerbaijan's strategic position is attractive for criminals and organised crime groups, this being strengthened by the existing transportation infrastructure. The main risks presented by the location of the country are connected above all with drug trafficking (mostly originating from Afghanistan with the destination in Europe or Russia) and human smuggling (where Azerbaijan figures both as a transit country and the country of origin). The most common predicate offences for money laundering are theft, fraud, tax evasion, embezzlement, drug and weapons production and trafficking, smuggling and corruption. The most common predicate offences, based on the structure of the disclosures received by law enforcement agencies from the Financial Monitoring Service (FMS), are tax evasion, counting for more than 75%, followed by corruption (almost 10%), embezzlement, fraud, drug crimes and cybercrime.

Although Azerbaijan has taken steps to address the recommendations made in the 3rd round report related to the criminalisation of money laundering and the financing of terrorism, deficiencies remain. Acquisition, possession or use of property is criminalised only with respect to "significant amounts", provided that the purposive element of "concealing or disguising the illicit origin of the funds or other property" is satisfied. The law does not provide explicitly that the criminal intent, knowledge or purpose can be inferred from objective factual circumstances. With regard to the financing of terrorism, the Criminal Code does not provide a definition of individual terrorist or terrorist organisation, nor does it refer to the Terrorist Financing Law for such definitions.

Criminal liability for money laundering and the financing of terrorism has not been extended to legal persons. This has an impact in limiting prosecutions for money laundering and the financing of terrorism and also in the provision of mutual legal assistance.

The criminalisation of money laundering has not been effectively applied. There a low number of convictions for money laundering and no cases of stand-alone and autonomous money laundering.

Confiscation of proceeds and instrumentalities is now mandatory when a conviction has been secured for a proceeds-generating crime and confiscation is available for all predicate offences to money laundering. However, property can only be taken from third parties when they knew or ought to have known that it had been obtained by criminal means, regardless of whether they obtained it for value or not. There is a lack of clarity on whether confiscation of indirect proceeds and corresponding value are routinely made. Also, the effectiveness of confiscation in predicate offences to ML was not demonstrated to the evaluators

The Financial Monitoring Service (FMS) has been established as the national centre to gather, analyse and submit financial information to relevant law enforcement agencies. The FMS appears to be well resourced and operating effectively. However, the authority of the FMS to disseminate reports is limited to the General Prosecutor's Office (GPO) and the Ministry of National Security. There is a lack of safeguards for removing the FMSs management from office and this could generate vulnerabilities for the system towards risks of undue influence or interference.

The AML/CFT Law prescribes obligations for reporting entities to apply preventive measures, including customer due diligence and identification of politically exposed persons. Although financial institutions appeared to have a good understanding of the requirements, they still establish business relationships in circumstances where a foreign legal person who is a beneficial owner is not identified.

Reporting requirements have been introduced and reports are being received by the FMS. However no suspicious transaction reports have been submitted by DNFBPs and only one by a non-banking financial institution. This brings the effectiveness of the regime in the non-banking sectors into question.

Sanctions available for infringements of the AML/CFT preventive regime are not effective, proportionate or dissuasive. Very few sanctions had been applied in practice, with no sanctions at all being applied to senior management.

There is inadequate AML/CFT supervisory over the operations of post offices. Other supervisors are in the process of adopting risk-based supervision.

The AML/CFT Law contains an exemption for small businesses from implementing an internal control system. This provides an exemption from a number of controls for smaller businesses. This exemption could increase the vulnerability of small businesses to the risk of being used for the purposes of money laundering and the financing of terrorism.

There is no requirement for information on beneficial ownership to be collected or made available by state authorities. The registration system does not provide adequate access to up-to-date information on beneficial ownership in a timely manner. Barriers are in place which makes it difficult for financial institutions to request ownership information from state registers of legal persons.

US Department of State Money Laundering assessment (INCSR)

Azerbaijan was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Azerbaijan is a country with considerable natural resources located at the crossroads of Europe, the Middle East, and central Asia. In 2015 the energy sector was responsible for over 90 percent of the country's trade receipts and was the target for most of the foreign investment. All other economic activities lag energy in development and sophistication. The financial sector was hit hard in 2015 by two devaluations of the manat. The currency value dropped in total almost 99 percent from the start of the year. These economic factors, coupled with the history, long-standing trade relationships, and common borders the country shares with Iran and Russia, make Azerbaijan's financial institutions vulnerable to being used by foreign entities seeking money laundering/terrorist financing opportunities.

The major source of criminal proceeds in Azerbaijan is endemic corruption, which affects all sectors of government and commerce. International reports identify Azerbaijan as a transit country for the Afghan drug trade, and Azerbaijani authorities suspect narcotics trafficking generates a significant amount of illicit funds. It is likely the current international sanctions in Iran have increased the volume of illicit funds flowing through Azerbaijan; changes to the sanctions regime, which may occur in 2016 under the Joint Comprehensive Plan of Action (JCPOA), seem unlikely to close down this activity completely. Other generators of illicit funds include robbery, tax evasion, smuggling, trafficking, and organized crime. Money laundering occurs in the formal financial sector as well as in the non-bank financial entities and alternative remittance systems. There is a significant black market for smuggled goods in Azerbaijan and illicit goods also transit the country.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO
KYC covered entities: Banks; insurance and reinsurance companies and intermediaries; notaries, lawyers, and auditors; company formation agents and asset managers; real estate brokers and agents; pawnshops; securities brokers and investment funds; lotteries; the National Post; and nongovernmental organizations (NGOs)

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 787: January 1 – December 28, 2015

Number of CTRs received and time frame: 349,051: January 1 – December 28, 2015
STR covered entities: Banks and money remitters; insurance and reinsurance companies and intermediaries; securities brokers and investment funds; leasing companies; company formation agents and asset managers; lawyers and auditors; real estate brokers and agents; lotteries; pawnshops; and NGOs

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 1: January 1 – December 1, 2015

Convictions: 1 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

Azerbaijan is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Azerbaijan has made efforts in recent years to address its vulnerability to money laundering and terrorist financing. The Financial Monitoring Service (FMS), Azerbaijan's financial intelligence unit, has continued to improve its data collection, storage, and analysis. It is forward leaning in attempting to train personnel. However, the lack of interagency cooperation and the inadequate training levels significantly diminish its analytic abilities. In 2015, the FMS referred 43 reports to law enforcement agencies for investigation. Of the reports, 33 were for money laundering and 10 for terrorist financing.

The Anti-Money Laundering law excludes dealers of arts, antiques, and other high-value consumer goods; entities dealing with jewelry and precious metals; travel agencies; and auto dealers from the list of covered entities. These entities are not required to maintain customer information or report suspicious activity.

Corruption in the public sector remains a major concern, although the Government of Azerbaijan announced several reforms late in the year to streamline customs administration and business licensing procedures that reduce opportunities for low-level corruption. The small number of prosecutions and convictions suggests, in part, that there is too much emphasis on initiating money laundering investigations via the filing of suspicious transaction reports (STRs) and referrals by the FMS. Azerbaijani law enforcement and customs authorities should receive additional training to recognize money laundering at the street and port levels. Concerned enforcement agencies also should examine regional trade-based money laundering and value transfer networks, and the link to tax evasion and underground financial systems. Oversight of designated non-financial businesses and professions should be increased and relevant entities should be added to the list of covered entities.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Azerbaijan conforms with regard to all government legislation required to combat money laundering

EU White list of Equivalent Jurisdictions

Azerbaijan is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Azerbaijan is not considered to be an Offshore Financial Centre

Reports**US State Dept Narcotics Report 2016:**

Azerbaijan remains a transit country for illicit narcotics given its location along major drug trafficking routes from Afghanistan and Iran to Europe and Russia. The country is increasingly favored as a transit route for drugs over neighbors such as Turkey, which has strengthened its border controls in recent years. Azerbaijan's Ministry of Internal Affairs estimated in 2014 that between 5.8 and seven metric tons (MT) of illegal drugs transit Azerbaijan annually, much of it through the country's southern border with Iran. The Ministry of Internal Affairs also reported in 2014 that it intercepts approximately 10-12 percent of all narcotics transiting the country. As a result of the long-standing dispute with Armenia and the continued occupation by Armenian-backed forces of Nagorno-Karabakh and Azerbaijani territories, the Government of Azerbaijan has continued to express its concern over its inability to secure international borders in the occupied territories and Nagorno-Karabakh.

Drug seizures and arrest statistics for the first six months of 2015 suggest similar trends from previous years. Over this six-month period, the Ministry of Internal Affairs reported investigations of 1807 drug related criminal acts, including 478 drug sales committed by 22 criminal groups consisting of 77 persons. This resulted in over 1250 drug related convictions. Of these convictions, 1115 defendants (88.7 percent) were unemployed and not enrolled in any educational institution. Recidivists accounted for 466 (37.1 percent) convictions, and only 15 convictions (1.2 percent) involved women.

