

**Azerbaijan National Committee for European Integration
(ANCEI)**

PROGRESS ASSESSMENT

on the Action Plan which Azerbaijan signed with the European Union

January, 2008

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Abbreviations

ANCEI – Azerbaijan National Committee for European Integration

ENP – European Neighborhood Policy

AAP – Azerbaijan Action Plan

OSCE – Organization for Security and Cooperation in Europe

SC – South Caucasus

UN – United Nations

SC – Security Council

EU – European Union

CoE – Council of Europe

MFA – Ministry of Foreign Affairs

MG – Minsk Group

CLC – Court and Legal Council

ODIHR – Office for Democratic Institutions and Human Rights

PACE – Parliamentary Assembly of the Council of Europe

NGO – Non-Government Organization

NB – National Bank

SOCAR – State Oil Company of the Azerbaijan Republic

SOFAR – State Oil Fund of the Azerbaijan Republic

SME – Small and Medium-sized Enterprises

MENR – Ministry of Ecology and Natural Resources

OJSC – Open Joint-Stock Company

LLC – Limited Liability Company

PREFACE

The European Neighborhood Policy or the New Neighborhood Policy strategy has been proposed by the European Commission in May 2004 and adopted in June of the same year by the European Union. ENP offers cooperation with neighbor states in all spheres with level of this cooperation depending on the degree of these states' readiness for these relations. ENP offers aid and economic and trade relations, which would promote good governance in neighboring states. It can be concluded from the EU documents, that the creation of the common democratic space is equally important for the European security.

After long lasting negotiations Azerbaijan and EU approved the Action Plan, which had been signed in Brussels on November 14, 2006. In addition, a separate Energy Memorandum was signed between Azerbaijan and the EU. The importance for the EU of the production and export of hydrocarbon resources of Azerbaijan was especially emphasized in the document. In addition, successful implementation of the Extractive Industries Transparency Initiative (EITI) in the republic was highly appreciated.

One of the important components of democracy and principles, reflecting European values is strong civil society and its participation in the decision making. Taking this into account in February, 2006, a group of public leaders - representatives of NGOs, mass media, business, culture-formed the Azerbaijan National Committee for European Integration (ANCEI). The Committee is the first independent organization promoting European integration.

One of main objectives as stated in the Program and the Memorandum of ANCEI is to provide and organize control over implementation of agreements between the state officials of Azerbaijan and EU structures within the framework of ENP. The other objectives include realization of the public assessment of the Action Plan and control over implementation of this plan, preparation of proposals for successful implementation of Action plan and submitting to the relevant bodies. 54 renown civil society experts, journalists, academics and NGO leaders are members of the ANCEI (http://aamik.az/ts_gen/eng/uzv/index.htm).

On May 19, 2006 ANCEI held its first press conference, where the Committee establishment and its tasks for maximum assistance in ENP implementation in Azerbaijan were announced. Since then with assistance of Open Society Institute – Assistance Foundation, Ebert and Boell Foundations and some other donors ANCEI have worked to reinforce ENP implementation process transparency and establish dialog between civil society and parties to the ENP, the European Commission and the EU Parliament and the Government of Azerbaijan. Members of the Committee drew up and introduced an analysis and recommendations on ENP Action Plan Draft and ENP Indicative Plan assessment to the public. From the beginning of this work three conferences with participation of government and European Commission officials were arranged. Numerous meetings with individual EU and Azerbaijan government officials helped establish a certain tradition and regularity of informal contacts. In September 2007 ANCEI released its first ENP Progress Report and Assessment to introduce both within the country and to ENP Conference in Brussels (September 2007).

This report analyzes the events that happened in 14 months from the signing of the Azerbaijan Action Plan (AAP) on the European Neighborhood Policy (ENP) to the end of 2007 and reflects the assessment of progress on Azerbaijan's integration into Europe.

The report is an assessment of the work carried out in connection with the special measures planned in the priority spheres of the AAP on the ENP.

The committee's assessment activity regarding the AAP is continuing and the **progress assessment** document will be updated from time to time in 2008.

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Priority area 1

CONTRIBUTE TO A PEACEFUL SOLUTION OF THE NAGORNO-KARABAKH CONFLICT

1. Increase diplomatic efforts, including through the EUSR, and continue to support a peaceful solution of the Nagorno-Karabakh conflict

Repeated visits to the region by the special representative of the European Union in the South Caucasus, Peter Semneby, and his work in 2007 show that the EU has focused its attention on the problem and will do everything possible to prompt the sides to the conflict to intensify their search for a peaceful solution. During his trip to the region, the EU special envoy held active negotiations with officials and civil society representatives exactly in this direction.

2. Increase political support to OSCE Minsk Group conflict settlement efforts on the basis of the relevant UN Security Council resolutions and OSCE documents and decisions

As is known, the UN adopted four resolutions on the conflict during the military confrontation from 1992 to 1994. These resolutions have not been fulfilled yet. The UN Security Council failed to display resolve and give a political and legal assessment to the essence of the conflict, handing it over to the OSCE which set up the mediatory Minsk Group of three co-chairs (Russia, USA and France) for this purpose. It must be noted that the issue of sanctions against the aggressor is no longer discussed as the OSCE has no such mandate.

The OSCE Minsk Group bases its work on the four UN Security Council resolutions on the conflict and prepares draft proposals, taking account of the provisions of these resolutions to the maximum, as well as the resolutions of the OSCE summits in Lisbon and Budapest. The draft peace agreements that were prepared and submitted to the sides cover all possible options, however there has been no tangible progress as the ruling elites of the conflicting states have no real interest in it. During their meetings and talks with Armenian and Azerbaijani officials, EU leaders stress the importance of a peaceful solution, however it is clear that Russia and the USA could play a very important role in the conflict settlement. But these countries have yet to demonstrate their readiness to do so.

The OSCE Minsk Group has done a great deal of work, securing a process of permanent talks between the foreign ministries and presidents of Armenia and Azerbaijan. Various options for settling the conflict have been drawn up and discussed. However, since the sides have diametrically opposed positions, the UN Security Council resolutions are ambiguous and Armenia gets military (from Russia), financial (from the USA) and political support (from Russia and France) from countries whose representatives are Minsk Group co-chairs, the activity of this group is actually aimed at freezing the conflict, preventing the conflict from escalating again, in other words, forcing Azerbaijan to give up on the use of force to restore its territorial integrity, and at creating a situation when the fact of annexation is legalized sooner or later.

3. Encourage people-to-people contacts

Azerbaijan has always stressed its determination not to give up its territorial integrity, and if necessary, to use force to restore its sovereignty over its rightful territory. At the same time, Azerbaijan is not using all available resources to move forward, especially in the sphere of information, economy and public activity. However, in 2007 the governments of Armenia and Azerbaijan exchanged delegations of prominent scientists and cultural figures for the first time, which shows that they realize the important role of the public in a peaceful solution to the conflict. At the same time, the two governments still have a negative attitude to the activity of the civil society in this sphere, which proves their intention to retain their monopoly on any sphere of possible conflict settlement.

The conflict can be described as frozen, smoldering, potentially explosive, destructive or pernicious for the fates of the Armenian and Azerbaijani people. The conflict is:

- An obstacle to the development of democracy not just in Armenia and Azerbaijan, but also in the whole of the South Caucasus;
- The main obstacle to regional cooperation in all spheres;
- The reason why Azerbaijan is increasingly spending oil revenues to buy Russian weapons;
- Russia's main instrument for exerting its influence in the South Caucasus;
- A factor that facilitates the infiltration of transnational companies into the region on more beneficial terms under the pretext of instability;
- An instrument for manipulating people, both by the government and the opposition, in the process of struggling for and retaining power.

Recommendations

1. To increase international appeals to Russia to use its influence on the current illegal authorities of Nagorno Karabakh in order to move them towards the model of maximum autonomy for this region on the basis of Azerbaijan's territorial integrity.
2. The authorities, both in Armenia and Azerbaijan, should eliminate obstacles to the activity of peacekeepers (if there are such) and help their regional cooperation projects.
3. Armenia should put an end to anti-Turkish and anti-Azerbaijani propaganda and policy, while the Azerbaijani authorities must put an end to incitement to ethnic hate for Armenians in a number of media outlets.
4. The EU should help civil society organizations in Azerbaijan and Armenia to initiate wide discussions on all aspects of the conflict and start an active inter-communal dialogue in Karabakh.
5. International organizations that really want to end the conflict should remember the lessons of Munich and the main postulates of international law, stop equating the aggressor and the victim of aggression and invest significant efforts to ensure withdrawal of Armenian troops from occupied Azerbaijani territories around Nagorno Karabakh.
6. To provide assistance to the two countries' governments and civil society organizations in developing scientific and practical foundations for joint development and discussion of models of common co-existence between the two peoples in the South Caucasus aimed at future integration into the EU. An alternative to peace is war

which will lead to a lot of suffering for the two peoples and return the whole region to the past.

7. International organizations should take account of the high likelihood of the situation in the South Caucasus sharply deteriorating if the unilateral announcement of Kosovo independence would be supported as an avenue for problem solution.

Priority area 2

STRENGTHEN DEMOCRACY IN THE COUNTRY, INCLUDING THROUGH FAIR AND TRANSPARENT ELECTORAL PROCESS, IN LINE WITH INTERNATIONAL REQUIREMENTS

1. Continued implementation of electoral reform, on the basis of the CoE Venice Commission and OSCE/ODIHR recommendations

After the presidential elections of 2003 which were recognized by international observers as not meeting Council of Europe standards, the OSCE ODIHR and the Council of Europe Venice Commission in 2004 drew up and presented the Azerbaijani government with “joint recommendations on the Electoral Code and the Electoral Administration of Azerbaijan” and in 2005, with relevant recommendations on legislation.

These recommendations which consisted of 26 points covered a wide range of issues related to the improvement of legislation and the work of the Electoral Administration. In June 2005, ahead of the parliamentary elections in Azerbaijan, the ODIHR conducted a needs assessment mission (NAM) in Azerbaijan, and according to the results of the mission, the OSCE released a report which said that “although the government agencies recently presented the Venice Commission and the OSCE ODIHR with preliminary changes to the Electoral Code, these proposals do not meet the requirements of most of the main recommendations”.

The mission identified a number of problems that required an urgent solution. The main problems are the following:

- “Changing the procedure of forming the central, territorial and district electoral commissions. The commissions should create trust among most of the participants in the elections. In order to secure this, pro-government forces should not dominate them. The current situation does not help this goal to be achieved.”
- “It is necessary to reduce the powers granted to local government bodies to restrict political assemblies and it is necessary to respect rights of assembly during the elections.”
- “People who allow ballot-rigging to happen..., as well as people responsible for district electoral commissions where serious violations of the law took place should be held to account and should not be allowed to hold elections” and so on.

