

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR AZERBAIJAN

**REPORT ON THE INVITATION TO THE PUBLIC
TO COMMENT**

1. INTRODUCTION

In accordance with the EBRD Public Information Policy (PIP), the draft Strategy for Azerbaijan was posted on the EBRD website in English and Azeri language for 45 calendar days from 27 February 2014. The public was invited to submit comments on the draft Strategy no later than 12 April 2014. For information, the previous Strategy was also made available on the web site in English and Azeri:

<http://www.ebrd.com/pages/country/azerbaijan/strategy.shtml>.

Information about the public consultation process was posted on the EBRD's dedicated "Have your say" webpage, which highlights the latest opportunities for public to comment on the Bank's policies and strategies under review. In addition, targeted notifications of the consultation process were sent to local and international civil society organisations (CSOs) that have expressed interest in the Bank's work in the country.

Following the disclosure of the draft Strategy for public comments, the EBRD Resident Office in Baku hosted two consultation workshops with civil society representatives on 3 and 4 April 2014. The workshops aimed to proactively solicit inputs on the draft Strategy and the Bank's operational priorities in the forthcoming Strategy period from local CSOs. The events attracted 11 representatives of local CSOs, working on the issues of human rights and democracy and business development. The list of CSOs, independent experts and members of public who participated in the consultation process is provided in the Annex 1.

This report captures the key themes and views received during the consultation process. It summarises written comments received in English and Azeri languages through the Bank's dedicated email address as of 12 April; it also provides management responses to these comments.

2. PUBLIC COMMENTS AND STAFF RESPONSES

Reference	Comment	EBRD Response
1. General		
	<p>1.1. The Azeri version of the Strategy contains the following disclaimer: <i>“Although EBRD has taken all possible measures to ensure correct translation, the Bank does not guarantee or claim the accuracy of the translation. The reader can rely on translation at his own risk. On no account EBRD, its personnel or agents shall be liable for any reason to the reader or to any other person for any inaccuracy, errors, omissions, deletions, mistakes and/or any changes in the context of the translation or for any damages arising thereof”</i>. The Azeri version of the Country Strategy should be considered as an official translation of the document as the EBRD has enough resources to ensure the accuracy of the translation.</p>	<p>The Bank makes every effort to have accurate translations of its country strategies. However, local translators might not always understand certain technical language which could result in translations deviating from the original sense of the text. In such cases, the original English version takes precedence.</p>
	<p>1.2. It is recommended to include a list of abbreviations in the document.</p>	<p>Comment is noted.</p>
Strategic directions	<p>1.3. It is proposed to provide financial and technical support to establishment of supply chain mechanism in Azerbaijan as this is critical issue for the country.</p>	<p>Developing Azerbaijan’s distribution network is crucial for further development of the non-oil and agri-sectors in particular; investment in private distribution and warehousing is identified as a key challenge in section 3.1 of the draft strategy.</p>

	<p>1.4. In developing a sustainable financial sector, linkages with EBRD BAS program and cooperation with BAS program partners shall be explored. In addition, special attention shall be given to the corporate governance issues in selection of partners for direct and indirect financing.</p>	<p>Both banking and small business support teams work very closely together in the Baku Resident Office. This will continue to be very important as we focus on regional and rural areas outside of Baku. We are working with the Ministry of Economy and Industry on applying new corporate governance guidelines in the private sector.</p>
<p>Overview over Bank activities to date</p>	<p>1.5. It is stated that “<i>over the previous Strategy period the Bank signed 40 projects for a total value of EUR 435 million</i>”. This information seems to be inaccurate as the total amount of investment to the countries’ economy in 2013 was USD 28 billion (USD 17.5 billion of which is the domestic investments).</p>	<p>The numbers refer to EBRD signings, not to investment in the country as a whole.</p>
<p>2. Operational environment</p>		
<p>Political context</p>	<p>2.1. The Strategy shall be updated to reflect the results of the Presidential elections held on 9th October 2013.</p>	<p>In Section 2.1, it is stated that since 2008 President Aliyev was re-elected twice, most recently in October 2013.</p>
	<p>2.2. Since Azerbaijan committed itself to a number of reforms in the European Union (EU) – Azerbaijan Action Plan in 2006, the rights to freedom of expression, assembly and association have been dramatically curtailed, despite the fact that these rights are explicitly guaranteed by the Azerbaijani Constitution and international human rights treaties to which Azerbaijan is party. In the light of Azerbaijani government’s well-documented failure to comply with its own commitments of democracy and pluralism, the expansion of the EBRD’s portfolio in Azerbaijan is in direct contradiction with the Article 1 of the Agreement Establishing the Bank.</p>	<p>Article 1 of the Agreement Establishing the Bank also includes a market economy aspect so that political and economic issues should be assessed together. From a purely political point of view, the strategy is not hiding problems but calls for a more consistent application of the principles of Article 1 in order to ‘enhance political accountability, strengthen the rule of law, and help overcome the country’s remaining challenges’. The areas which require attention have been identified in the strategy as including freedom of assembly, freedom of expression, the decriminalisation of defamation, independence of the judiciary, and the consistent implementation of the commitments undertaken under international treaties in the area</p>