Azerbaijani media reported two large-scale marijuana seizures in early 2015. Over 1.45 MT of marijuana were seized in the Dashkesan region and over 3.6 MT of marijuana in the Goranboy region. Comprehensive seizure statistics for 2015 were not available at the time of this report.

As officially reported, domestic drug use and cultivation exist on a relatively small scale, although the Government of Azerbaijan may underestimate the scope of the problem. Government-sponsored programs targeting drug abuse remain inadequate, and drug treatment centers in Azerbaijan would benefit from increased support.

US State Dept Trafficking in Persons Report 2014 (introduction):

Azerbaijan is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Azerbaijan is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. Azerbaijani men and boys are subjected to conditions of forced labor in Russia and in Azerbaijan. Women and children from Azerbaijan are subjected to sex trafficking within the country and in the United Arab Emirates (UAE), Turkey, Russia, Iran, and Sweden. Some migrant workers from Turkey, as well as Turkmenistan, Uzbekistan, Afghanistan, the Philippines, Romania, India, and Ukraine are subjected to conditions of forced labor in Azerbaijan. Azerbaijan has been used as a transit country for

victims of sex and labor trafficking from Central Asia to the UAE, Turkey, and Iran. Within the country, some children, particularly those of Romani descent, are subjected to forced begging and to forced labor as roadside vendors and at tea houses and wedding facilities. Domestic servitude of Filipina victims in Azerbaijan is an emerging problem. Women from internally displaced persons settlements and street children—children released from correctional facilities, orphanages, and state-run boarding schools who end up homeless—are especially vulnerable to trafficking.

The Government of Azerbaijan does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the reporting period, the government amended its trafficking laws to better conform to international law and continued to provide protection and reintegration services to trafficking victims. However, the government continued to identify only a limited number of foreign trafficking victims and did not demonstrate a sustained effort to thoroughly investigate companies that allegedly engaged in forced labor of migrant workers. Pervasive corruption also limited the effectiveness of anti-trafficking regulations and mechanisms.

US State Dept Terrorism Report 2015

Overview: Azerbaijan maintained its strong counterterrorism cooperation with the United States and actively opposed terrorist organizations seeking to move people, money, and materiel through the Caucasus. The country remained focused on counterterrorism efforts that included prosecuting numerous individuals under statutes related to terrorism; confiscating sizeable quantities of illegal arms and munitions; and arresting foreign terrorist fighters returning to Azerbaijan from conflicts abroad.

Azerbaijan indicated its strong willingness to counter the Islamic State of Iraq and the Levant (ISIL) by sharing information, working to disrupt the flow of foreign terrorist fighters to Iraq and Syria, and countering illicit funding of terrorist groups there. Senior leaders, including the heads of the Caucasus Muslim Board and the State Committee for Work with Religious Associations, took steps to counter ISIL and al-Qa'ida ideology publicly. In mid-December, the Ministry of Foreign Affairs announced Azerbaijan was considering joining the Saudi Arabia-led Islamic Coalition Against Terror. Azerbaijan participated in the September President's Summit on Violent Extremism, which the White House organized on the margins of the 2015 UN General Assembly.

Legislation, Law Enforcement, and Border Security: Azerbaijan continued to use counterterrorism legislation, first adopted in 1999, that governs the investigation and prosecution of individuals who have committed or plan to commit terrorist acts. The Ministry of National Security (MNS) leads counterterrorism efforts, working closely with the Ministry of Internal Affairs and the Prosecutor General's Office.

Among its various duties, MNS is charged with the task of identifying and preventing the criminal activities of terrorist groups, and combatting international terrorism and transnational crimes. MNS underwent major personnel and organizational changes in 2015. In mid-December, the President of Azerbaijan signed a decree splitting MNS into two organizations – the State Security Service and Foreign Intelligence Service. At the end of 2015, it was unclear how the counterterrorism roles of the new services would be defined and how their efforts would be integrated.

As the country's primary law enforcement agency, the Ministry of Internal Affairs has key responsibilities for fighting terrorism. Specific counterterrorism actions are taken through the Ministry's Organized Crime Unit. The Prosecutor General's Office maintains responsibility for prosecuting individuals for terrorism, conspiracy to commit terrorism, conspiracy to aid terrorism, and other terrorism-related crimes.

The Azerbaijani government has effectively demonstrated the ability to detect and deter terrorist activities, as well as prosecute foreign terrorist fighters returning to Azerbaijan. Authorities effectively use terrorist and criminal watchlists and biographic/biometric information to screen travelers at ports of entry. Information sharing within the host government and with other countries was strong. Collection of Advance Passenger Information and Passenger Name Records on commercial flights occurred on some flights.

On December 4, the parliament adopted a Law on Fighting Religious Extremism. The 15-provision law clarifies the legal bases for identifying and prosecuting cases of religious extremism and fanaticism that lead to terrorism, and links criminal, administrative, and civil responsibilities for violations. At the same time, a new amendment to the Criminal Code was introduced, which triggered harsher punishments for violating procedures for Islamic religious ceremonies, particularly by citizens who received religious education abroad, with up to one year imprisonment or fines from US \$600 up to US \$3,000. In cases of "religious propaganda" by foreigners and stateless persons, the punishment was newly set at one to two years in prison.

On December 5, the president signed into law new amendments to the Law on Religious Freedom. The new amendments expanded restrictions on the use of religious symbols and slogans, which may only be used inside places of worship.

A new amendment introduced on December 5, 2015, to the Law on Citizenship, first adopted in 1998, specifies new grounds of losing citizenships, including: participating in terrorist actions, participating in religious extremist actions or military trainings abroad under the guise of receiving religious education, proselytizing religious doctrines on grounds of animosity, and participating in religious conflicts in a foreign country under the guise of religious rituals.

Throughout the year, there were reports of terrorist acts being prevented in Azerbaijan. However, it is unclear whether some of these preventative actions were taken against bona fide terrorist threats or were designed to curb the activities of heretofore non-violent independent religious activists. In November, for example, the Prosecutor General's Office issued a statement that Taleh Bagirov (Bagirzade), a former political prisoner and religious activist, was planning, with his followers, to overthrow the government. The government alleged he had stored ammunition and explosives in the village of Nardaran, about 24 km north of the capital. The Ministry of Interior and the Prosecutor General's Office conducted special operations in the area during which authorities arrested more than a dozen people and claimed to find significant caches of weapons and ammunition. During the operation, five people suspected of violent religious extremism were killed, along with two police officers. Criminal cases were opened against the detained suspects, which were ongoing at the end of 2015. Some democracy and human rights advocates believe the charges were fabricated.

Countering the Financing of Terrorism: Azerbaijan is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the

Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body. Its Financial Monitoring Service is a member of the Egmont Group. Azerbaijan has increased its professionalism in anti-money laundering/combating the financing of terrorism (AML/CFT) efforts since 2009, when it adopted AML/CFT legislation. This legislation created a financial intelligence unit, the Financial Monitoring Service (FMS), under Azerbaijan's Central Bank, and imposed requirements on financial institutions to conduct customer due diligence and report suspicious transactions to the FMS. Monetary Institutions operating outside the formal financial sector are often not required to report transactions, which is a vulnerability in the system.

In 2015, in a decree signed by the President regarding terrorism financing, the Cabinet of Ministers was charged with making suggestions for changes to the Civil Procedure Code. Changes may include expanding existing laws for use in the fight against terrorism and the financing of terrorism. The Cabinet was also charged with developing additional regulations to freeze the assets of both physical and legal entities.

To bring Azerbaijan's legislation into conformity with international standards, including those of the UN, the EU, and the FATF, Azerbaijan continued to implement MONEYVAL recommendations to address AML/CFT issues. The U.S. government has been one of the FMS' leading partners since its formation, and currently works through Treasury and the FDIC to provide technical assistance and training to the Azerbaijani prosecutors to improve enforcement capabilities. USAID has also supported these efforts.

Countering Violent Extremism: The State Committee for Work with Religious Organizations, together with the Azerbaijan-based Caucasus Muslims Office, took steps to monitor religious sermons in some mosques in order to counter any calls to violence.

International and Regional Cooperation: Azerbaijan remained an active member of the OSCE, the Organization of Islamic Cooperation, and other regional organizations. Azerbaijan also continued to work with NATO on counterterrorism initiatives. In December, Azerbaijan indicated it was considering joining the new Saudi Arabia-led Islamic Coalition Against Terror.

International Sanctions

In February 1992, the Organisation for Security and Co-operation in Europe (OSCE) requested that all OSCE participating states should introduce an embargo on 'all deliveries of weapons and munitions to forces engaged in combat in the Nagorno-Karabakh area'. This embargo is still in force.

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	30
World Governance Indicator – Control of Corruption	20

US State Department

Pervasive corruption – including bribery of public officials – continues to be a major challenge for U.S. and other international firms operating in Azerbaijan. Although anti-corruption legislation is in place, corrupt practices permeate all spheres of public life. Officials from the lowest ranks of the civil service to the top echelons of government are believed to benefit from systemic corruption in the country.