Unfortunately, most of the recommendations were not taken into account by the Azerbaijani government, as a result of which the parliamentary elections of 2005 were also recognized as not meeting Council of Europe standards. According to the assessment of the international observation mission (the head of the mission Leo Platvoet, PACE): “The elections of 6 November 2005 did not meet Council of Europe standards. The January resolution of PACE says that Azerbaijan is consistently not honoring its obligations. If the government does not make appropriate conclusions, PACE retains the right to reconsider the mandate of the Azerbaijani delegation at its June session.” The mission also called on the Azerbaijani authorities to accept the recommendations of the Venice Commission regarding the Electoral Code.

The 2006 negotiations between the Azerbaijani authorities and the Venice Commission, which focused on the issue of changing the procedure of forming electoral commissions and on respecting the opposition's rights of assembly, did not yield tangible results either, and the April 2007 session of PACE said again that since Azerbaijan's entry into the Council of Europe, not a single election in the country has been free and fair or has met Council of Europe standards. The same resolution of the Council of Europe Venice Commission suggested that the negotiations with the Azerbaijani authorities on changes to the Electoral Code should be completed by the end of 2007.

Several rounds of negotiations between the Venice Commission and representatives of the Azerbaijani authorities (in Strasbourg, Paris and at a conference attended by civil society representatives in Baku) in 2007 did not lead to considerable changes in the position of the Azerbaijani authorities, as a result of which we can say today that the situation surrounding democratic norms in Azerbaijan has actually deteriorated on the whole. This situation is the following:

1. For three years, the Azerbaijani authorities have been consistently ignoring recommendations from the Council of Europe Venice Commission, the OSCE ODIHR and PACE on changing the procedure of forming the central, territorial and district electoral commissions in order to prevent one political force from dominating them.
2. Recommendations on the law on freedom of assembly are not being fulfilled, as a result of which the authorities have imposed an actual ban on rallies, including in the central part of Baku.
3. The authorities ignore the opinion of the Venice Commission according to which the current constitution does not ensure real parliamentary control over the executive authorities and about the need to make appropriate changes to the country's constitution.
4. Recommendations on rectifying mistakes made during the presidential elections of 2003 and the parliamentary elections of 2005 and holding to account people who allowed the elections to be rigged and violated the rights and freedoms of citizens, including the disproportionate use of force and torture by the law-enforcement agencies, were not fulfilled during 2007.
5. In 2007, several leading independent newspapers (Realny Azerbaijan, Gundelik Azerbaijan) were closed down under pressure from the authorities and the editors-in-chief of several opposition and independent newspapers, as well as a number of journalists were arrested. Three of them (Eynulla Fatullayev, the editor-in-chief of Realny Azerbaijan; Qanimat Zahidov, the editor-in-chief of Azadliq newspaper; and Mirza Sakit, a correspondent of Azadliq newspaper) are still in custody.
6. The authorities continue to ignore the appeals of international organizations to release people regarded as political prisoners. In this regard, PACE has started collecting signatures to solve the issue of appointing a special human rights rapporteur on Azerbaijan at the January 2008 session of PACE.
7. The authorities continue to ignore recommendations on observing pluralism in the electronic media, because of which the Azerbaijani opposition has been deprived of airtime on television for the last few years.

Considering the presidential elections to be held in Azerbaijan at the end of 2008 and their great importance in ensuring the stability and democratic development of the country, the fulfillment of recommendations from the Council of Europe Venice Commission and the OSCE ODIHR on improving the Electoral Code and the work of the Electoral Administration

is one of the most important priorities in the context of cooperation between Azerbaijan and the European Union today. Without fulfilling these recommendations and honoring its obligations to the Council of Europe and the OSCE, Azerbaijan will not ensure conditions for free and fair presidential elections in 2008.

2. Ensure that elections are conducted in full compliance with OSCE commitments and other international standards for democratic elections

The year 2008 will be the first election year after ENP Action plan was signed. The action provided in the ENP Action plan will be possible to assess based on outcomes of Presidential elections in 2008.

3. Continue institutional reforms to ensure proper checks and balances between executive and legislative powers in conformity with the commitments undertaken before the Council of Europe

No reforms were carried out in this direction in 2007.

4. Continue legislative and administrative reforms aimed at strengthening of local self-government

According to the law “On changes and addenda to a number of laws of the Azerbaijan Republic on municipalities” signed by the president on 23 October 2007, the right to manage local cemeteries was handed over to municipalities. Another significant issue in that law is that from now on, the rights to own, use and rent municipal land can be sold only through land auctions and tenders.

Priority area 3

STRENGTHEN THE PROTECTION OF HUMAN RIGHTS AND OF FUNDAMENTAL FREEDOMS AND THE RULE OF LAW, IN COMPLIANCE WITH INTERNATIONAL COMMITMENTS OF AZERBAIJAN (PCA, COE, OSCE, UN)

1. Improve the organisation of the judiciary, with a view to ensuring its independence, impartiality and efficiency, including with regard to the procedure for appointment and promotion, statutory rights and obligations of judges and prosecutors

In this sphere, 55 of the more than 1,000 applicants were appointed to the post of judge in the past period as a result of tests. Courts of Appeal started functioning in five regions of the country. The second round of tests is being held now and the main stage is coming to an end. Along with that, reforms in the country's court system failed to ensure the independence and impartiality of the courts. In order to ensure the independence and impartiality of the courts, it is expedient to carry out a number of measures:

- In international experience, the association of judges and its powers, as well as its rules of work are regulated at the legislative level, which is due to the special importance of the functions carried out by the organization. Azerbaijani legislation has a very superficial attitude to this: it only mentions associations of judges (the law "On the courts and judges", Article 105.1). The law should envisage norms related to the status of associations of judges;
- Legislation should provide real guarantees for eliminating the dependence of the Court and Legal Council (CLC) on the executive authorities and for turning it into an effective and real mechanism of the self-government system of judges;
- The activity of the CLC, its decisions and work related to the election of judges should be free from secrecy, and these processes should be transparent and open to the public. A violation of the principle of transparency should be treated as corruption;
- The fact that the law does not mention criteria for deeming the activity of judges as acceptable creates opportunities for abuse. Those criteria should be clearly identified by the law;
- Issues related to the appointment of judges after they pass an exam of conformity are not clearly regulated by the law. As a result of this gap, the CLC has established procedures that are not envisaged by the law, and their great number and the lack of clear-cut criteria creates conditions for abuse, corruption and violations. These procedures should be examined again;
- It is necessary to identify objective criteria for electing candidates to the post of judge. The election should not be restricted to simple tests. Verbal interviews should be carried out on the basis of the procedures and criteria regulated at the legislative level;
- In order to nominate candidates to the post of judge, raise the level of their skills, establish rules of ethics for judges and solve a number of other issues, it is necessary to expand the powers of the association of judges;
- Disciplinary measures like "downgrading" to a post that is irrelevant to the high status of a judge and "transfer to another job" should be removed from the law;
- The court of cassation the existence of which runs counter to the nature of a three-stage court system should be abolished;

- The Courts for Serious Crimes, which is irrelevant to the structure of the court system, does not stand out for its professionalism and has turned into an instrument for implementing political orders, should be abolished. Instead, it is necessary to set up juries (although the law "On the courts and judges" provides for the establishment of such courts, unfortunately, no work is being carried out in this sphere);
- The material and technical support of the courts should be taken away from the Ministry of Justice and handed over to a special department under the Supreme Court. The funds allocated to the court system from the state budget should be spent through this department;
- It is necessary to introduce rules that would put an end to the dependence of division of powers on subjective factors (for example, by dividing powers by means of a computer) since the authorities of court chairmen in the sphere of dividing powers encourage the dependence of judges on the chairmen on the one hand, and illegal actions on the other;
- Citizens should be granted the right to apply to the CLC to take disciplinary action against judges (this will increase the effectiveness of this institution even more);
- The government should not think that all problems which ensue from decisions made by the European Court of Human Rights on Azerbaijan can be solved by paying compensation to plaintiffs according to the European Convention on Human Rights and Fundamental Freedoms, and should take action (both legislative and practical) to eliminate situations that lead to those violations. The public should be provided with detailed information on the matter;
- The law "On the prosecutor's office" should be drawn up again and the prosecutor's office should be freed from all functions that are not appropriate to its activity;
- Norms related to employment and dismissal from the prosecutor's office, as well as norms related to disciplinary measures should be improved.

2. Ensure ratification (by 2006) and implementation of the Optional Protocol to the UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment

Azerbaijan has signed, but has not ratified the Optional Protocol to the UN Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. At the same time, Azerbaijan should have submitted its third regular report to the UN Committee Against Torture in 2005. In gross violation of international agreements, the country has still not submitted its regular report.

Public awareness of the work carried out at the state level against torture and other cruel, inhuman or degrading treatment or punishment.

Although the press and various local and international organizations point out numerous cases of torture and other cruel, inhuman or degrading treatment or punishment, most of them have not received a relevant legal assessment. Those cases have been given a legal assessment.

In most cases, reports and testimony about mistreatment by defendants charged during an investigation or a trial, lawyers or other participants in the trial are not considered by the courts.

The Azerbaijani courts usually refuse to investigate complaints about torture and mistreatment and to consider civil actions in this regard.

3. Develop an independent public broadcasting service (television and radio services)

No progress was made in this sphere in 2007. The Public Broadcasting Service still depends on the government. The annual budget of the Service is approved by the parliament on the basis of a proposal made by the government. Its budget of 2007 was lower than that of 2006 and comprises 50 per cent of the budget allocated to the State Television and Radio Broadcasting Company. The director-general of the Service is appointed by the Broadcasting Council. Candidates for membership of the Broadcasting Council are nominated by civil society organizations (youth, sports, women's and creative organizations, religious organizations, the Azerbaijani Academy of Sciences, Trade Unions and the Media Council). Since most of these organizations are usually controlled by the government, their candidates are people linked to the government. Thus, the Council is in fact unable to carry out its public supervisory function and remains dependent on the government. As a result, there is almost no political pluralism in the programs of the Public Broadcasting Service. Ideas of political opposition to the government are not allowed. There are no live political debates. Opinions critical of the government are censored. There are no critical reports not just about the higher echelons of the government, but even about individual influential officials.

4. Ensure proper implementation of the Law on Freedom of Information

Although there are constitutional provisions and a number of laws guaranteeing freedom of speech and information, there are serious problems in the real implementation of this freedom.

The first problem that forms the basis of all these problems is the lack of balance between branches of power in the country and the absence of the supremacy of the law and economic freedoms. Another important factor is that the government, which has great powers and authorities, is keeping the electronic media (state television and radio, the Public Broadcasting Service and private TV stations) under total control through administrative and other levers. The fact that most of the population (about 90 per cent) has no access to the print media increases the importance of this factor. The print media is slightly freer from administrative shackles (for example, from the licensing requirement). In this sphere, independence from the government is much higher than in the broadcast media. However, the print run of the newspapers is very low. Very few of them are disseminated outside Baku. The print run of the most popular newspapers is not higher than 10,000. Critical newspapers are unable to make a profit from adverts. Although pro-opposition newspapers have a relatively high print run, they are making no profit from adverts.

Although Azerbaijan has signed the European Convention and has accepted the jurisdiction of the European Court, legislation and especially practice concerning the media does not meet the standards of the Council of Europe and the European Court in terms of freedom of speech.