		of civil and political rights.
Macroeconomic context	2.3. The growth forecast shall be updated as of end of 2013.	In 2013, Azerbaijan's real GDP growth was 5.8%.
3. Strategic orientations		
	3.1. It is suggested to amend text on page 18 as follows: <i>"The competitiveness of Azerbaijani companies should be strengthened by <u>adopting of Competition Code</u> and streamlining procedures for market entry"</i> .	The draft strategy refers to the application of a modern competition policy, a phrase which is intended to encapsulate a code and its implementation.
	3.2. It is suggested to expand list of partner banks due to the following reasons: a) partner banks are large and medium size banks and currently they very easily attract large credit line and EBRD small credit lines with strong conditions could be not interesting for them; b) attracting new partners would improve competition.	EBRD currently has eight partner banks and five micro-finance organisations as partner institutions. The Bank will continue to seek new relationships with capable and credit-worthy institutions.
	3.3. Most of the EBRD partner banks improved credit risk management, but it could not apply to all risks, including credit risk driven risks. Therefore, it is suggested to support implementation of ERM model as latest one and by thus to support improvement of ERM approach in the banking sector.	EBRD works closely with all of its financial institutions partners to improve lending and risk management processes.
	3.4. It is suggested to conduct public awareness campaigns on Direct Lending, Direct Investment Co-Facilities because most of SMEs and some banks are not aware of the conditions and how to apply. It is also suggested to raise a capacity of non-bank credit institutions as well, as some of	The Bank conducts targeted marketing campaigns for Azerbaijani corporates and financial institutions to improve awareness of all financing and business support products. We hope to improve the awareness of these products, particularly

	<p>them are very active in the regions.</p>	<p>in the regions.</p>
<p>Annex 1 – Political Assessment</p>	<p>4.1. The political assessment in the Annex 1 does not adequately reflect the situation on the ground. Since 2009 when the ruling regime initiated controversial changes to the Constitution which allowed for President Ilham Aliyev to remain in office indefinitely. Azerbaijan’s human rights and democracy record has further deteriorated. Azerbaijan is not a country which “continues its efforts to develop political pluralism” but an increasingly authoritarian state with restricted pluralism and civil liberties. International assessments of the degree of democratisation, such as, inter alia, Freedom house rankings, and Human rights and Amnesty International reports, found that the Azerbaijani government has regressed on all fundamental freedoms. There have been numerous well-documented cases of human rights violations, particularly in relation to opposition parties, human rights defenders, and independent media and youth activists.</p> <p>According to “Towards a Stronger Partnership,” an annual “neighbourhood package” of the European Commission, Azerbaijan “addressed only a few of the key recommendations” in implementing the reforms agreed with the EU. The report noted Azerbaijan’s unwillingness to discuss the issue of political prisoners, stated that journalists and civil society activists faced “harassment”, legislation of free speech and elections fell short of international standards and the judiciary was not independent.</p> <p>The Council of Europe’s Venice Commission has raised</p>	<p>In our view, the political assessment is adequately reflecting the situation on the ground, including the entire spectrum of the issues raised in the comment.</p> <p>The strategy states that ‘the political system of the country continued to operate in a centralised manner with significant power concentrated in the presidency’ with judiciary and the legislature ‘not sufficiently balancing strong executive powers’.</p> <p>The latest ENP progress report is quoted in the strategy as concluding that “despite progress compared to the past, Azerbaijan needs to continue its efforts in order to meet its commitments on democracy, including electoral processes, the protection of human rights and fundamental freedoms, and the independence of the judiciary”.</p> <p>A set of human-rights-related issues which require attention in terms of progress are specifically referred to in the commentary to 2.2.</p>