The Government of Azerbaijan recognizes that corruption is a problem but, to date, laws and regulations to combat corruption have not been effectively or consistently enforced. Azerbaijan has made modest progress in implementing a 2005 Anticorruption Law, which created a commission with the authority to require full financial disclosure from government officials.

On September 5, 2012, President Aliyev issued a decree for a National Action Plan on Open Government and a National Action Plan on Combating Corruption. ASAN service centers created by the State Agency for Public Service and Social Innovations, under the President of the Republic of Azerbaijan, were established in July 2012 by Presidential decree and became operational in February 2013. These centers provide 23 government services from nine state entities, including the registration of commercial legal entities and tax payers, notary services, state registration of civil status acts, and the renewal of identity cards/passports of citizens. ASAN centers are intended to provide more transparent and accountable services through a “one window” model that reduces opportunities for rent-seeking and petty government corruption.

In 2013, Azerbaijan’s modest improvements in combating petty corruption were reflected in the global anticorruption watchdog Transparency International, which ranked Azerbaijan 128 out of 177 countries on its Corruption Perceptions Index, up from 139 a year before. Popular opinion identifies the State Customs Committee as the institution of greatest concern to businesses in Azerbaijan, followed by the Ministry of Taxes – though the reputation of the tax authorities has enjoyed some improvement in the past year as corruption-reducing reforms have been implemented. Transparency’s 2013 Global Corruption Barometer – which examined bribery involved in people’s contact with customs, education, the judiciary, land related services, medical services, the police, registry and permit services, tax authorities and utilities – found that roughly 50% of Azerbaijani respondents had paid a bribe to one of the nine service providers in the twelve preceding months. Azerbaijan is a party to the United Nations Convention against Corruption (UN Convention) and a signatory to the Council of Europe Criminal and Civil Law Conventions. Azerbaijan is not currently a party to the Organization for Economic Cooperation and Development Anti-Bribery Convention.

Azerbaijan has also been a participant in the Extractive Industries Transparency Initiative (EITI). In 2009, Azerbaijan became the first participating country to become fully compliant with EITI requirements. Azerbaijan's EITI reports do not currently provide data on a company-by-company basis – which is optional – but citizen groups in Azerbaijan are encouraging companies to do so.

Corruption and Government Transparency - Report by Global Security

The Political Climate

Azerbaijan is a transitional economy with important oil reserves and significant agricultural potential. In the years preceding the global financial crisis, Azerbaijan performed impressively, with double digit real GDP figures, backed by growth in the oil and energy sector. Although the government of Azerbaijan consists of three branches, the institutional setup ensures a strong role for the president and the executive branch. The strong presidential influence has resulted in the lack of independency of the Parliament (Milli Majlis) and the judiciary and has further contributed to an environment riddled with corruption and impunity. In Azerbaijan, the high-level government officials are almost never prosecuted for corruption, according to Freedom House 2013. Azerbaijan voted to lift the country's two-term presidential limit, enabling President Ilham Aliyev to be re-elected indefinitely. In the November 2010 parliamentary elections, the ruling party of Ilham Aliyev won with a majority of seats. Some foreign observers had reported flaws in the elections, while others described it as more democratic than previously, according to a 2010 article by PressTv. In 2013, President Aliyev became the "Corruption's Person of the Year", according to the Organised Crime and Corruption Reporting Project (OCCRP). The evaluation has been justified by documented evidence showing the family of the President has been involved in taking over the private sector of Azerbaijan for a long period of time, as reports by a 2013 article by Radio Free Europe. Members of Aliyev's family reportedly own a large share of the country's gold mining, banking, construction and telecom industries, according to Freedom House 2013.

It is widely recognised that corruption is deeply institutionalised throughout Azerbaijani society and poses an obstacle to both social and economic development, as illustrated by both the US Department of State 2013 and Global Integrity 2011. The political system is paternalistic and patronage-based, consisting of networks of central persons in the administration distributing revenues - especially from the massive exploitation of oil and gas - among themselves and other strategically important figures at the expense of the generally impoverished population. Public officials at all levels are rarely held accountable for engaging in corrupt practices, according to the Bertelsmann Foundation 2012. The same report notes that in 2011, the Azerbaijani government launched an anti-corruption campaign to try to gain back the trust of the public and avoid the fate of countries which have witnessed the Arab Spring. As a consequence of the campaign, many high-level officials were dismissed. The most prominent corruption case involved a high-profile member of Azerbaijan's ruling party, Gulyar Ahmadova. In February 2013, Ahmadova was charged with abuse of functions, embezzlement and active bribery in exchange for keeping her seat in Parliament, according to a 2013 article by Radio Free Europe. The investigation is still ongoing; however, if found guilty on all corruption charges, Ahmadova could face 12 years' imprisonment.

Since his inauguration in 2003, the President has decreed several anti-corruption initiatives, most notably the adoption of the Law on Combating Corruption in 2004 and the establishment of the Commission on Combating Corruption (CCC) in 2005. In September 2012, the Government of Azerbaijan has approved a new National Anti-Corruption Plan 2012-2015 aimed at improving institutional collaboration in investigating and prosecuting corruption cases and establishing a better whistleblower protection, according to a 2013 report by the European Commission. Independent observers report, however, that the anti-corruption measures and policies lack enforcement and have not improved the level of accountability of Azerbaijan's politicians. According to Transparency International's Global Corruption Barometer 2013, 28% of surveyed Azerbaijani households perceive that the level of corruption has increased a lot over the past two years. Furthermore, 15% believe that the government's actions to fight corruption are ineffective. In addition, 37% of the surveyed households have reported that corruption constitutes a very serious problem in the public sector in Azerbaijan. Similarly, business executives surveyed in the World Economic Forum's Global Competitiveness Report 2013-2014 reveal that the level of public trust in political remains relatively low.

Business and Corruption

Azerbaijan's economy continues to undergo transformation and restructuring. In addition to its openness towards global trade, relatively moderate taxation and government spending have been essential to the transition towards greater economic freedom. Nonetheless, Azerbaijan remains a challenging market for doing business, not least due to the systemic level of corruption, which has deterred many potential investors from entering the market. Similarly, non-transparent and arbitrary regulations, corrupt government bureaucracy, weak legal institutions and a private sector regulated according to politically connected monopolistic interests have severely hampered foreign direct investment in the country, according to the US Department of State 2013. This is supported by the World Economic Forum's Global Competitiveness Report 2013-2014, which outlines that the favoritism of government officials when deciding upon policies and contracts is an obstacle to doing business in the country and that public funds are commonly diverted to well-connected individuals, companies or groups due to corruption. Despite property rights regulation being adequately defined in Azerbaijan, the efficiency of regulations and property rights registration procedures are significantly undermined by interference of high-level officials with the aim of soliciting bribes, according to the Bertelsmann Foundation 2012. Several cases are known where the Azerbaijani state has seized private companies and given them away to new owners for the political reasons, reports the same source.

In Azerbaijan, government and business elites are strongly interlinked as top officials regularly invest in strategic industries. The Global Competitiveness Report 2013-2014 reports that Azerbaijan performs poorly in relation to the ethical behaviour of companies in interactions with public officials, politicians and other companies. Moreover, government members control companies and influential elites treat state companies as private property. This is further reinforced by Freedom House 2013, which notes that a large part of the economy is controlled by corrupt high-level officials, which significantly limits the equality of investment opportunity among companies. The intermingling of political and business interests is exemplified in the US Department of State 2013 report, which describes how the Azerbaijan State Caspian Shipping Company (CASPAR) and the national airline (AZAL) have effectively

blocked foreign companies from entering their respective markets by using their mirror regulatory authorities to set up barriers for foreign investment in the sectors.

The country has few institutional checks on graft and the rapid growth in the energy sector has offered considerable opportunities for the institutionalisation of corruption. According to Transparency International's Global Corruption Barometer 2013, corruption within the business and private sectors is perceived to be relatively widespread, with more than one-third of all respondents evaluating the sector to be "extremely corrupt". Business executives surveyed in the Global Competitiveness Report 2013-2014 identify corruption as the most problematic factor for establishing business in Azerbaijan. The US Department of State 2013 reports that foreign companies operating in Azerbaijan experience limited access to market and discrimination upon entering certain sectors. The procedures connected with obtaining business licences and credits are used as administrative barriers to impede the competition in strategic sectors and elicit bribes. Given these reasons, companies are recommended to use a specialised public procurement due diligence tool in order to help mitigate the costs and risks of corruption when doing business in Azerbaijan. In addition, companies are recommended to develop and implement integrity systems, and to carry out extensive due diligence before committing funds or when already operating in the country.

Regulatory Environment

Corruption is institutionalised in the Azerbaijani bureaucracy. Companies are frequently faced with highly bureaucratic regulatory environment, offering endless opportunities to demand bribes in exchange for undue advantages. The US Department of State 2013 reports that the country has worked to improve its regulatory system over the past several years, yet allegations of corruption, lack of transparency and politically connected economic monopolies remain among the greatest obstacles for companies operating in Azerbaijan. Furthermore, according to the US Department of State 2013, the publication and the implementation of the adopted anti-corruption legislation and regulations in Azerbaijan are either majorly delayed or not executed at all.