The State Television and Radio Broadcasting Company, on which the government has a total monopoly and which is financed from the state budget, has still not been transformed into a public channel in Azerbaijan.

The Public Broadcasting Service is not independent from the government both from a financial point of view and in many respects, from an organizational point of view.

There is no transparency in distributing and licensing broadcasting frequencies. All members of the TV and radio regulator – the TV and Radio Council – are appointed by the head of the executive authorities – the president. Although the Council is meant to have nine members, this is just a formality. The Council is operating as an organization that totally depends on the presidential administration in all issues.

Defamation is regarded as a criminal offence. Nine journalists were imprisoned for their articles last year. Although five of them were released following a presidential pardon granted at the end of the last year, several journalists are still in prison. All the imprisoned journalists are representatives of the critical media. They were known for their criticism of the government. They were all imprisoned following accusations from government agencies or at the demand of public figures (including politicians).

On the basis of accusations of defamation, journalists and media outlets were required to pay huge fines which they were unable to pay. There is no legal framework that would protect journalists who write on issues of public importance.

The situation remains difficult in the sphere of freedom of information. The requirements of the law “On access to information”, adopted in 2005, have not been implemented yet. According to the results of monitoring carried out by the Institution for Media Rights, only 25 per cent of requests for information are answered. No steps are being taken to ensure the openness of official information. Government agencies have not set up structural units providing information services, do not have a registry of documents and do not provide Internet information services. A representative for information affairs has yet to be appointed. Since the courts depend on government agencies, they cannot help ensure freedom of information.

5. Promote growth of civil society and its organised forms (human rights NGOs, associations, etc). Alleviate the current cumbersome procedures required for NGO registration

The situation in this sphere has changed for the better. The registration of NGOs has been slightly simplified. Significant progress was achieved in the negotiations held by the Venice Commission of the Council of Europe with the representatives of the relevant governmental structures. Agreement achieved was reflected in the document “about the amendments to the law of Azerbaijan on freedom of assembly” adopted by the Venice Commission at its 73rd Plenary Session on 14-15th of December, 2007. It says:

1. Significant improvements have been proposed. If these proposals are adopted by parliament in this form, including the remaining modifications which are set out in this opinion (paragraph 24), the law will meet European standards.

2. Due implementation of the law will then be crucial. The law must be applied and interpreted by the administrative authorities, the courts reviewing their decisions and the police in a manner which respects the standards which have inspired it. They must show a presumption in favor of assemblies. This will require extensive discussions, including with the civil society, and specific training.

These amendments have not been made to the law yet and the issue of practical implementation and interpretation of these amendments by the Azerbaijani authorities still remains open.

At the same time, government agencies are not expanding cooperation with national NGOs. According to the state budget of 2008, it is planned to allocate a grant of 1.5 million manats to national NGOs. A council of NGOs is currently being formed in order to support national NGOs. While considering this as a progress of government commitment to develop civil society institutions, one should count the possibility of using these newly created tools for controlling and politically directing the civil society work. The independence of the Council should be guaranteed, NGOs should not be restricted in their access to international and alternative sources of finances provided by existing legislation after the launch of government support program.

6. Promote respect for religious and cultural diversity, including through community-based education, training and awareness-raising programs

State and non-government organizations are carrying out certain work in this direction. The program “Azerbaijanis” which is regularly broadcast by Public TV plays an extremely effective role in promoting the traditions, languages and culture of peoples living in the country. The state committee for religious affairs is carrying out certain work to promote religious diversity and tolerance.

Priority area 4

IMPROVE THE BUSINESS AND INVESTMENT CLIMATE, PARTICULARLY BY STRENGTHENING THE FIGHT AGAINST CORRUPTION

1. Strengthen enforcement and assess the impact and progress of the Anti-corruption law in force since January 2005 and the State Programme on fighting corruption (2004-2006); devise and implement appropriate follow-up upon its expiry

The following events happened in this sphere in 2007:

- “The National Strategy to Increase Transparency and Combat Corruption in 2007-2011” was endorsed by Decree No 2292 issued by the country’s president on 28 July 2007;
- The law of the Azerbaijan Republic “On determining legal mechanisms of ensuring rules and principles of ethical conduct for public servants” was adopted on 31 May 2007.

The National Strategy was drawn up in 2007, and the government cooperated with civil society institutions, especially with the information and cooperation network of NGOs combating corruption. This is also reflected in the National Strategy and its Action Plan. The National Strategy allows civil society institutions to participate in the implementation of the government’s anti-corruption strategy. Some proposals from civil society institutions were taken into account in the process of drawing up the National Strategy.

In order to help implement the measures envisaged by the National Strategy, a Memorandum of Understanding was signed with the Council of Europe at the end of 2007.

In order to finance the projects of civil society institutions in the fight against corruption, the Commission to Combat Corruption adopted a relevant decision at the end of 2007. A competition was held and grants were issued to this end¹. In 2008, ANCEI intends to monitor the achievements made as a result of this decision.

The statute of the Council of State Support for NGOs, approved by a presidential decree at the end of 2007, says that one of the duties of the Council is to support civil society organizations combating corruption².

Along with all this, the level of corruption is still high in Azerbaijan. A number of government agencies are taking fictitious steps to combat corruption. Taking account of the governance traditions and practice in Azerbaijan, it would be helpful if the country’s president declared the fight against corruption as one of the government’s priorities and issued a relevant warning to public servants. Of course, after making this statement, it is necessary to set relevant control mechanisms in motion.

¹ <http://www.commission-anticorruption.gov.az/index.php>

² http://www.president.az/articles.php?item_id=20071213052004613&sec_id=134

2. Ensure that the Criminal Code, and in particular the definition of bribery and corruption related offences, are in line with international standards such as the UN Convention against Corruption, the Council of Europe Criminal Law Convention on Corruption and Civil Law Convention on Corruption, and the OECD Convention on combating bribery of Foreign Public Officials in International Business Transactions, in order to ensure adequate prosecution and conviction

On 23 October 2007, the law of the Azerbaijan Republic “On changes and addenda to a number of laws of the Azerbaijan Republic on the fight against corruption” was adopted. ANCEI has yet to assess these changes and addenda.

3. Improve the normative-legislative framework for the fight against corruption, in conformity with the UN Convention against Corruption, the CoE Criminal Law Convention on Corruption and the Council of Europe Civil Law Convention on Corruption

On 23 October 2007, the law of the Azerbaijan Republic “On changes and addenda to a number of laws of the Azerbaijan Republic on the fight against corruption” was adopted. ANCEI has yet to assess these changes and addenda.

4. Pursue a transparent privatisation process. Improve access to finance by implementation of legal rights facilitating lending and competition in the banking sector; by privatising state banks (IBA and Capital Bank) and developing a credit register

In 2007, 50 per cent of the authorized capital of Capital Bank was privatized. A decision to privatize the International Bank has yet to be made.

ANCEI has yet to assess the improvement of the opportunity to access financial sources by exercising legal rights that facilitate the allocation of credits and competition in the banking sector.

5. Develop and implement a comprehensive programme to improve the business climate, in particular by improving the conditions to starting a business, hiring and firing workers, registering a property, getting credit, protecting investing, enforcement contracts and closing a business

In this sphere, only a decision has been made to carry out state registration of businesses on the basis of a “one-window” principle. This decision came into force on 1 January 2008³.

6. Continue the modernisation, simplification and the use of information and communication technologies by the tax administration. Ensure the smooth and transparent enforcement of the Tax Code also by defining all necessary administrative structures, procedures and policies, including the co-operation with the tax payers and tax compliance, ethics policy, a fiscal control strategy, audit and investigation methods

³ <http://taxes.gov.az/1/index.shtml>

In 2007, the tax authorities continued using modernized, simplified, and information and communication technologies. The “rules of submitting tax reports in the form of electronic documents” were approved by a historical resolution issued by the Cabinet of Ministers on 27 July 2007. By 19 December 2007, the number of declarations and reports submitted in an electronic form exceeded 25,000⁴. It must be noted that 90 per cent of VAT payers are already using this service.

⁴ <http://www.taxes.gov.az/metbuat/reliz/index.shtml>

Priority area 5

IMPROVE FUNCTIONING OF CUSTOMS

1. Continue the improvement of customs legislation and the simplification of procedures in line with EU and international standards including the review of the new Customs Code and the adoption and enforcement of new norms in this field

It can be noted that one of the main directions of the “State Program on the Development of the Customs System of the Azerbaijan Republic in 2007-2011”, which was approved by Decree No 1925 issued by the country’s president on 1 February 2007, is to improve the legislative base that regulates customs administration and to improve customs regulation. One of the directions was the adoption of a new Customs Code. Relevant work started in previous years, and the presentation of the new Customs Code, drawn up by international experts invited from Australia, New Zealand, Canada and Turkey, was held on 14 December 2006. After that, work on the project continued. In order to use international standards, study international experience in the sphere of customs administration and exchange experience, a delegation of staff members of the State Customs Committee, the presidential administration, the Cabinet of Ministers, the parliament and the Ministry of Justice paid training visits to member states of the European Union – Estonia and Sweden. When the draft code was drawn up, the experience of member states of the European Union – Estonia, Latvia, Lithuania, Sweden, as well as member states of the Commonwealth of Independent States – the Russian Federation, Ukraine, Belarus and Kazakhstan – in the sphere of customs administration was used.

The new draft code was discussed by customs officials at the State Customs Committee on 8 December 2007. However, the new draft Customs Code has not been discussed with entrepreneurs yet. Although it was planned to put up the draft code for debate by parliament last year, the document was not presented to members of parliament for consideration at a plenary session. It is presumed that the document will be put up for debate at the spring session of parliament in 2008.

2. Continue to implement requirements of the Code of Honour / Dignity based on the Arusha Declaration and study EU experience on ethics codes for customs officials

The State Customs Committee approved the “Code of Honor of an Official of the State Customs Committee of the Azerbaijan Republic” in 2005. In order to solve problems that emerge in relations with businessmen during import and export operations, a coordinating council was set up at the State Customs Committee. However, it is difficult to assess the establishment of this council by the Committee as an effective step. It would be better if this or that resolution or legal act was presented to existing independent associations of businessmen for consideration.

Work has started to draw up the “Code of Honor” of an official of the customs service on the basis of the Arusha Declaration. In order to study the experience of the EU in ethics, visits and courses have been organized. However, all this looks only as a formality, because officials working in customs bodies are still using mainly old and traditional rules, which creates difficulties in solving problems in relations with businessmen.

3. Provide information on newly adopted import and export regulations and procedures and conduct regular consultations with business groups in this field. Provide full and regular information on tariffs to the public

The meetings in business associations have not become permanent yet. Seminars with businessmen are held by a few NGOs that have limited budgets, and from a regional point of view, they cover a limited area and a small audience.

Government agencies are making very little use of more popular means that have a larger audience, for example, television, in order to give full and constant information to the public. NGOs have limited access to television channels for political reasons.