	<p>concerns in relation to constitutional amendments abolishing the two-term limit to the office of the President and to the President’s position; extension of the term of the Milli Mejlis and the President in case of military operation and changes concerning the local government bodies.</p>	
	<p>4.2. It is stated in the Strategy that “<i>Azerbaijan’s elected officials have effective power to govern</i>”. This statement is not accurate. The elected officials in Azerbaijan are members of municipalities. All previous municipal elections were marred with irregularities, low voter turnout and lack of fundamental freedoms. City majors (local executive power) are not elected, but appointed by the President.</p>	<p>‘Effective power to govern of the elected officials’ is not designed to assess fairness of municipal elections. This point is about potential influences on the general decision-making process of elected officials. It states, in this respect, that the military is under civilian control and does not play a decisive role in the country’s political decision-making. Likewise, big business, although playing an important role, does not possess excessive powers to influence elected officials.</p>
	<p>4.3. It is stated in the Strategy that “<i>the CSO sector in Azerbaijan is active with about 3,000 NGOs registered and functioning</i>”. This statement is not accurate.</p> <p>According to the Ministry of Justice of Azerbaijan, 220 NGO registered their grants in Azerbaijan in 2013. Out of 220NGOs functioning in the country, there are hardly 50 genuine independent NGOs. Human rights groups increasingly become subject to harassment, intimidation and legal prosecution.</p>	<p>The statement about the overall number of NGOs operating in the country is accurate as confirmed by numbers provided by the USAID’s NGO sustainability report. At the same time, the comment reflects firstly difficulties in the registration process which were acknowledged in the strategy as being ‘cumbersome’, and secondly the unwillingness of CSOs to disclose the identity of their benefactors. Moreover, the strategy goes further to include the ‘concern of the CSO community’ that the changes in the legislation governing local and international CSOs are limiting the possibility of cash contributions by donors who wish to remain anonymous.</p>
	<p>4.4. It shall be noted in the Strategy that the space for dissenting views, independent media and independent organisations to operate is shrinking. There is the absence of a climate of tolerance promoting active participation in public life and the open exchange of ideas among diverse</p>	<p>The strategy is clear on this issue by stating that ‘despite the broad range of media operating in the country, the government uses means to control media content’ and that ‘the overall media environment does not comply with international</p>

	sectors of society.	standards for independent pluralistic media’.
	4.5. Effective policies and institutions to prevent corruption are not in place. Neither public officials nor members of the Parliament declare their income, property and assets. There is lack of transparency in terms of state purchases; corruption is widespread in high echelons of power.	The strategy fully recognises the challenges posed by corruption. In fact, it goes even further indicating that corruption “affects the whole society and has detrimental impact on the economic diversification and development of entrepreneurship in the country”. It also states that further measures are needed to improve enforcement procedures to ensure that anti-corruption legislation works in practice.
Annex 2 - Assessment of transition challenges	5.1. Real estate section shall cover the present situation and future developments of the land market. At present, the assessment of the land plots pledged for various loans does not conform to the up-to-date requirements.	Use of land as collateral, and the issues associated with it will be reviewed as part of the scoping study for the Azerbaijan Agricultural Finance Facility.
	5.2. The Strategy mentions the “Action plan for Energy Efficiency and Reduction of losses in Energy Sector enterprises”. Such plan does not exist.	This is with reference to the Decree of the Cabinet of Ministers from 24.11.2004 adopting the “Action Plan for Energy Efficiency and Reduction of Losses and Technological Consumption of Energy Sector Enterprises regardless of Ownership Form” This decree assigns the Ministry of Fuel and Energy (later the Ministry of Industry and Energy) to oversee the four tasks outlined in the decree. Two of the tasks involve metering and the reduction of technical losses. The fourth task is the “Development and inclusion of normative documents related to utilization, losses and technological consumption of fuel and energy resources into the annual work programs, with subsequent submission to the Ministry of Fuel and Energy for approval.”
	5.3. It is stated that “ <i>in 2013 the government adopted a new decision regarding tariffs for passengers’ transportation services on bus routes which aimed at grouping of bus routes and linking fares to the length of a</i>	The decision was made at a meeting of the Tariff Council of Azerbaijan held on 26 April 2013 and widely reported in the local press.

	<p><i>route</i>". The source of information about these tariffs shall be provided.</p>	
	<p>5.4. The Strategy should consider the potential outcomes of the proposals on privatization of large state entities and the participation in large projects (such as former Garadagh cement plant) to be performed by various private sector companies.</p>	<p>EBRD is ready to consider participation in the privatisation of state-owned enterprises should such opportunities arise. EBRD is a 10% shareholder in Holcim Azerbaijan (formerly Garadagh Cement).</p>

List of civil society organisations and members of public who participated in the consultation process

3 April 2014, EBRD Resident Office in Baku

1. Azerbaijan Media Center
2. NGO Hayat
3. Transparency Azerbaijan

4 April 2014, EBRD Resident Office in Baku

1. American Chamber of Commerce in Azerbaijan (AmCham)
2. National Confederation of Entrepreneurs Organization of Azerbaijan Republic
3. Association of certified Accountants of Azerbaijan
4. Azerbaijan Micro Finance Association
5. The Azerbaijan Bank Training Centre (ABTC)
6. Entrepreneurship Development Foundation
7. Economic Research Centre
8. An independent expert

27 February - 12 April 2014, written comments submitted by:

1. An independent expert
2. Azerbaijan Bank Training Centre
3. Institute for Reporters' Freedom and Safety (IRFS)