As a result of a non-transparent regulatory environment, companies operating in Azerbaijan may face serious problems when obtaining the required licences for doing business, including continual demands for bribes from public officials. Companies surveyed in the World Economic Forum's Global Competitiveness Report 2013-2014 identify inefficient government bureaucracy and tax regulations to be among the most problematic factors for doing business in the country. On a more positive note, the US Department of State 2013 reports that the government has created a new business registration mechanism based on the principle of a one-stop shop under the Ministry of Taxes, allowing companies to register within three days. However, Doing Business 2013 notes that it takes 11 days for companies to register property, which is longer than initially intended by the government. The tax administration does also present obstacles for businesses in Azerbaijan as tax authorities have a reputation as being notoriously corrupt. The Law on Protection of Foreign Investments permits foreign direct investment in most sectors. Prohibited areas include those relating to national security and defence, and the government carefully controls other key sectors, such as energy and communications.

Azerbaijan has passed several pieces of anti-corruption legislation, including laws regulating gifts to civil servants and ministerial relations with private companies. However, laws and

regulations that exist to combat corruption are not effectively enforced, with corruption in the regulatory, tax and dispute settlement systems being most pervasive, according to the US Department of State 2013. Problems in the quality, reliability and transparency of governance, as well as abuse of the regulatory system and poor contract enforcement, significantly impede the ability of many companies to do business in Azerbaijan. Business executives surveyed in the Global Competitiveness Report 2013-2014 report that the judiciary is not independent from political influences of members of government, citizens or companies, which could negatively influence the amount of time required for appeals process and dispute settlement. The Law on International Arbitration of 2000 allows international arbitration of commercial disputes to be conducted both in Azerbaijan and in any foreign jurisdiction mutually agreed upon by the parties. Azerbaijan is a signatory to several international conventions regulating the mutual acceptance and enforcement of foreign arbitration, including the New York Convention 1958, and is a member of the International Centre for the Settlement of Investment Disputes (ICSID). Access the Lexadin World Law Guide for a collection of arbitration and other laws in Azerbaijan.

Oil and Gas Sector

Corruption and Progress in Azerbaijan's Oil and Gas Sector

The remarkable growth in Azerbaijan's market economy can be explained by the rapidly increasing production and export of oil and gas. The oil and gas sector accounts for more than 70% of Azerbaijan's exports and for 60% of its GDP. The state holds huge interests in the sector, and there are close links between the oil and gas industry and governmental institutions. Despite measures taken by the government to address issues of corruption and transparency, accusations of corruption and irregular practices in the oil sector continue. For instance, according to the US Department of State 2011, the oil and gas sector is considered by many to be one of the greatest sources of corruption within the country, despite the fact that Azerbaijan was named the first participating country to be fully compliant with the Extractive Industries Transparency Initiative (EITI) principles and criteria in 2009.

Azerbaijan created the State Oil Fund (SOFAZ) in 1999 to collect and manage oil revenues. SOFAZ contributes to the state budget to support investments in infrastructure, education, poverty reduction and other social projects. International and local NGOs claim that SOFAZ is under the control of the Presidential Bureau and that massive fraud and misappropriation of the fund's money by top politicians and officials has taken place. For example, the government spent a large sum of money from SOFAZ to pay pensions and raise civil service salaries in a presidential election year. Furthermore, local NGOs have accused SOFAZ of funding development in the oil sector instead of strengthening other sectors in the country.

Section 3 - Economy

Azerbaijan's high economic growth has been attributable to large and growing oil and gas exports, but some non-export sectors also featured double-digit growth, including construction, banking, and real estate. Oil exports through the Baku-Tbilisi-Ceyhan Pipeline, the Baku-Novorossiysk, and the Baku-Supsa pipelines remain the main economic driver, but efforts to boost Azerbaijan's gas production are underway. The eventual completion of the geopolitically important Southern Gas Corridor between Azerbaijan and Europe will open up another, albeit, smaller source of revenue from gas exports. Azerbaijan has made only limited progress on instituting market-based economic reforms. Pervasive public and private sector corruption and structural economic inefficiencies remain a drag on long-term growth, particularly in non-energy sectors. Several other obstacles impede Azerbaijan's economic progress, including the need for stepped up foreign investment in the non-energy sector and the continuing conflict with Armenia over the Nagorno-Karabakh region. Trade with Russia and the other former Soviet republics is declining in importance, while trade is building with Turkey and the nations of Europe. Long-term prospects depend on world oil prices, Azerbaijan's ability to negotiate export routes for its growing gas production, and its ability to use its energy wealth to promote growth and spur employment in non-energy sectors of the economy.

Agriculture - products:

cotton, grain, rice, grapes, fruit, vegetables, tea, tobacco; cattle, pigs, sheep, goats

Industries:

petroleum and natural gas, petroleum products, oilfield equipment; steel, iron ore; cement; chemicals and petrochemicals; textile

Exports - commodities:

oil and gas 90%, machinery, cotton, foodstuffs

Exports - partners:

Italy 25.9%, France 7.7%, India 6.7%, Indonesia 6.6%, Germany 5.6%, Israel 5.1% (2012)

Imports - commodities:

machinery and equipment, oil products, foodstuffs, metals, chemicals

Imports - partners:

Turkey 18.6%, Russia 14.3%, China 7.8%, Germany 7.2%, UK 7.1%, US 5.1%, Ukraine 5% (2012)

Banking

Key performance indicators for the Azeri banking system have improved significantly since 2000, mainly due to strong growth in the economy and financial sector reform. However, it is still considered one of the weakest banking systems among the sovereigns rated by Fitch Ratings. Despite recent progress, the financial system remains small and highly concentrated.

Stock Exchange

The Baku Stock Exchange (BSE), founded in 2001, is the main stock exchange in Azerbaijan. A member of the Federation of Euro-Asian Stock Exchanges (FEAS). BSE trades short-term treasury bonds, common stocks (primarily from former state-owned enterprises that have been privatized, including food and beverage, construction and banking companies), and foreign currency futures.

Section 4 - Investment Climate

Executive Summary

The overall investment climate in Azerbaijan continues to improve incrementally, although very significant challenges remain. Over the past few years, the Government of Azerbaijan has worked to integrate the country more fully into the global marketplace, attract foreign investment, diversify its economy and maintain growth. Robust expansion in Azerbaijan during 2013 was driven by the non-oil economy, especially public spending on infrastructure.

Economic diversification continues to be a stated goal of President Aliyev and the government, but substantial economic challenges remain for Azerbaijan, particularly the implementation of long-term institutional reforms. Although Azerbaijan has continued to welcome and attract significant foreign investment to further develop its energy sector, inefficient government bureaucracy, weak legal institutions, requests for illicit payments for cross-border transactions, and predatory behavior by politically-connected monopolistic interests hinder investment outside of the oil and gas sector and present challenges for U.S. companies. Azerbaijan has worked to improve its regulatory system over the past several years, but a continued lack of transparency and allegations of corruption remain key problems in this area.

Under Azerbaijani law, foreign investors may engage in investment activities not prohibited by law. Private entities may freely establish, acquire and dispose of interests in business enterprises. Foreign citizens, organizations, and enterprises may lease, but may not own land. The Law on the Protection of Foreign Investments protects foreign investors against nationalization and requisition, except under certain specified circumstances. A Bilateral Investment Treaty between the United States and Azerbaijan provides U.S. investors with recourse to the International Center for the Settlement of Investment Disputes. The average length of time that international business disputes take to be resolved, either through the court system or through negotiations and/or arbitration between the two parties, varies widely.

Azerbaijan has a liberal exchange rate system and, in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency at a legal, market-clearing rate. Yet Azerbaijan has an underdeveloped financial services sector – of which banking comprises more than 90 percent – that inhibits economic stability, growth and diversification. While there are no state-owned enterprises that officially have been delegated governmental powers, companies such as the State Oil Company of the Azerbaijan Republic (SOCAR), Azerenerji (electricity) and Azersu (water) – all of which are closed joint-stock companies with majority state ownership and limited private investment – enjoy quasi-governmental or near-monopoly status in their respective sectors. Corporate social responsibility (CSR) is a relatively new concept in Azerbaijan and local companies generally consider basic charitable donations and paying taxes as acts of social responsibility. Although the government announced its intention to create special economic zones in 2003 – and passed a law to establish such zones in 2009 – currently there are no foreign trade zones or free ports operating in Azerbaijan. There have been no known acts of political violence against U.S. businesses or assets, nor against any foreign owned entity.