Brief information about the tariffs is posted on the websites of the Customs Committee and the World Trade Organization in Azerbaijan (www.wto.az).

4. Strengthen the overall administrative capacity of the customs administration, implement customs valuation rules in compliance with international and EU standards; fully implement the currently applicable principles of risk-based customs control and post-clearance control; provide the customs administration with appropriate laboratory expertise as well as sufficient technical facilities in the IT area and other operational capacity; strengthen training of customs officials

The single online corporate information network, created with the support of the UN Development Program, has now expanded even more. Along with this, the automated system of customs registration and control is expanding. All this boosts the general administrative possibilities of customs bodies. As for the implementation of customs assessment rules according to international and EU standards, the work in this sphere has been very slow, and therefore, problems related to transparency and corruption are still in place.

Although progress has been made in providing customs bodies with necessary technical equipment and other state-of-the-art hardware for laboratory tests and in the sphere of information technology within the framework of the implementation of the National Strategy on information and communication technologies for the development of the Azerbaijan Republic (2003-2012), the electronic management system has yet to be established in full.

As for increasing training courses for customs officials, work in this sphere has become more active compared to previous years.

5. Exchange experiences on the implementation of EU standards on modernisation of customs procedures and maintaining security in the international trade chain. Conduct training and provide information to strengthen the proficiency of customs officials based on EU best practice and experience

The basis of agreements on cooperation and mutual assistance in the sphere of customs administration signed between the government of the Azerbaijan Republic and member states

of the European Union such as Poland, Moldova, Turkey, Romania, Latvia and others, it is planned to exchange experience and relevant work is being carried out in this direction.

Priority area 6

SUPPORT BALANCED AND SUSTAINED ECONOMIC DEVELOPMENT, WITH A PARTICULAR FOCUS ON DIVERSIFICATION OF ECONOMIC ACTIVITIES, DEVELOPMENT OF RURAL AREAS, POVERTY REDUCTION AND SOCIAL/TERRITORIAL COHESION; PROMOTE SUSTAINABLE DEVELOPMENT INCLUDING THE PROTECTION OF THE ENVIRONMENT

1. Pursue stable economic growth through prudent fiscal and monetary policies, with a particular focus on keeping a stable non-oil fiscal deficit and low inflation

The work that has been carried out in this direction is very important. State financial supply, accompanied by a sudden growth, has been more aggressive in comparison with previous years, which poses a serious threat to the financial balance based on the minimum money supply that has taken shape for many years.

Contrary to the recommendations of international financial organizations, the government has surpassed the limit of the non-oil fiscal deficit at the same time as additional state financial supply, which created serious grounds for inflation. The likelihood of this policy continuing in the current year shows that no positive changes will happen in this sphere.

However, along with that, the National Bank's well-thought out policy regarding the exchange rate has prevented the manat from getting too strong, which resulted in its pace slowing down over the past year (6.4 per cent in 2005, 5.1 per cent in 2006 and 3 per cent in 2007).

However, we have to take into account that behind the "success" of the policy regarding the exchange rate, there is a banking and money-credit policy based on administrative management. In other words, since currency entering economic circulation belongs to the state, not to individual entities, it is not so difficult to manage it and maintain the relevant rate. The only thing that changes is the currency reserves of the National Bank. In 2007 alone, \$1.7 billion were sterilized as a result of the National Bank's active intervention in the market.

2. Continue process of public finance reform to improve efficiency, accountability, transparency and predictability

Regarding this direction, we can point out that the process of reforming state finances is slower than expected. The sharp increase in the budget, observed in the recent period, makes this issue important, making the problem of the reform slowing down just as serious.

33.6 per cent of budget revenues in 2008 will be channeled into investment spending. Taking into account that this money will be spent to finance individual state investment projects, we can expect that at least some of it will be accompanied by projects based on the principle of efficiency (cost-benefit). Unfortunately, these projects, based on social infrastructure projects, stand out mainly for their political, situational and corruption criteria. On the whole, one of the biggest weaknesses of the Azerbaijani economy in recent years is that the inefficient use of state money has been quite common.

Along with that, the issue of responsibility and accountability is also very serious. The “loss of responsibility” in state administration and the fact that steps that are being taken are linked to someone’s political will might have serious consequences. The fact that state institutions, as well as state organizations and companies refuse responsibility and link everything to the head of state’s name leads to irresponsibility in the end and is accompanied by uncertainty in the role and functions of state bodies in management, which results in them doing business other than the functions shown in their statute. In the end, this puts the state sector in a position that is inconsistent, is not based on serious logic and is too far from principle of good governance.

It is alarming that transparency in the management of state finances is not at the appropriate level. The government is working on the basis of double standards in this sphere. There is the attractive SOFAR to show the international community, and at the same time, there is the Finance Ministry that openly ignores public opinion and the civil society’s need to access information.

3. Continue commitment to SPPRED priorities and to the achievement of the Millennium Development Goals

The Committee assessment of this priority has not been completed yet.

4. Speed up the implementation of the “Second State Programme of Privatisation of State-owned Property in the Republic of Azerbaijan”, including the privatisation of strategic enterprises

In 2007, the State Committee for the Management of State Property set up 45 open-type joint-stock companies. These enterprises belong to the spheres of construction, industry, transport, trade and others. The total authorized capital of the open-type joint-stock companies set up in the first nine months of 2007, based mainly in regions of the country, is only 6.4 million manats, and there are very few promising enterprises here.

Kapital Bank (50 per cent of the authorized capital), one of the two state-run banks, is also to be privatized. The winners of the auction (in the form of a competition) during the sale of newly-released shares were the open-type joint-stock company People’s Bank (20 per cent), the Ata Holding open-type joint-stock company (20 per cent) and the Azersun Holding limited liability company (10 per cent).

International financial institutions have recommended the privatization of state banks for many years. According to information from sources close to the government, the privatization of another state-owned bank – the International Bank – is unlikely to be announced soon.

The state share in a number of telecommunications companies, one of the founders of which is the Ministry of Communications and Information Technology, was prepared for privatization during 2007. These companies are Azercell Telecom, Catel and Ultel.

Important work has been carried out to hand over the Sumqayit power networks open-type

joint-stock company and the Sheki Regional Energy Supplies limited liability company to another company for management. A consultancy company (ASPI) was involved in this issue. In connection with the companies' handover for management, a feasibility study was drawn up, documents of tenders were prepared, open tenders were announced and the cross-organizational tender commissions that were set up selected the winners. Draft contracts on handover to be signed with the winner of the tender, the draft contract on purchase to be signed with the energy supplier of the Sheki Regional Energy Supplies LLC and a draft document on possible concessions and benefits to the company that will take charge of the Sheki Regional Energy Supplies LLC were prepared in the next stage.

Proposals on restructuring measures in the spheres of gas, sewerage, heating and public utilities were prepared in 2007.

Work was carried out in 2007 to restore and expand the activity of enterprises and joint-stock companies in the process of privatizing state property, and to restructure and improve them ahead of privatization.

In order to increase the attractiveness to investors of the enterprises that would be privatized, presidential decrees on canceling their debts to the state budget, to non-budgetary state funds and for work and services the prices (tariffs) of which are regulated by the state and on paying out the social payment debts of state enterprises that are privatized or handed over to other companies for management are of special importance. To this end, debts worth about 402 million manats have already been cancelled.

In 2007, the State Committee for the Management of State Property privatized 2,150 small enterprises and facilities, as well as means of transport. As a result of privatization carried out in 2007, the state budget received 44.5 million manats.

However, the main target of privatization in the recent period, though no-one openly speaks about it, is such an expensive resource as land. Over the last eight years, its market cost has increased several times over both in Baku and regions of the country. However, facts show that in acts on the privatization of state-owned facilities located on vast land plots, the high market price of the land is not taken into consideration. This helps create various schemes for purchasing land plots, which are sometimes absolutely shameless. The international camp Ganjlik and the boarding house Zagulba were sold for just two million dollars. Such a low price for these land plots can be explained only by the fact that apparently, only the facilities themselves were evaluated, i.e. the buildings whose depreciation period has long expired. A similar thing, for example, can be seen in the sale of a land plot for the Azagrotrade open-type joint-stock company at a cash auction. The land plot occupied by the enterprise is very impressive (14.44 ha), but the starting price of the land is just 196,631 manats.

It is no surprise that the average price for land plots in the country is very low. Since the beginning of the year, 670 land plots occupied by privatized enterprises and facilities, as well as by private enterprises have been sold. The state budget received only four million manats from the privatization of these land plots. On average, 8,110 manats or \$10,000 dollars were gained from the sale of one land plot. Violations in the process of selling land are growing in the struggle for expensive land, especially as there is no well-established land market in the country, which would regulate these processes. In nine months from the beginning of the year, the State Committee for Land and Cartography uncovered 2,524 violations of land legislation.

Of them, 1,600 violations were related to municipal land, 600 to state land and more than 300 – to private land.

The decision of the country's president to extend the validity of privatization checks until 2010 was absolutely predictable. Foreign investors – the main holders of privatization checks – would have made a fuss if the checks had been withdrawn from circulation. However, their expectations that “blue chips” will be sold for checks are unlikely to be justified. As for the population, it has long lost confidence in sale by checks. It is quite interesting that during the campaign on privileged subscription to 15 per cent of the shares of the open-type joint-stock company Azermetbuatyayimi, set up on the basis of the Ministry of Communications and Information Technology, only three of the 227 staff members subscribed to the shares. They submitted 36 privatization checks which allowed them to buy only 84 of the 25,898 shares put on sale. The checks seemed to be inexpensive and easy to buy in order to become an owner of a profitable business. But most of the staff probably already know or guess who will be the master of Azermetbuatyayimi and do not believe that they will get dividends from the property, which is why they submitted written applications refusing to participate in the subscription campaign.

All these facts do not meet the requirements of the 28 February presidential decree “On the state commission to oversee the privatization of state property” aimed at boosting state control over the process of privatization.

Many of the declared tasks of privatization remained in the past. The social purpose of privatization has been forgotten, and even the role of privatization in covering the country's budget deficit (it is no more than 5 per cent of the planned deficit) has stayed in the background. The role of privatization in restructuring the economy is also very weak.

5. Reform the social security system, notably to improve targeting and effectiveness of social protection measures and social assistance

According to the decision adopted by the Tariff Council of the Azerbaijan Republic on 6 January 2007, the tariffs for oil products, electricity, natural gas, water and sewage, services provided by the Main State Traffic Police Department and passenger transport fares in and around Baku, as well as from Baku to Sumqayit (from Sumqayit to Baku) were raised. In order to prevent the rise in prices regulated by the state from having a negative impact on the social situation of various strata of the population, the president of the Azerbaijan Republic signed a number of decrees at the end of January.

According to those decrees, the minimum salary in the country was raised to 50 manats from 1 February, while the basic part of retirement pensions was set at 50 manats. The salaries of employees of social security institutions, scientific-research institutions, health institutions, cultural, youth and sports institutions and institutions of education increased by an average of 25 per cent beginning from 1 February. The president also signed decrees “On additional measures to strengthen the social security of the population” and “On the indexation of the insured part of labor pensions and the pension capital accumulated in the insured part of the individual accounts of insured people”.