1. Openness to, and Restrictions Upon, Foreign Investment

Over the past few years, the Government of Azerbaijan has worked to integrate the country more fully into the global economic marketplace, attract increased **foreign investment**, diversify its economy and maintain positive growth during the global financial crisis. Robust expansion in Azerbaijan during 2013 was driven by the non-oil economy, which received a boost from continued public investment. While the oil sector is just emerging from a recession, public spending especially on infrastructure, is contributing to higher growth rates in the non-oil sector.

Economic diversification continues to be a stated goal of President Aliyev and the government, despite what appears to be diminished zeal for economic reform compared to a period of rapid reform from 2007 to 2009, which led the World Bank to name Azerbaijan as one of the top ten global reformers in its 2009 Doing Business report. Less than expected oil production – and its concomitant impact on oil revenues – may refocus Azerbaijan on the need for quick and comprehensive reforms, including completing its WTO accession process.

Consequently, substantial economic challenges remain for Azerbaijan, particularly with regards to the implementation of long-term institutional and systemic reforms that are critical to strengthening the foundations for economic freedom. Although Azerbaijan has continued to attract significant **foreign investment** to further develop its **energy** sector throughout the past decade, inefficient government bureaucracy, weak legal institutions, requests for illicit payments for cross-border transactions, and predatory behavior by politically connected monopolistic interests hinder investment outside of the oil and gas sector and present challenges for U.S. companies.

The score and rank of Azerbaijan in the most current World Bank Doing Business Report, Heritage Foundation Economic Freedom Index, Transparency International Corruption Index, World Bank Gross National Income (GNI) per capita, and Global Innovation Index for Azerbaijan are included in the table below.

The Government of Azerbaijan officially welcomes **foreign direct investment (FDI)**, but the recognition of its importance to the development of a robust and diverse economy still lags in some parts of the government. The laws on the books favor foreign direct investment, thorny investment disputes can arise when a foreign investor or trader's success threatens well-connected or favored local interests.

The Law on Protection of Foreign Investments permits foreign direct investment in any activity in which a national investor may also invest, unless otherwise prohibited by law. Prohibited areas include those relating to national security and defense. The Government of Azerbaijan also exerts some measure of control over other key sectors, such as **energy and communications**. Foreign investments have complete and unreserved legal protection granted by this law, as well as by other laws and international contracts. The law provides that Azerbaijan will treat foreign investors in a manner not less favorable than the treatment accorded to national investors and allows the repatriation of profits, revenues and other investment-related funds as long as applicable taxes have been paid.

Under Azerbaijani law, foreign investors can participate – according to existing legislation – in the privatization of state and municipal properties, and can invest in Azerbaijan through joint ventures with local companies or by establishing subsidiaries that are wholly-owned, as well as through representative offices and branches of foreign legal entities. Azerbaijani law also provides a ten-year grandfather clause in the event new legislation less favorable to foreign investors is adopted; however, this provision does not apply to changes in tax legislation.

In 2008, Azerbaijan transferred responsibility for registering representative offices of foreign businesses, and the creation of business entities with foreign ownership, to the Ministry of Taxes based on the so-called “one-stop-shop” principle that greatly simplifies the registration process and reduces waiting times. The registration of representative or branch offices of foreign non-commercial entities was not, however, transferred to the Ministry of Taxes; such entities still are required to register with the Ministry of Justice. The “online registration” system of legal entities has been available since February 2012. Registering a representative office or branch with the tax authorities should take place within one month from the start date of operations. Terminating a representative office’s or branch’s activities should be reported to the authorities one month prior to the termination of operations. A representative office or branch is the locally registered site of a foreign legal entity and has “non-resident” status with regards to Azerbaijani tax, legal, and currency regulations. The representative office is not subject to any taxes on its profits, as its activities are strictly limited to providing representative services to its head office. Both the representative office and branch are responsible for the timely payment of all other applicable taxes, such as personal income tax and Azerbaijani social security payments for employees.

Over the past few years, Azerbaijan has been engaged in the process of updating several key pieces of legislation that impact the business environment. It passed a new Customs Code in September 2011, and in response to a specific Moneyval recommendation, passed a Corporate Criminal Liability law in 2012. A new version of the Competition Code is currently undergoing revision in Parliament, and some observers expect the law to pass finally in 2014. Azerbaijan’s **Bankruptcy** Law, which does not function effectively and is rarely used, continues to be a hindrance, as does its weak credit reporting institutions. Another hindrance to foreign direct investment is the difficulty of getting established Azerbaijani businesses to adapt to standard investor-friendly practices, such as those associated with the concept of good corporate governance or international accounting norms.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	128 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation’s Economic Freedom index	2013	81 of 177	http://www.heritage.org/index/ranking
World Bank’s Doing Business Report “Ease	2013	71 of 189	http://doingbusiness.org/rankings

of Doing Business”			
Global Innovation Index	2013	105 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	6,220 USD	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Azerbaijan has a liberal exchange rate system and, in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency at a legal, market-clearing rate. The Central Bank of Azerbaijan (CBA) has required that cash transactions be conducted in Azerbaijani manats since 2001. Foreign companies and individuals may have both AZN and foreign currency accounts at a local bank. All settlements within Azerbaijan, including the payment of an employee salary, should be made in AZN with a few exceptions. Permission from the CBA is required to collect revenues in foreign currency in the territory of Azerbaijan. The Baku Electronic Currency Exchange System (BEST) was launched in July 2002 and **currency conversion** is carried out through the Baku Interbank Currency Exchange Market (BICEX) and the Organized Interbank Currency Market. The average time for remitting investment returns is two to three business days. In more recent years, additional requirements relating to the disclosure of the source of currency transfers have been imposed in an attempt to reduce illicit transactions.

No systematic difficulties exist in obtaining **foreign exchange**. Cash exchange is carried out at numerous currency exchange points and many cash machines will distribute both Euros and U.S. Dollars, in addition to Azerbaijani manats. In 2007, Parliament amended existing legislation to eliminate **custom duties** for cash currency exports, a step in line with **WTO** requirements. The country's strategic monetary reserves grew by 9 percent to over 50 billion USD as of December 2013. The official currency reserves of the Central Bank of Azerbaijan increased to 14.1 billion USD as of December 2013.

3. Expropriation and Compensation

The Law on the Protection of Foreign Investments protects foreign investors against **nationalization** and **requisition**, except under certain specified circumstances. The nationalization of property can occur when authorized by parliamentary resolution, although there have been no known cases of nationalization or requisition against foreign firms in Azerbaijan. Requisition – by a decision of the Cabinet of Ministers – is possible in the event of natural disaster, an epidemic, or other extraordinary situation. In the event of nationalization or requisition, foreign investors are entitled by law to prompt, effective, and adequate compensation.

4. Dispute Settlement

Disputes or disagreements arising between foreign investors and enterprises with foreign investment, state bodies of Azerbaijan, and/or enterprises, public organizations and other

legal entities of Azerbaijan, are to be settled in the **court systems** of Azerbaijan or, on agreement between the parties, in a court of **arbitration**, including international arbitration bodies.

The judiciary consists of the Constitutional Court of the Republic of Azerbaijan, the Supreme Court of the Republic of Azerbaijan, the appellate courts of the Republic of Azerbaijan, trial courts, and other specialized courts. The Supreme Court and appellate courts have civil, criminal, administrative, economic, and military panels. Trial court judgments may be appealed in appellate courts and the judgments of appellate courts can be appealed in the Supreme Court. The Supreme Court is the highest court in the country. Under the Civil Procedure Code of Azerbaijan, the judgments of the appellate court are published within three days of issuance but may, in exceptional circumstances, be published within ten days. The Constitutional Court has the authority to review laws and court judgments for compliance with the Constitution. The decisions of the Constitutional Court are published.

The procedure for the enforcement of foreign judgments in Azerbaijan is established by the Civil Procedure Code. The Code only requires the enforcement of foreign judgments either pursuant to an international treaty or based on the principle of reciprocity and provides that foreign arbitral awards may be enforced in Azerbaijan, only so long as they do not contravene local legislation or public policy, and if reciprocity exists. A **Bilateral Investment Treaty** between the United States and Azerbaijan – which came into effect in 2001 – provides U.S. investors with recourse to the International Center for the Settlement of Investment Disputes.

Azerbaijan has entered into several other bilateral treaties – principally with neighboring states – to facilitate the enforcement of foreign judgments, and is a party to the 2004 Commonwealth of Independent States (CIS) Convention on Mutual Legal Assistance in Civil, Family and Criminal Cases. In addition, Azerbaijan is a party to the Convention on Resolving Business Disputes, dated March 20, 1992 (also known as the Kyiv Convention). Azerbaijan also is a party to the World Bank Convention on the Settlement of Investment Disputes between States and Nationals of Other States, as well as being a member of the Multilateral Investment Guarantee Agency (MIGA). Azerbaijan is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which provides for binding international arbitration of investment disputes between foreign investors and the State.

The Supreme Court is responsible for recognition and enforcement issues. The law does not provide specific periods for consideration of applications on the recognition and enforcement of foreign judgments. The average length of time that international business disputes take to be resolved, either through the court system or through negotiations and/or arbitration between the two parties, varies widely.