According to the decision adopted by the Cabinet of Ministers on 29 January, the “rules of establishing and paying the pension of the president of the Azerbaijan Republic to martyrs’ families” were endorsed.

On 5 May, the president of the Azerbaijan Republic signed a decree “On lump-sum allowances to participants in the 1941-1945 war, the widows of fighters who were killed in action or died later, and people who were awarded orders and medals for their self-sacrificing work in the home front”.

According to the decree issued by the president of the Azerbaijan Republic on 15 May 2007, “The state program on the implementation of the employment strategy of the Azerbaijan Republic (2007-2010)” was endorsed.

On 22 August, the Cabinet of Ministers issued a resolution “On additional measures to ensure the social security of displaced person who worked in public sector enterprises and organizations, but lost their jobs for reasons beyond their control and were not provided with new jobs”.

On 17 September 2007, the president of the Azerbaijan Republic issued a resolution “On the payment of a presidential stipend to students who entered institutions of higher education of the Azerbaijan Republic in the academic year 2007-2008”.

According to Decree 2475 issued by the president of the Azerbaijan Republic on 31 October 2007, a number of measures were added to “The state program on improving the living standards and increasing the employment of refugees and displaced persons”, which was endorsed by Decree No 298 issued by the president of the Azerbaijan Republic on 1 July 2004, in order to improve the social situation of this category of people. In 2007, the last tent camp of refugees and displaced persons was closed and their residents were resettled in new settlements.

According to decrees signed by the president of the Azerbaijan Republic at the end of December 2007, the basic part of labor pensions and the minimum salary in the country were set at 60 manats in 2008. According to other decrees issued by the president, the salaries of employees working at social security institutions, scientific, educational and health institutions, cultural, youth and sports institutions, in the ecological, hydrometeorological, forestry, fishing, agricultural, melioration and water organizations were raised by an average of 25-30 per cent beginning from 1 January 2008.

According to information from the Azerbaijani government, at the end of 2007, the level of poverty fell to 16 per cent in the country.

Despite all this, the population’s income did not totally keep abreast of the pace of inflation in 2007. Since the level of inflation has reached a two-digit figure in recent years, it is necessary to secure the indexation of the income of various strata of the population on a quarterly basis taking account of the level of inflation. At the same time, the level of the minimum salary in the country does not comprise even 50 per cent of the minimum consumer basket in the country, and it is necessary to raise this correlation to at least 80 per cent. The mortgage program that was launched in 2006 in order to improve the provision of young people with housing was suspended in 2007. It is expedient to continue this program again.

6. Continue the reform of the health sector; improve quality coverage and efficiency and establish effective management systems

Some preliminary outlines of the reforms carried in the country's health sphere could be seen for the first time in 2007. This is clearly seen in the strengthening of the logistic base of the state health system and in preparations to change the mechanisms of financing the health system.

The implementation of the project "Strengthening of Primary Health Financing" started at the end of 2006 and at the beginning of 2007 on the basis of a credit issued by the World Bank. The project is being implemented in five pilot districts.

On 22 January, the president of the Azerbaijan Republic issued a decree on increasing the salaries of health employees working in state-run health institutions by an average of 25-30 per cent. According to a decree issued by the president on 20 February, 12 million manats were allocated to the Baku First Aid Service in order to improve the level of the first medical aid rendered to the population. That money was used to buy 150 vehicles fitted up with up-to-date medical equipment.

On 29 September, President Ilham Aliyev signed a decree on setting up a modern kidney transplant center at the Clinical Urological Hospital.

According to the Health Ministry, 79 medical institutions were built and refurbished in Baku and regions of the country last year. Work has already been completed in 63 of them.

In order to identify the main directions in the sphere of organizing medical services in the republic and drawing up and applying health programs, as well as to secure the methodological substantiation of reforms in the sphere of financing the health sphere, a public health and reform center was set up at the Health Ministry in 2007.

On 17 December 2007, the first draft concept on health reforms in the Azerbaijan Republic was discussed by the Health Ministry of the Azerbaijan Republic, the World Health Organization, the US Agency for International Development (USAID) and the public health and reform center of the Health Ministry of the Azerbaijan Republic.

On 27 December 2007, the president of the Azerbaijan Republic signed a decree on setting up a state agency for mandatory medical insurance at the Cabinet of Ministers of the Azerbaijan Republic. It is planned that the agency will be a customer of health services financed by the state and establish its relations with medical institutions on a contractual basis. According to the decree signed by the president on 10 January 2008, "the concept on reforming the system of financing the health sphere and on applying mandatory medical insurance in the Azerbaijan Republic" was endorsed. According to the concept, mandatory medical insurance will be applied in one pilot district (Siyazan District) beginning from 2008. To this end, it is planned to allocate four million manats from the state budget to cover "expenses on the application of mandatory medical aid".

At the end of 2007, the Health Ministry, in association with the World Health Organization, set up two working groups to draw up “a national policy on protecting the mental health of the population in Azerbaijan” and “a national policy on protecting the mental health of children and teenagers in Azerbaijan”.

Despite all this, work on the main components of health reforms in the country is not fast enough. The concept on health reforms has not been drawn up and completed yet, the set of free services guaranteed to the population by the state has not been identified yet, and no measures have been taken to compile medical protocols.

7. Continue implementation of the State Programme for Regional Development

The Committee assessment of this priority has not been completed yet.

8. Continue participation in Extractive Industries Transparency Initiative in order to ensure transparent reporting of revenues from oil and gas extraction

Work on the EITI was continued in 2007, and within a year, the government and companies working in the oil and gas industry presented relevant reports to the auditor. After they were compared, the auditor’s opinion and the government’s report were posted on the SOFAR website. The latest report reflects Azerbaijan’s revenues in the first half of 2007. Thus, citizens of the country can familiarize themselves with relevant information regarding revenues from oil and gas extraction.

9. Continue the restructuring of SOCAR (State Oil Company of the Azerbaijani Republic) and of other major state-owned corporations, in line with good international practices

2007 did not see any remarkable events related to the restructuring of major companies (SOCAR, Azerenergy, Azerigas). There were facts that testified to the opposite process. For example, about 1,000 shareholders of the open-type joint-stock company Khatai Tikinti Sanaye suddenly found out that Baku’s local economic court No 1 had issued a ruling to cancel the privatization of this enterprise and return its property to the plaintiff – the Azerneftiyag oil refinery. The latter thought that the 2 June 2005 decision of the State Committee for the Management of State Property on the establishment of the open-type joint-stock company was illegal and violated its rights of ownership, though even the court itself assessed the deal on the privatization of this facility as honest. This indirectly shows SOCAR’s growing power in the state because the whole process began after SOCAR filed a written appeal to the State Committee for the Management of State Property (SCMSP) to suspend the privatization of its former enterprises, although the aforesaid enterprise was open for privatization according to a presidential decree issued in 2001 within the framework of the restructuring of SOCAR, including its 68 enterprises. It is not known who cancelled this decision and when. The main agency in charge of state property in the country – the SCMSP – also regards the suit as groundless. Perhaps, the reason is the land plot of the enterprises with an area of 818 square meters and its garage with an overall area of 11,700 square meters. A similar story happened to a housing construction company in Binaqadi, but this time the law-breaker was the SCMSP itself. There are quite a few stories like this.

10. Continue implementation of State Program on Small and Medium Entrepreneurship Development

Three years ago, one of the government's priorities was to develop small and medium-sized businesses. Unfortunately, we have to say today that the government's attention to this sector has weakened. This is also proved by the share of loans allocated to small and medium-sized businesses. According to information from sources close to the government, about 90 per cent of the credit resources of the National Fund to Support Entrepreneurship (NFSE) are allocated not to small and medium-sized businesses, but to large companies. This is explained by the fact that a number of top officials protect large companies.

On the whole, the business climate in the country is characterized by numerous problems, according to assessments by international financial institutions (the World Bank, IFS, Fraser Institute).

In 2007, the government resumed its activity to establish an industrial estate near Yashma. About 287 ha of land have been allocated for it. Eight million manats (of the planned 24 million) have been allocated for its construction from the state budget. Work should start this year. It is still not known who will run this industrial estate. To all appearances, the state is not inclined to assume this role. One of the options is the handover of the industrial estate to the Turkish International Cooperation and Development Agency.

The Almali company was active in this period, beginning to build its own chain of shops. There will be 50 of them, and \$14.5 million have already been invested in it. The new company is planning to cover about 3-5 per cent of the retail market in Baku and Sumqayit in the future.

11. Further reform efforts in the field of education to promote human resources development

The committee's assessment on this issue has not been completed yet. Along with that, we can briefly say that the implementation of the state program⁵ on the education system continued in 2007. Apart from that, discussions on the new draft law on education finally began in the Azerbaijani parliament in 2007.

12. Strengthen administrative structures and procedures to ensure strategic planning of environment issues and coordination between relevant actors

12.1. Good management of the environment. Good management of the environment is the main condition for its protection and sustainable use. With the establishment of the Ministry of Ecology and Natural Resources in the Azerbaijan Republic in 2001, important steps were taken in the sphere of managing the environment and natural resources. The abolition of ministries and committees that used various natural resources and the establishment of one

⁵ <http://edu.gov.az/index.php?con=237>

ministry was the formal aspect of the issue. In essence, the reforms focused on improving management and bringing it into line with international, including European standards. However, the activity of the Ministry of Ecology and Natural Resources was directed not at deepening reforms in the sphere of managing the environment, but at carrying out work to protect the environment. As a result, inefficient management failed to yield the expected results in the sphere of protecting the environment. As a result of failure to draw up and apply legal procedures in the sphere of governance institutions such as **planning, assessment, licensing, monitoring, revision, registration, statistics, accountability, support for local government and civil society, access to information and public participation**, the improvement of management was identified as an important direction within the framework of the ENP and these directions were proposed by experts of the European Commission.

Taking into account that the ENP Action Plan was prepared in 2005-2006 and the Country Reports that form the basis of the Action Plan were prepared in 2005, it is expedient to present an assessment of the current situation surrounding the directions identified in the 2005-2007 Action Plan.

12.2. Planning. There is still no organization and procedures in Azerbaijan that would ensure the strategic planning of environmental issues and coordinate the activity of relevant participants in this planning. Azerbaijan has either failed to honor its obligations to create such an organization and procedures or has not taken enough measures in this direction.