5. Performance Requirements and Investment Incentives

Azerbaijan has not yet developed or implemented special **incentives** to attract foreign investment. A law permitting the creation of Special Economic Zones (SEZs) was passed by Parliament in December 2009, but no such zones have been established to date. The law provides a legal basis and framework for the establishment and operation of territorial zones. There are plans to develop an SEZ in Alat, a commercial seaport under construction, and the Baku Heydar Aliyev International Airport. (See section below on SEZs.)

On December 21, 2012, the Azerbaijani Parliament passed amendments to the **Tax Code**, which included an exemption from income, land, and property taxes for business parks in the area of information technology and other industries to be established in Azerbaijan. The amendments also envisage tax and customs privileges for the residents of industrial and technological parks for a term of seven years.

Performance requirements are generally not imposed on new investments, but investors that participate in the **privatization** process often assume specific obligations regarding future investment and employment. Foreign investors are not normally required to purchase from local sources or export a certain percentage of output. Except for certain state monopolies, there is no explicit requirement that nationals own shares in enterprises. Investors in Production Sharing Agreements (PSAs) assume obligations and requirements as provided within the PSA.

There are currently no formal legal requirements for employment of host country nationals, though this policy could eventually be reviewed by Parliament. Additionally, there is an overall limit on the number of foreign workers permitted in Azerbaijan, as well as sectorial limits. Employers wishing to hire foreign workers in Azerbaijan must obtain a license from the Ministry of Labor. Foreigners who wish to work in Azerbaijan must register with local authorities at their place of residence and obtain **work permits** from the Ministry of Labor. Sole proprietors, heads of representative offices, and branches of foreign legal entities and their deputies, short-term (three months or less) secondees, accredited foreign **media** representatives, **education** specialists, diplomats and international civil servants do not require work permits. As of July 2009, the State Migration Service (SMS) decreed a one-stop shop system for work and **residency permits**. According to this single window principle, within seven days of application, foreigners applying for residence and work permits should receive these documents, although not all applicants experience this level of efficiency. The fee to acquire a one-year license for a migrant worker is equal to 1,000 AZN (approximately 1,250 USD).

Despite this, major U.S. and other international firms have increasingly encountered problems registering their expatriate employees with the SMS. One of the issues has been the requirement for a certificate attesting that a foreign worker is free from yellow fever, hemorrhagic virus, HIV, Hepatitis B and C, and mental disorders. The process was streamlined in 2012 after business complaints, but it should be noted that the SMS still will only accept health certificates from approved medical facilities in Azerbaijan. The new regulations require that all foreign visitors who stay in Azerbaijan more than 3 days – both official and personal guests – must register with the SMS. Visitors staying less than 3 days do not need to register. Travelers staying at major hotels in Baku will have the **registration** done when they check in. Those staying in private homes or lesser known hotels will have to register themselves. Registration is the traveler's responsibility and can result in a \$380 - \$500 fine that must be paid before being allowed to depart Azerbaijan.

Registration may be done in person, by mail or via e-mail to qeydiyyat@migration.gov.az.

If registering via e-mail the traveler should scan and send the following information:

- SMS registration form
- Passport biographic page

- Azerbaijani visa
- Entry stamp in passport

The registration form is only in Azerbaijani but may be completed in English.

The business community has registered its concerns about a number of other issues with the SMS and requested clarification on: exit and entry authorizations; police registration; the possibility of submitting photo copies as opposed to original documents when applying for a visa extension; the possibility of the early submission of documents for extending one's stay; the reduction of state duties for work permits issued for less than a year; and discrepancies between validity dates on permit cards versus the actual date when the cards are received. The new Migration Code adopted in August 2013, however, reflected a number of business-friendly proposals submitted by the American Chamber of Commerce in Azerbaijan.

6. Right to Private Ownership and Establishment

Under Azerbaijani law, foreign investors may engage in investment activities not prohibited by law. Private entities may freely establish, acquire and dispose of interests in business enterprises. However, in practice, access to markets, credit and other business operations is often impeded by licensing and other regulatory requirements, and by politically connected business interests that can mobilize the powers of the state to their advantage. In sectors of interest to certain senior government and political figures, competition is actively impeded through administrative barriers.

Legislation regulating real **property rights** include the Law on Mortgage (2005), the Land Code of the Republic of Azerbaijan (1999), the Law on Land Reform (1996), the Law on Land Leasing (1999), and the Law on Land Market (1999). Azerbaijani citizens and legal entities, including enterprises with foreign investment, can legally own, buy, sell, and trade property. Following the 1999 Land Code, which remains in effect today, foreign citizens, organizations, and enterprises may lease, but may not own land. Expropriation may occur in the event of natural disaster, epidemic, or other extraordinary situation.

7. Protection of Property Rights

Amendments to the Civil Code adopted in 2004 and 2007, which allow authorities to forcibly purchase and **expropriate property**, have created opportunities for the abuse of property rights. The poor quality, reliability and transparency of governance, as well as regulatory abuse and inconsistent contract enforcement, have exacerbated this problem.

In 2006, the Government centralized the processing of residential **real estate** transactions through a network of notary offices under the Ministry of Justice. Since 2013, Azerbaijan's State Real Estate Registry Service at the Committee for Property Issues has been the lead agency that manages the real estate registration system.

The Government of Azerbaijan has been working with the World Bank to improve the property registration system, but the system remains awash with bureaucratic requirements and is generally seen as corrupt and inefficient. The January 2014 Index of Economic Freedom – compiled by the Wall Street Journal and the Heritage Foundation – gave Azerbaijan poor scores on private property rights and freedom from corruption.

In the mid-1990s, Azerbaijan began implementing a national system for registering and protecting intellectual property rights (IPR) with the assistance of the World Intellectual Property Organization (WIPO), of which it is a member. Azerbaijan enacted improved copyright legislation (Law on Copyright and Related Rights) in 1996, patent legislation (Law on Patents) in 1997, and trademark protection legislation (Law on Trademarks and Geographic Names) in 1998. Azerbaijan also is a party to the Convention Establishing the World Intellectual Property Organization, the Paris Convention for Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works. Azerbaijan is a party to the Geneva Phonograms Convention, and acceded to the two WIPO Internet treaties in 2005.

As part of its WTO accession program, Azerbaijan has continued to develop a range of WTO-consistent IPR legal and regulatory reforms, which could significantly strengthen IPR rights and enforcement protections, if they were consistently enforced. Azerbaijan amended its copyright legislation in 2008 and formed an anti-piracy commission in May 2010, with representatives from various ministries charged with enforcing existing legislation. Most recently, Azerbaijan adopted a new Law on the Provision of Intellectual Property Rights and Fight against Piracy in May 2012. This new law brings Azerbaijan's intellectual property regime more closely in line with the WTO Trade-Related Intellectual Property Rights (TRIPS) agreement, and satisfies many of the requirements and expectations of Azerbaijan's WTO Working Party members.

According to the State Copyright Agency, during 2013 piracy in the field of book printing dropped from 61% to 30%, from 90% to 68% in the market of audiovisual products, and from 96% to 87% in the field of software. The Business Software Alliance put the software piracy figure at 87% in 2011.

Despite this progress, pirated software, movies, books, clothing and other luxury items are widely available in Azerbaijan.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Michael Durnan DurnanMJ@state.gov

Local lawyers list: http://azerbaijan.usembassy.gov/legal_info.html

8. Transparency of the Regulatory System

The Government of Azerbaijan has worked to improve its **regulatory system** over the past several years, but a continued lack of transparency and allegations of corruption remain key problems in this area. The lack of transparent policies and effective laws to establish clear rules and foster **competition** are particularly serious impediments to foreign direct investment.

Informal bureaucratic control mechanisms often interfere with the application of laws and regulations and hinder competition. While laws and decrees usually are published in one of the country's official newspapers, as well as online, implementation often is delayed while regulations are developed; those regulations, in many instances, are not published or distributed.

Politically connected businesses benefit from government regulatory and other decisions to achieve effective control over lucrative sectors of the economy, and U.S. companies have

been among those impacted. Powerful state-owned enterprises, such as the Azerbaijan State Caspian Shipping Company (CASPAR) and Azerbaijan Airlines (AZAL), have regulatory authority that they can exploit to block **new entrants** into the market – a clear conflict of interest. Major businesses are run by senior government officials or other politically-connected individuals who wield inordinate influence on the market economy; these monopolistic actors often exercise their political connections and economic power in a manner that discriminates against or unfairly burdens foreign investors or foreign-owned investments.

In August 2013, Azerbaijan's Parliament passed a law on the regulation of inspections in **entrepreneurship** and the protection of the rights of entrepreneurs. Following the law, businesses are to be divided into high, medium, and low risk groups, with the frequency of inspections regulated by these risk categories. Entrepreneurs who have not committed legal infractions for a certain period of time are categorized as low risk groups, which will result in less frequent inspections.