The strategic planning of environmental issues in Azerbaijan is carried out within the existing departments of the Ministry of Ecology and Natural Resources. This planning is prepared by government officials and the documents are not given any independent assessment and do not undergo an ecological examination. A number of strategic planning documents have been prepared in Azerbaijan since 2003. The following documents can be cited as an example here:

- The National Program “On sustainable socioeconomic development from an environmental point of view in the Azerbaijan Republic” (2003-2010);
- The National Program “On the restoration and expansion of forests in the Azerbaijan Republic” (2003-2008);
- The National Strategy and Action Plan “On the protection and sustainable use of biodiversity in the Azerbaijan Republic” (2006-2009);
- “Additional measures concerning issues that ensue from the international environmental conventions and agreements joined by the Azerbaijan Republic” (2006-2010);
- “The plan of complex measures to improve the environmental situation in the Azerbaijan Republic in 2006-2010”

As can be seen, although the preparation of the last three of these environmental planning documents covering 2003-2010 (March-September, 2006) coincided with the preparation of the Action Plan on the ENP, the internal link between those documents is weak. The main reasons for this are:

- The department in charge of planning environmental issues does not have a single strategy on protecting Azerbaijan’s environment (since 1992, this strategy has been prepared several times by the Ministry of Ecology and Natural Resource and relevant organizations, and unofficial changes have been made to it, but there is still no single strategy or program approved by the government, and the program that exists is actually just a formality);

- Planning is based not on scientific foundations, but on the subjective views of officials who prepare it;
- Planning is carried out by the departments that prepare it and an independent approach is ruled out;
- There are no single scientific foundations, scientific approach and planning methods;
- Relevant interested parties are not involved in the planning process (even if they are involved in it, it is not transparent and is just a formality);
- Draft planning documents are not open to public debate;
- There are no procedures to ensure public involvement in planning documents and so on.

The planning possibilities of governance organizations and procedures existing in Azerbaijan are not being used sufficiently. None of the planning documents we listed has undergone an ecological examination, although under Azerbaijani law, it is important to carry out an ecological examination of strategic planning documents and it is exactly this department that is authorized to draw conclusions on the compliance of planning with the country's environmental legislation and policy.

The Action Plan on environmental protection in Azerbaijan was prepared in 1998, but it still has not been approved by the government. In 2002, after the Ministry of Ecology and Natural Resources was set up, that Action Plan was rejected and new priorities were identified. Although these priorities have not been officially approved, they were posted on the website of the Ministry of Ecology and Natural Resources. An attempt was made in 2004 to improve the Action Plan on the initiative of the World Bank, however, the results of this work were not accepted by the ministry. Although the preparation of the Action Plan has been identified as a priority within the ENP, the government has not accepted this activity as a priority sphere in other political documents (for example, in the program and plans that I mentioned above).

12.3. Assessment. The legal basis of environmental assessment has yet to be identified in Azerbaijan. There is no strategic assessment and ecological examination of such political documents as the plan and programs, as well as legal acts, though according to the law, the ecological examination is mandatory. Only Environmental Impact Assessment is carried out in Azerbaijan in projects financed by international financial institutions. There is still no legal basis for Environmental Impact Assessment in the Azerbaijan Republic. The statute 'On Environmental Impact Assessment' drawn up in 1996 has no legal force because it was not prepared and approved according to the requirements of the law of the Azerbaijan Republic "On legal acts". The Ministry of Ecology and Natural Resources is not carrying out any work in this direction.

Even after joining the ENP, Azerbaijan did not join the protocol "On Strategic Environmental Assessment", proposed for signing in 2003, of the UN Convention (Espo Convention) "On Environment Impact Assessment in a Transboundary Context".

12.4. Licensing, monitoring and revision. The legal procedures of licensing in the environmental sphere have not been identified in Azerbaijan. No integrated licenses are being applied. The law on environmental monitoring is not perfect and there are no procedures that would ensure an integrated system of licenses that have been issued, their monitoring and revision.

12.5. Access to information and public participation. Although the Azerbaijan Republic ratified the Aarhus Convention on 9 November 1999, it has not honored some of the obligations it undertook by signing that convention, including its obligation to prepare procedures of public participation. Since Azerbaijan's national legislation does not provide framework norms on public participation, the government has no authority to prepare and improve such procedures. Certain public efforts have been made in this direction. The ecological-legal center "Ecolex" prepared a draft statute "On public participation in environmental issues" and submitted it to the Ministry of Ecology and Natural Resource in spring 2006, however, that proposal has still not been examined.

The dissemination of information regarding the environment has a formal nature. The Ministry of Ecology and Natural Resources has yet to create information lists and registries and submit them to the public. Information disseminated by the ministry is not enough to draw a conclusion on the environmental situation. In terms of information, the website of the Ministry of Ecology and Natural Resources is one of the poorest and weakest government websites.

The government only supports the NGOs that back its policy and ensures their involvement in various government projects and events. There is no example of support from local government bodies except for an environmental competition held in 2003-2004. None of the local government bodies in Azerbaijan have an environmental action plan, except for the local environmental plan of Ganja drawn up within the framework of the Caucasus REC with donor aid, and the Azerbaijani government is not doing any work to support such planning and its implementation. The Aarhus public information centers which the Ministry of Ecology and Natural Resources has started setting up in the regions of the country are centers set up for the sake of making reports, which, for example, were met with dissatisfaction in Ganja's local government and civil society. The reason is that the information center is located outside the city – in a place that is difficult to reach.

12.6. Registration, statistics and accountability. Although according to the law, there are various ways of registering types of natural resources, the situation is not satisfactory in the sphere of registration. Information indicated in statistical reports is not revised and the authenticity of statistical information is not ensured. Since there is no methodology of preparing monthly, quarterly and annual reports on the state of the environment, the reports look more like a set of figures and do not reflect the state of the environment in the regions of the country fully and comprehensively.

The Azerbaijani government is not implementing the requirements of the Aarhus Convention and Azerbaijani legislation to prepare regular reports on the environmental situation. According to Point 4 of Article 5 of the Aarhus Convention and Article 6.0.4 of the law of the Azerbaijan Republic "On access to information regarding the environment", the Azerbaijani government should prepare and publish reports on the environmental situation at least once in three years. However, although eight years have passed since the convention was ratified and five years since the law was adopted, the Azerbaijani government is violating this requirement of the law.

12.7. Support for local government and civil society. The Azerbaijani government has no strategy of communication on the benefits of the environmental policy. The government has no intention of mapping out such a strategy. Although the government has enough

possibilities, including material resources, to support members of civil society and local government, government agencies treat any initiative related to environmental protection with jealousy and make efforts to fail or stop those initiatives. For example, the government's first reaction to civil society's appeal about the illegal destruction of forests in Khanlar District was to make the signatories to the appeal deny their signatures.

12.8. Preventing the contamination of the environment, protecting people's health and ensuring rational use of natural resources.

According to the "plan of complex measures to improve the environmental situation in the Azerbaijan Republic" in 2006-2010, it is planned to improve environmental legislation and adopt new legislative acts that meet European requirements. Criminal and administrative law has been toughened in order to prevent the contamination of the main components of the environment. Changes have been made to the law of the Azerbaijan Republic "On industrial and domestic refuse".

Changes have been made to the law of the Azerbaijan Republic "On industrial and domestic refuse". According to a decree issued by the president of the Azerbaijan Republic, work is being carried out to purchase and install two factories to process solid waste products in Baku. However, unfortunately, no reforms are being carried out in the sphere of waste management. No single strategy or other planning documents on waste management are being drawn up. The Ministry of Ecology and Natural Resources has been artificially sidelined from this work. This delays the study of experience in the integrated principle of waste management and its application in Azerbaijan. Also, though the ministry has studied experience in the sphere of packaging waste products, no work is being carried out to enforce this in the country.

No significant work has been carried out to strengthen the environmental examination. The legal basis of the state ecological examination is not sufficient. The current legislation is restricted to framework legislation. No specific procedures have been adopted. Employees of the state ecological examination department are not being provided with special training. It is necessary to improve environmental training programs.

It is possible to apply integrated management of water reserves in Azerbaijan. Pilot projects have been carried out in the past to create various water management teams, potential has been boosted and necessary training has been provided. Only the government's political will is required to switch to integrated management. If there is political will, the necessary potential has been created within the framework of various international projects in order to carry out legislative and institutional reforms. Efforts are being made within the framework of international projects in order to prevent trans-border water contamination. There is no trans-border contamination of water on Azerbaijani territory. However, the Azerbaijani government is not cooperating well enough with the Georgian government in order to strengthen the prevention of the contamination of trans-border waters. Although there is experience of cooperation in the sphere of energy and transport and Azerbaijan has allocated low-interest long-term credits to Georgia in the past, no steps have been taken to prevent the contamination of trans-border rivers.

Azerbaijan has carried out some work to adopt and implement environmental plans and programs. The National Plan "On the restoration and expansion of forests in the Azerbaijan Republic (2003-2008)" and "The plan of complex measures to improve the environmental

situation in the Azerbaijan Republic in 2006-2010" have been carried out especially successfully.

Priority area 7

FURTHER CONVERGENCE OF ECONOMIC LEGISLATION AND ADMINISTRATIVE PRACTICES

1. Strengthen the institutions responsible for standardisation, accreditation, conformity assessment, metrology and market surveillance

The Azerbaijani State Agency for Standardization, Metrology and Patents, which **oversees standardization, accreditation, suitability assessment, metrology and market**, has significantly intensified its work over the past one year. A draft state program has been drawn up on standardization, metrology, certification and accreditation. The program covers a period of five years. This program takes account of opinions of relevant government agencies and has already been submitted to the government. A draft law **“On technical regulation”** has been drawn up and submitted to the World Trade Organization for consideration.

Along with that, a relevant draft law **“On changes and addenda to the law of the Azerbaijan Republic ‘On patents’”** has been drawn up and submitted to the Cabinet of Ministers. It reflects the issue of bringing the law into line with relevant agreements in order for Azerbaijan to become a member of the WTO and other issues.

An Azerbaijani Institute for Standards has been set up at the State Agency for Standardization, Metrology and Patents. The presence of such a special organization for standardization in the republic is an important step towards the improvement and development of the National Standardization system. The Azerbaijani Institute for Standards will prepare new National Standards that meet the requirements of international and regional standards, carry out a survey on the use of standards of CIS and non-CIS countries in the republic, prepare independent programs on standardization, render relevant assistance to private individuals and legal entities in applying international and regional standards, make proposals on setting up technical committees and implement a number of other systemic tasks. The goal of the institute is to facilitate and expedite the application of European and international standards and monitor the use of standards in the country.

The **National Standard Center** has been set up at the State Agency for Standardization, Metrology and Patents.

Currently, Azerbaijan is studying and using mainly the experience of CIS countries (mainly Russia, Belarus and Ukraine) in general certification, accreditation, suitability assessment and metrology. However, it would be better to study the experience of EU countries, Turkey and Eastern European countries which have great experience in certification and standardization. We should also take into account that the share of the EU exceeds 50 per cent in Azerbaijan’s foreign trade turnover. In general, there are serious gaps in national legislation on the certification of commodities. In order to eliminate those gaps, it is necessary to draw up and adopt as soon as possible the law of the Azerbaijan Republic **“On certification”**. This draft law should consolidate the existing legislative acts and unify international legislative norms.

Quite positive changes have taken place in standardization and suitability over the past one year. The situation surrounding the uncontrolled sale of uncertified food and products on the

market previously is changing for the better as the relevant agency in charge of this sphere is working more actively. However, the situation is still not so satisfactory. It must be noted as well that in order to ensure considerable improvements in the situation, it is necessary to use economic methods rather than administrative-command methods. Otherwise, all attempts and fragile achievements will not lead to serious high quality and substantial changes.