In October 2011, the President of Azerbaijan issued a decree calling on the Cabinet of Ministers to develop a Law on Licenses and Permits. The IFC and USAID have provided assistance in this effort. Despite plans to adopt 29 national accounting standards, so as to be in line with International Financial Reporting Standards (IFRS) by 2009, as of 2014 audited financial statements have only been adopted in banking and **finance**.

9. Efficient Capital Markets and Portfolio Investment

Azerbaijan has an underdeveloped **financial services** sector – of which banking comprises more than 90 percent – that inhibits economic stability, growth and diversification. Non-bank financial sector staples such as capital markets, insurance, and private equity are in the early stages of development. The banking sector has primarily benefited from the effects that high oil prices have had on the non-oil economy, significant government spending, and the rapid expansion of higher margin retail and micro-lending.

With around 45 private banks, Azerbaijan's banking sector is fragmented; the fragmented structure reinforces oligarchic control of the economy and holds back private sector growth, as smaller firms find it difficult to finance expansion. Foreign ownership in the banking sector is limited to 50% percent ownership on an aggregate basis; currently there are around 22 banks in Azerbaijan with some investment by foreign capital. Because banks rarely compete directly against each other for market share, they have little incentive to offer competitive terms. Commercial loan **interest rates** offered by banks in early 2014 varied in the range of 16-34 percent.

Total banking sector assets were 26 billion USD as of January 1, 2014, with the top five banks holding almost 58 percent. The majority state-owned International Bank of Azerbaijan (IBA) accounts for approximately one-third of the country's banking assets, but has had problems meeting minimum capital adequacy requirements. The Central Bank of Azerbaijan (CBA) has been focused on encouraging consolidation in the sector and, in August 2012, the CBA raised the minimum capital requirement from 10 million AZN (12.7 million USD) to 50 million AZN (63.7 million USD), effective January 1, 2014. However, the increase in the capital adequacy ratios failed to consolidate the banking sector as anticipated.

In its June 2013 report, the International Monetary Fund (IMF) noted that efforts to strengthen capital markets would facilitate the financing of the non-oil sector. The IMF also noted that

the 2013 change in the Commercial Secrets Law, discouraging the disclosure of shareholders of companies, is a step in the wrong direction as it raises concerns about open competition for private sector activities and is against international disclosure principles on beneficial ownership. On the positive side, the Azerbaijan Mortgage Fund – administered by the Central Bank – has helped fuel a growing **mortgage** market and improved **credit** access by households. Microfinance – the only significant source of non-bank financing to small businesses – has taken off in Azerbaijan.

Several on-going and planned projects designed to strengthen Azerbaijan's financial services sector, including the Capital Market Modernization Project (CMMP), diversification of the State Oil Fund's (SOFAZ) investment strategy, and Pension Reform, present opportunities for U.S. firms providing asset management and global custodian services.

Though the Baku Stock Exchange (BSE) was established in 2000, the securities market still is at an early stage of development. The Capital Market Modernization Project is an attempt by the Government of Azerbaijan to build the foundation for a modern financial capital market, including the development of market infrastructure and automation, and the strengthening of the legal and market frameworks for capital transactions. One major hindrance to the growth of the stock market is the difficulty in encouraging established Azerbaijani businesses to adapt to standard investor-friendly practices of good corporate governance that are required of publically listed companies. In February 2012, the State Oil Company of Azerbaijan realized its first corporate bond offering, the main purpose of which was for financing of capital investment. SOCAR has two bonds, one maturing in 2017, and a second in 2023. Yields are approximately 3.4 percent for the 2017 paper, and 5.5 percent for the bond maturing in 2023. Azerbaijan issued over-subscribed Eurobonds totaling 1.25 billion USD, with a demand for four billion, on March 10, 2014. The bonds were issued for a period of 10 years with a yield of five percent per annum.

The State Oil Fund of Azerbaijan, established in 1999, had 35.8 billion USD in assets as of January 1, 2014, and is the world's 24th largest sovereign wealth fund, according to the Sovereign Wealth Fund Institute. Beginning in 2012, SOFAZ embarked on a slow process to diversify its conservatively invested holdings away from short-to-medium term fixed income instruments into public equities, gold, and real estate.

Pension reform has also been a priority issue for the Government of Azerbaijan, with the goal of increasing pension payments while minimizing projected shortfalls due to rising wages and demographic shifts. Since 2008, the Government of Azerbaijan has been working on a reform strategy for the State Social Protection Fund (SSPF). Reforms in 2006 and 2010 improved the reliability of the pension system, but the system remains financially unsustainable and its dependence on annual transfers from the budget has been steadily increasing over time.

Fitch Ratings affirmed Azerbaijan's long-term foreign and local currency IDRs and its senior unsecured bonds at 'BBB-'. The Outlook on the IDRs is Stable as of October 2013. In January 2014, Standard & Poor's affirmed the BBB-/A-3 long and short-term sovereign credit ratings on Azerbaijan with a stable outlook. Additionally, a September 2013 Moody's Investors Service report said that the stable outlook of Azerbaijan's Baa3 foreign and local-currency bond ratings reflected the government's (1) low government debt; (2) its sustained fiscal surpluses over the past couple of years; and (3) strong net creditor position due to the sizable foreign assets that it has accumulated. It concluded that these strengths will help to shield the economy from internal and external shocks.

10. Competition from State-Owned Enterprises

While there are no **state-owned enterprises (SOEs)** that officially have been delegated governmental powers, companies such as the State Oil Company of the Azerbaijan Republic (SOCAR), Azerenerji (electricity) and Azersu (water) – all of which are closed joint-stock companies with majority state ownership and limited private investment – enjoy quasi-governmental or near-monopoly status in their respective sectors. Azerbaijan maintains that the state must retain a controlling stake in companies operating in the mining or oil and gas sectors – strictly limiting foreign or domestic private investment in these sectors, exclusive of those companies that have entered into a PSA.

The International Bank of Azerbaijan (IBA) – founded in 1992 – is the only state-owned bank still operating in Azerbaijan. IBA is the largest bank in Azerbaijan, with roughly one-third of banking sector assets. IBA was partially privatized in 1994 – with the Government of Azerbaijan maintaining a 50.2% controlling stake – but a 1998 presidential decree to completely privatize the bank has not yet been implemented, both for political reasons and issues with the overall health of the bank. **Privatization** efforts again made little progress in 2013, as officials from IBA and the Central Bank of Azerbaijan (CBA) argued that stability should come before privatization. The CBA made a capital injection of 100 million AZN in March 2012, raising questions about IBA's stability. The CBA also argues that finding the right private investors for Azerbaijan's largest bank will take some time. According to the IMF, IBA forms 35 percent of the banking sector in Azerbaijan, so the bank's future problems would inevitably affect the whole banking sector.

11. Corporate Social Responsibility

Corporate social responsibility (CSR) is a relatively new concept in Azerbaijan. Larger foreign entities do tend to follow generally accepted CSR principles – mainly in line with their international corporate ethos – and aim to educate their local partners, who generally consider basic charitable donations and paying taxes as acts of social responsibility. The American Chamber of Commerce in Azerbaijan established a Corporate Social Responsibility Committee in October 2011 to encourage companies to embrace the concept of social responsibility and encourage a positive impact through activities and dialogue with relevant stakeholders. The Committee unites a number of companies that have established CSR programs with companies interested in exploring the concept further. The American Chamber of Commerce also has published a guide on Corporate Social Responsibility for businesses in Azerbaijan.

12. Political Violence

There have been no known acts of **political violence** against U.S. businesses or assets, nor against any foreign owned entity.

13. Corruption

Pervasive **corruption** – including bribery of **public officials** – continues to be a major challenge for U.S. and other international firms operating in Azerbaijan. Although anti-corruption legislation is in place, corrupt practices permeate all spheres of public life. Officials from the lowest ranks of the civil service to the top echelons of government are believed to benefit from systemic corruption in the country.

The Government of Azerbaijan recognizes that corruption is a problem but, to date, laws and regulations to combat corruption have not been effectively or consistently enforced. Azerbaijan has made modest progress in implementing a 2005 Anticorruption Law, which created a commission with the authority to require full financial disclosure from government officials.

On September 5, 2012, President Aliyev issued a decree for a National Action Plan on Open Government and a National Action Plan on Combating Corruption. ASAN service centers created by the State Agency for Public Service and Social Innovations, under the President of the Republic of Azerbaijan, were established in July 2012 by Presidential decree and became operational in February 2013. These centers provide 23 government services from nine state entities, including the registration of commercial legal entities and tax payers, notary services, state registration of civil status acts, and the renewal of identity cards/passports of citizens. ASAN centers are intended to provide more transparent and accountable services through a “one window” model that reduces opportunities for rent-seeking and petty government corruption.