There is no serious activity in the work of the State Service for Control over the Consumer Market and the State Anti-Monopoly Service – agencies of the Ministry of Economic Development responsible for controlling the market. Even serious negative changes have taken place over the past one year under the pretext of increasing the relevant agencies' control over the market. For example, this control did not ensure higher quality of services or prevent interference in the market as a result of anti-monopoly measures, but on the contrary, created serious obstacles to liberalization, weakened free access to the market and thus damaged competition. Along with that, the excessive interference of administrative bodies in the market under the pretext of strengthening this control boosted corruption, which was accompanied by a considerable hike in prices on the market as a result of the increasing cost of goods, products and services.

2. Ensure full conformity of Intellectual Property Rights legislation with PCA requirements and its efficient enforcement

Recent years have not seen any serious progress, both at the legal and institutional level, in **ensuring the compliance of the legislation on intellectual property rights to the requirements of the agreement on partnership and cooperation and its effective application**, though according to the action plan on bringing legislation in line with the requirements of the World Trade Organization in connection with the process of Azerbaijan's membership of the WTO, a draft "State Program on the development of copyright and other intellectual property rights in the Azerbaijan Republic in 2007-2010 (the State Program on Intellectual Property)" and a draft law of the Azerbaijan Republic "On ensuring intellectual property rights and the fight against piracy" were prepared in a very short time.

3. Continue reforms in the field of public investment policy

The government is taking a number of steps in order **to continue reforms in the sphere of state investment policy**. For example, the following laws that serve to strengthen the legislative base in this sphere have been adopted over the past year: 1) the law on state debts; 2) the law on investment activity; 3) the law on internal audit. There are legal documents that are waiting to be adopted: 1) the law on state financial control; 2) the Competition Code (it has been considered in its second reading). This Code identified the legal basis for ensuring and protecting free and healthy competition in the sphere of entrepreneurship in the country and regulates relations between entities operating on the market of goods and financial services, as well as relations between those entities and state and local government bodies which affect competition.

There is a serious need to draw up a budget code and an instruction on "the assessment of investment projects and ensuring accountability".

Currently, Azerbaijan is going through a sensitive period in forming a state investment policy. The paradigm of state investment clearly prevails the government's economic policy and the gradual slackening of the pace of oil investments is accompanied by a growth in state investment in the non-oil sector in parallel. State investments (capital investments) will be channeled into forming and reconstructing industry, transport, agriculture, energy and other types of infrastructure, refurbishing and reconstructing social-cultural enterprises, purchasing main assets, forming the logistic base of the newly-established Ministry of Defence Industry and Emergencies Ministry, carrying out substantial work related to the country's defence, national security, borders and other measures and financing other measures of state importance. In documents related to the budget, direct state capital investments are given as an integral part of capital spending. The fact that the level of state investment is higher than in the WTO is due to several reasons. *i)* As a result of a sharp growth in the flow of oil revenues into the country's treasury in recent years, the financial possibilities of the state have considerably increased, owing to which the state budget, SOFAR and SOCAR have been spending more on the country's economy within the framework of social investment programs. *ii)* The main assets left over from the Soviet period have become obsolete and currently, there is a great need to update and reconstruct all state communications, transport and social entities; *iii)* to update the existing infrastructure in order to develop the non-oil sector, improve the business climate in the country and attract new investors.

However, along with this, such an unusually high pace of investment economy might lead to undesirable negative macroeconomic consequences. The pace of growth in state investments in order not to disrupt macroeconomic stability will increase state finances in circulation and will increase the demand for a growth in the appropriate sum of turnover assets in the future in order keep the main assets working, which may be accompanied by a growth in inflation. A great amount of state investment will strengthen contradictions between main capital and the required volume of turnover capital to service it in the near future. Taking all this into account, the level of state investment and the pace of growth planned for the near future should be based on appropriate macroeconomic predictions.

The issue of prioritization is weak in the state investment policy. The priority of investment directions coincides in most cases with economic priorities identified by the government in the short and medium term. At the same time, this priority manifests itself in state budget spending. On the one hand, the priorities that have been set show that individual spheres of the country's economy have been selected as priority spheres and these spheres attract potential investors as favorable investment spheres. Private capital, including foreign capital investments in this sphere, are usually accompanied by pure market advantages.

Since the government has no medium-term spending program, the implementation of investment projects is clearly fluctuant. The tendency towards sharp falls and rises in the government's spending policy in the short-term might cost the economy dearly later on. The law on the budget system, which was adopted in 2002 have made it possible to use large-scale budget classification for several years and also to make budget predictions for the next three years. Along with that, there is a great need to apply a medium-term spending program. The sharp rise in the number and volume of state investment projects makes it necessary to make serious changes to the government's policy in this sphere. The existing mechanism of decision-making, the institutional infrastructure and in many cases, the lack of a single macroeconomic vision leads to chaos and inefficiency in this sphere in the end.

The place of state investments in the budget is also problematic. The fact that state investments are not well-interpreted in budget classification is still a serious problem. The fact that the spending category which composes more than 25 per cent of a new budget is not clear and economically justified in budget classification calls into question the efficiency of state investments. There are discrepancies between the economic, functional and organizational classification of the state budget. This discrepancy related to state investments is even more fundamental. For example, investment (budget documents more often use the phrase “state capital investment”) spending has been included in the subsection “building” of the section “industry, building and mineral resources”. There are subsections with the same name in paragraphs of the special draft on the functional, economic and organizational classification of state budget revenues and spending. The fact that all three types of classification are given in the same table makes provisions on spending look even more confusing.

The role of parliament in state investment policy. Except for the first years of Azerbaijan’s independence, the role of the parliament in society has always been weak in society since political stability was established in the country. This has always been the case in economic policy and more specifically, in forming and implementing the state investment policy. The role of the parliament in economic policy is related mainly to the adoption of laws, especially the budget law. If we take into account that most of the laws are authored by the executive authorities (the presidential administration and relevant ministries) and discussions, including on the budget law, are just a formality, the parliament is not playing a very important role in state investment policy. In reality, the role of the Audit Chamber is much weaker than officially declared. There are several reasons for that. As an organization that reports to the parliament, the Audit Chamber has no authority to oversee the activities of more influential executive organizations. On the other hand, accountability in the country is in a very deplorable situation, and if in a normal case, corporate state accountability is verified by international audit companies, it is the Audit Chamber that bears all the brunt here because state-run enterprises, committees and companies have no commercial status. However, as we said above, the Chamber has almost no authority to audit these organizations and issue an independent opinion. The Audit Chamber usually prepares draft laws related to state finances and states reports that have a formal nature. While the state budget is debated by the parliament, the Audit Chamber prepares an official opinion, disseminates it in parliament and posts it on its website. This opinion has mostly a macroeconomic nature and does not reflect issues related to the transparency and quality of the budget. However, if we take into account that the assessment of the budget through a macroeconomic prism is an issue of great importance to state investment policy, this opinion can be regarded as useful in terms of state investment policy. The extensive powers of the president in Azerbaijan have increased the authority of his administration. From this point of view, the presidential administration plays the role of both a supreme and central executive body.

The Cabinet of Ministers has an inefficient structure. The current structure of the Cabinet of Ministers has a static nature that rules out flexible management. In order to eliminate this problem, it is necessary to carry out a functional assessment of the structure and activities of the Cabinet of Ministers. Although the project on reforms in state service, implemented within the framework of the EU’s TACIS program, provides for some measures to this end, all this has not had a serious effect. In fact, it is impossible to carry out a structural reform in the Cabinet of Ministers without a serious political decision. The Cabinet of Ministers has no statute and strategic action plan, or they have been prepared for a very narrow circle of people and are not open to the public. The inefficiency of the Cabinet of Ministers which has

to coordinate economic ministries and committees and identify strategic lines affects those bodies as well (along with other factors). All this is reflected on the inefficient management of public funds.

In a word, the main problem is the lack of a mechanism for the effective use and management of public funds. It is necessary to approach the problem not just as a purely economic, but also as a management problem. In other words, there is no problem of restricted budget funds (public funds), there is the problem of inefficient use and management. In order to solve the problem, it is necessary to secure the optimal management of public funds in conditions of extreme-dynamic growth, to weaken the environment of corruption and misappropriations by increasing accountability and transparency in using public funds and ensure that the social and macroeconomic effects of using and managing public funds can be identified in advance. Also, we should not forget that if there are no strong pressure groups in Azerbaijan, the problem of the inefficient use and misappropriation of public funds will not be solved.

Priority area 8

STRENGTHENING EU-AZERBAIJAN ENERGY BILATERAL COOPERATION AND ENERGY AND TRANSPORT REGIONAL COOPERATION, IN ORDER TO ACHIEVE THE OBJECTIVES OF THE NOVEMBER 2004 BAKU MINISTERIAL CONFERENCES

1. Implement and monitor regularly the level of implementation of the Memorandum of Understanding on the establishment of a Strategic Partnership between the European Union and the Republic of Azerbaijan in the field of energy

The memorandum underlines special relations between Azerbaijan and the European Union in the energy sphere. Although many of its proposals are reflected in the action plan to this or that extent, the memorandum is a kind of roadmap for the development of energy cooperation between Azerbaijan and united Europe.

The energy memorandum does not provide a clear time frame in which this or that point should be implemented, only saying at the end of the text that the implementation of the provisions of the memorandum should be synchronized with the pace of the implementation of the state program on the development of the fuel and energy sector of Azerbaijan until 2015. The following point says how this program is being implemented.

2. Implement and continuously update the State Programme on Fuel-Energy Complex Development 2005-2015; ensure an increasing convergence with EU energy policy objectives

It is no surprise that many points of this program, concerning the construction of specific facilities, had been implemented by the beginning of 2008. The deposits Guneshli and Bahar were being developed especially actively, where the whole infrastructure of extraction and transportation was put in order. Over the last two years, about \$1.15 billion (of them, \$832.1 million in 2007) have been invested in the country's gas sphere, as a result of which gas extraction has increased by more than 1.5 times. The volume of power generation has been increasing, five modular power stations have been built, the construction of the Sumqayit thermal power station is in its final stage and the construction of a whole number of new power stations is getting under way. In 2007, the Azerbaijani energy company generated 700 MW of power, while in the next three years the overall capacity of Azerbaijani power stations should increase by 3,000 MW. Eighty per cent of the country's population centers have been gasified. The capacities of two Azerbaijani gas reservoirs are being expanded. More or less active work has started for the first time to clear contaminated territories of the Absheron peninsula. Also, for the first time in 2007, the government showed an interest in problems of alternative electricity. According to preliminary estimations, it is possible to build more than 100 small power stations in the country, and the government is planning to build them mainly using credits from international financial organizations. The Asian Development Bank is planning to build five small hydroelectric power stations. Germany's KfW Bank is studying the possibility of building 20 small hydroelectric power stations in the Zaqatala-Gakh zone. In a word, the sphere, which has gained access to finances, seems to be on the rise.