In 2013, Azerbaijan’s modest improvements in combating petty corruption were reflected in the global anticorruption watchdog Transparency International, which ranked Azerbaijan 128 out of 177 countries on its Corruption Perceptions Index, up from 139 a year before. Popular opinion identifies the State Customs Committee as the institution of greatest concern to businesses in Azerbaijan, followed by the Ministry of Taxes – though the reputation of the tax authorities has enjoyed some improvement in the past year as corruption-reducing reforms have been implemented. Transparency’s 2013 Global Corruption Barometer – which examined bribery involved in people’s contact with customs, education, the judiciary, land related services, medical services, the police, registry and permit services, tax authorities and utilities – found that roughly 50% of Azerbaijani respondents had paid a bribe to one of the nine service providers in the twelve preceding months. Azerbaijan is a party to the United Nations Convention against Corruption (UN Convention) and a signatory to the Council of Europe Criminal and Civil Law Conventions. Azerbaijan is not currently a party to the Organization for Economic Cooperation and Development Anti-Bribery Convention.

Azerbaijan has also been a participant in the Extractive Industries Transparency Initiative (EITI). In 2009, Azerbaijan became the first participating country to become fully compliant with EITI requirements. Azerbaijan’s EITI reports do not currently provide data on a company-by-company basis – which is optional – but citizen groups in Azerbaijan are encouraging companies to do so.

14. Bilateral Investment Agreements

Azerbaijan has signed agreements on mutual protection of investments with 39 countries – including the United States – and on the avoidance of double taxation with 40 countries.

On October 18, 2000, the U.S. Senate ratified the Treaty between the Government of the United States of America and the Government of the Republic of Azerbaijan Concerning the Encouragement and Reciprocal Protection of Investment – commonly known as a “**Bilateral Investment Treaty**” (BIT). The United States and Azerbaijan exchanged instruments of ratification on July 3, 2001, and the treaty entered into force on August 2, 2001. The United States currently does not have a taxation treaty with Azerbaijan, but both countries are parties to the OECD Convention on Mutual Administrative Assistance in Tax Matters.

Additionally, Azerbaijan does not currently have a bilateral free trade agreement in place with the United States.

Azerbaijan also has **bilateral investment protection agreements** with the following countries: Austria, Belarus, Belgium, Bulgaria, China, Croatia, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Iran, Israel, Italy, Jordan, Kazakhstan, Korea, Kyrgyzstan, Latvia, Lithuania, Lebanon, Moldova, Norway, Pakistan, Poland, Qatar, Romania, Saudi Arabia, Syria, Switzerland, Tajikistan, Turkey, UAE, Ukraine, the United Kingdom, and Uzbekistan.

15. OPIC and Other Investment Insurance Programs

The **Overseas Private Investment Corporation (OPIC)** and the U.S. Export-Import (ExIm) Bank are open for business in Azerbaijan, providing political risk insurance and financing lines, as well as financing and loan guarantees. Azerbaijan is also a member of the Multilateral Investment Guarantee Agency (MIGA), and the European Bank for Reconstruction and Development. The World Bank, Asian Development Bank, and other third-country institutions are active in providing financing and insurance for investment in Azerbaijan.

OPIC has repeatedly provided funds for numerous banks operating in Azerbaijan in order to expand their Small and Medium Enterprise (SME) lending portfolio, including 4.8 million USD to Rabita Bank in 2008 and 7.3 million USD to Turan Bank in 2009. In 2011, OPIC provided Muganbank a loan guarantee for 10 million USD to expand its operations, targeting SME borrowers. OPIC has also provided 1 million USD and 3 million USD, respectively, to FinDev and CredAgro for microfinance lending. In 2012, OPIC provided loan insurance to Viator Microcredit Azerbaijan LLC (500,000 USD), NBCO Vision Fund Azercredit LLC (2 million USD), and FinDev again (1 million USD). In 2013, OPIC signed a memorandum with Turanbank for a loan in the amount of 7 million USD with a term of seven years for SME financing.

In its 2013 annual report, the Export-Import Bank of the United States (Ex-Im Bank) stated that it has outstanding insurance and loan guarantees for Azerbaijan in the amount of 117.3 million USD, primarily in support of aviation and telecommunications sales. In 2011, Ex-Im Bank endorsed a 116.6 million USD loan with a ten-year repayment period to finance the Azerbaijani space agency's purchase of the AzerSat-1 satellite from Orbital Sciences. In addition, in December 2013, Ex-Im approved a 640.7 million direct loan to the Turkish arm of the State Oil Company of Azerbaijan to finance the export of American-made oil refinery equipment that will be used to build a refinery on Turkey's western coast.

16. Labor

A **Labor Code** that took effect in 1999 still regulates overall labor relations. The workweek generally is considered to be 40 hours. The right to strike exists, though industrial strikes are rare. Azerbaijan is a member of the International Labor Organization (ILO) and has ratified more than 57 ILO Conventions. Azerbaijan has an abundant supply of skilled and unskilled laborers; however, companies repeatedly cite problems hiring skilled professional staff, which likely is a result of the decline in the quality of education, economic shifts and labor emigration. The collapse of the old Soviet industrial sector during the 1990s resulted in large numbers of Azerbaijanis becoming unemployed or underemployed. Government sources estimate the rate of **unemployment** at five to six percent, but other sources conclude the figure is 20% or more, with underemployment being much higher.

As of January 1, 2014, both the **minimum monthly wage** and the base compensation for pensions were set at 160 USD. The average monthly salary in 2013 rose to 540 USD, representing a 6% increase over the average salary in 2012. Azerbaijan currently is working with the World Bank and the European Union on a program to reform the state pension system.

There has been a significant rise in **migrant workers** over the past five years; the International Organization for Migration's 2011 estimate places the number at 113,118, most of which are from neighboring countries, such as Georgia, Russia, Turkey, and Iran. The SMS also receives frequent appeals from foreigners seeking refugee status in Azerbaijan, most of whom are from Pakistan and Afghanistan, and some from Iran.

17. Foreign Trade Zones/Free Ports

Although the government announced its intention to create **special economic zones** in 2003 – and passed a law to establish such zones in 2009 – currently there are no foreign trade zones or free ports operating in Azerbaijan. Despite this, Azerbaijan's Cabinet of Ministers Resolution No. 199, signed on December 25, 2009, has approved simplified rules for **customs** controls, customs checkpoints, customs clearance of goods, and the crossing of vehicles and individuals at the boundaries of special economic zones. According to these rules, customs checkpoints may be established in the zones by the State Customs Committee. For these purposes, electronic control and declarations may be used. Under the new rules, goods imported into and exported from these zones are not subject to import duties and VAT, or customs duties and taxes.

Certain ministries – the Ministry of Economy and Industry, the Ministry of Finance, and the Ministry of Information and Communications Technologies – continue to discuss plans for creating special economic zones, including a petrochemical complex, regional innovation zones to boost development of the **telecommunications** sector and turn Azerbaijan into a regional **information and communications** technologies hub, and a special zone to encourage the production of renewable energy.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Billions U.S. Dollars)	2013	73.1	2013	No data	http://www.worldbank.org/en/country
	2012	68.7	2012	66.6	
	2011	65.9	2011	65.9	

	2010	52.9	2010	52.9	
	2009	44.2	2009	44.2	
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	2013	No data	2013	No data	<u>(BEA)</u> click selections to reach. <ul style="list-style-type: none"> • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
	2012	No data	2012	No data	
	2011	No data	2011	No data	
	2010	No data	2010	No data	
	2009	No data	2009	No data	
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)		No national data available	2013	No data	<u>(BEA)</u> click selections to reach <ul style="list-style-type: none"> • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
			2012	0	
			2011	0	
			2010	0	
			2009	0	
Total inbound stock of FDI as % host GDP (<i>calculate</i>)	Year	No national data available	-	-	
	2013				
	2012				
	2011				
	2010				
	2009				

* Azerbaijani (host country) statistical sources:

<http://www.stat.gov.az/source/finance/indexen.php>

TABLE 3: Sources and Destination of FDI

Azerbaijan, 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	11,118	100%	Total Outward	7,515	100%
Turkey	1,933	17%	Turkey	3,355	45%
Norway	1,847	17%	Georgia	2,724	36%
United Kingdom	1,471	13%	Switzerland	592	8%
Iran, Islamic Republic of	910	8%	France	105	1%
Netherlands	670	6%	United Arab Emirates	105	1%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: <http://cds.imf.org>

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

civil law system

International organization participation:

ADB, BSEC, CD, CE, CICA, CIS, EAPC, EBRD, ECO, EITI (compliant country), FAO, GCTU, GUAM, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IDB, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, NAM, OAS (observer), OIC, OPCW, OSCE, PFP, SELEC (observer), UN, UN Security Council (temporary), UNCTAD, UNESCO, UNHCR, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO (observer)

Section 6 - Tax

Exchange control

There are no restrictions on the import or export of capital. Supporting documentation, including tax payment documents and bank statements, must be submitted when cash withdrawals exceed amounts previously imported into the country. Repatriation payments may be made in any currency, and both residents and nonresidents can hold bank accounts in any currency

Treaty and non-treaty withholding tax rates

Information unavailable

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD](#) [PKF International](#))

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