But the external success in the development of the sector should not distract attention from a whole string of problems that have accumulated and continue to accumulate in the sector, and

the most serious of them is the lack of reform in this leading sector of the economy. In Azerbaijan, this sector is totally controlled by the state.

Reforms in SOCAR are even difficult to imagine, and what's more, its monopolistic positions in the economy are getting stronger. Although social and infrastructure facilities were put on sale in the past within the framework of the state privatization program, SOCAR is trying to play with the situation and return some of the enterprises it has lost. Petrol stations were also privatized in the past, but the oil company is trying to return this function and intends to open its own chain of petrol stations in the country. We can already confidently say that SOCAR is clearly interested in selling oil and oil products and in building new enterprises. Despite public pressure, the law "On oil and gas", which would put relations in the oil and gas sector in order, has yet to be adopted. Moreover, it also proved impossible to include it in the agenda of parliament, though this law has been under review since 1999. One of the reasons for that is the need to complete work in the new law on clear rules of the operation of the private sector in oil and gas extraction. (Middle East Petro, AzPetrol). But these efforts were made only by companies that were seriously supported by the country's leadership at the time, and what is even more important, the issue was about onshore projects with relatively small oil debit.

There is not even a hint that SOCAR can become a joint-stock company, placing part of its shares on international stock exchanges. For the time being, the company prefers taking syndicated loans from international markets of capital with clear support from the state. SOCAR continues to remain one of the most non-transparent corporations in the country, while the fuel and energy sector, as a whole, remains the main "generator" of the debt system in the economy. All mutual debts in the economy form in this sector, and apparently, their volume is so great that the State Statistics Committee has not provided any information on debts within the fuel and energy complex for several years. A small ray of hope could be seen here on 1 January this year, as SOCAR is moving on to an international system of accounting procedures, which is at least some step towards transparency.

In the sphere of electricity, Azerbaijan tried to follow the main principles of the European Union in the past – to divide the production, transportation and sale of energy. All the power distributing networks in the country were handed over to two companies – Barmek and Bayva. However, these agreements were terminated 18 months ago, and a criminal case was even launched against Barmek. The Baku and Sumqayit networks were handed over to the Ministry of Economic Development that has absolutely no experience in this sphere. The power networks that were serviced by Bayva were handed over to Azerenergy which split them up into an even greater number of district units in the form of limited liability companies. After the re-nationalization of the distributing networks, the quality of their work noticeably deteriorated – low voltage, power outages and a low culture of services to consumers. These problems were partly eliminated with the help of an influx of great state investments in the energy distributing sector. But the consumers' interests are still not protected.

Recently, two networks – Sumqayitelectricshabaka and the Sheki power network were put on an investment tender again. The winner of the tender was the Azerbaijani company Khazar Invest, but the names of the other contenders were not named for some reason. The company promised to invest 96 million AZN in these networks, however the networks have been handed over to the company only for five years, while the state keeps the assets of the energy company.

It seems that all points of the memorandum, concerning the gradual switch from existing market structures to an open market, were implemented last year. We can argue about the quality and efficiency of these steps, but they have already been taken. At the beginning of 2007, tariffs for electricity trebled and were unified for all categories of consumers. In principle, this was an inevitable and positive step, if it had not had such a shocking nature and had not seriously boosted inflation in the country. From the beginning of the year, inflation accounted for about 17 per cent according to state statistics figures and almost 29 per cent according to alternative calculations. The cost of gas for industrial consumers reached 1,000 manats for 1,000 cubic meters, however, a short while later, the government was forced to lower these tariffs for a number of major enterprises that were on the verge of bankruptcy.

The issue was raised again of setting up a super-ministerial regulating body in the electricity sphere that would also regulate energy tariffs. In principle, the government is ready to take this step, but the decision on this issue has yet to be taken. But still, the shocking rise in prices played its positive role as well. Power generation dropped by 10.4 per cent in 2007, which is, first of all, attributed to the fall in consumption⁶. Foreign investors' interest in this sector increased, as it is profitable to work in it. However, the policy of energy saving and energy-conversion efficiency, which are promoted in all EU documents, including the memorandum, are still far from being implemented. Despite the construction of new power stations, the amount of standard fuel, spent on the production of a unit of power, is still 360 grams though the average norm accepted in the world is 200-230 grams. The interest in calculating losses in networks has noticeably fallen due to the commissioning of new facilities. Industry has still not moved on to energy-saving technologies. Consumers pay for about half of the power and gas they use. Nevertheless, the system of differentiated payments for electricity at various times during the day is not developed, meters with pre-payment have not been introduced and no enterprises manufacturing fluorescent lamps that save energy have been set up in the country. All these proposals were made before as well, but now, at a time of high revenues, the state is not inclined at all to this routine energy saving work.

The presence of legislative "gaps" also makes it difficult to develop alternative sources of electricity in the country because there is no legislative framework for connecting new private sources of power generation to common networks. Beginning from last year, energy workers have been actively opposing the opening of stations working only on gas because they think that this reduces the country's energy security and fuel should be differentiated. New generation power stations will be working both on gas and fuel oil, and in a number of cases, for example, the Sangachal power station will also be using diesel fuel that will make it possible to switch from one mode to another.

It is clear that something will have to be done in the country's gas sphere as well though it has slightly improved since the rise in tariffs. According statements by the Ministry of Economic Development, the country's gas distributing networks will be handed over for management in 2008. For the time being, SOCAR is ready to take over the gas distributing networks of Georgia although we cannot say that our country has any positive experience in this sphere. Most likely, as was the case with petrol stations, the issue is about working along the whole chain – from extraction and transportation to consumption.

⁶ State Statistics Committee data of year 2007.

On the whole, the scrupulous development of the energy balance, both inside the sphere and in the economy as a whole, is becoming a key task for the next few years and in the long-term. It might clearly outline both the key directions of reforms in the fuel and energy complex and new possibilities of energy efficiency.

3. Continue cooperation on Caspian and Black Sea regional energy issues, including in the context of INOGATE and the follow-up to the EU-Black Sea-Caspian Basin Ministerial Conference held in Baku in November 2004

The TRACECA project, which provides for the development of road, sea, railway and air communications through the country, has taken a serious step forward. It is planned to build a new international sea port in Alat, ferries are being purchased, radical reconstruction of railways is being prepared, the Kars-Akhalkalaki railway is under construction, and roads are being actively built. But what is interesting is that for all these years, cargo transportation through the TRACECA corridor has been falling and even the traditional transit of oil and oil products by this route dropped to 1.2 million tons in 2007. Last year's transport conference in Baku openly named the reason for this: the main flows of cargo from Asia have been taken over by Russia and Iran. The TRACECA route is losing its attractiveness because there is no general legal basis for transit through the countries involved in the project, there is no harmony between border crossing procedures, there are no single transit duties and tariffs and the level of intermodal services is not sufficient, i.e. everything that determines the speed of cargo transportation, expenses on this transportation and even the safety of cargo.

Azerbaijan is taking an active part in the development of the INOGATE project. There is not a single element of this extensive program – from negotiations with the new Turkmen leadership to the signing of an agreement on the Sarmatia project – in which the Azerbaijani government would not be involved to this or that extent. In this sphere, bilateral economic relations between Azerbaijan and a number of Eastern European states are becoming more and more active. Many things do not depend on Azerbaijan here, for example, in terms of guaranteeing the volume of hydrocarbon supplies to new routes of transportation. But the government is trying to rigorously honor its own part of common obligations within the framework of the INOGATE project.

4. Support the development of cooperation in accordance with the documents adopted at the EU Black Sea-Caspian Basin Ministerial Transport Conference held in Baku in November 2004

The work that was carried out in this sphere is partly mentioned above. ANCEI has yet to complete a full assessment of the situation.

Conclusions and recommendations

On the whole, we can say that the Azerbaijani government is taking a number of steps to implement the provisions of the memorandum and the national action plan. But some of them have a clearly cosmetic nature because there is no desire to reform the fuel and energy complex and improve the legislative basis for the normal functioning of the sector. Now that many

enterprises of the country are trying to gain access to the foreign competitive environment, we should clearly understand that it will be impossible to win competition on the foreign market as long as there is no healthy competitive environment inside the economy.

The growing oil and gas revenues of the Caspian littoral states make the authoritarian leaders of these countries quite confident and create new political opportunities for them. Suffice it to remember that the Kazakh president has been elected OSCE chairman-in-office, Azerbaijan's authority is growing, especially in Eastern Europe, and the Western political establishment is constantly making attempts to play with Turkmenistan. The advantages of the current state of affairs are too obvious in order to give them up in favor of unified European models of open competitive energy market and permanent political and economic reforms in these countries. The European Union probably ought to be more realistic in its assessment of levers of political and economic influence on these countries. In the current realities, the only serious instrument of influence could be a multi-faceted foreign policy by these countries which are trying to weaken their dependence on Russia together with an active investment policy in the region. For some countries, for example Azerbaijan, the speeding up of the negotiations between the EU and Azerbaijan on the terms of the country's entry into the WTO could serve as a "carrot".

The growing expansion of new countries on the European market also opens certain regulative opportunities. Growing national elites want to go beyond their own playing field, and it is quite natural that they are trying to strike a deal on the terms of this game. In the case with Russia, this even caused a crisis in relations between this country and the EU. Incidentally, this crisis began after Russia flatly refused to sign the European Energy Charter that provides third countries with access to the country's pipeline infrastructure.

But still, pure pressure from the European Union in its attempts to speed up reforms in Azerbaijan may be absolutely unsuccessful without reliance on the domestic possibilities of society. Such initiatives of recent years as the establishment of the coalition to ensure the transparency of revenues in the oil sphere and the coalition to fight corruption and the active work of many NGOs show the possibilities that public institutions have. It does not matter how often the government listens to these recommendations, it matters if they are qualified and frequent so that the government constantly feels public pressure.

We can hope that the government may have its own motives to implement the terms of the memorandum and action plan in Azerbaijan. It is already obvious that an economy where 70 per cent of GDP is created by the AIOC, SOCAR and Azerigas and 85 per cent of export consists of oil and oil products will definitely encounter a crisis sooner or later. The recent fall in the amount of foreign investments in the country is a simple token of this. In this case, a rational government does everything possible to increase the country's investment attractiveness, which may depend on sufficient reforms in the economy, good implementation of laws and a convenient tax regime. In turn, all this may require clear ensuring of economic freedoms in the country, serious reforms in the same legal system and even in the sphere of human rights. After all, any serious economic reform will need political support sooner or later, and responsible governments always understand this.

Priority area 9

ENHANCEMENT OF COOPERATION IN THE FIELD OF JUSTICE, FREEDOM AND SECURITY, INCLUDING IN THE FIELD OF BORDER MANAGEMENT

1. Develop by 2006 an integrated border management strategy and enhance inter-agency cooperation among State authorities involved in border management as well as cooperation with neighbouring countries, including proper border demarcation and full implementation of existing bilateral border co-operation agreements and protocols (notably with Georgia, Iran, the Russian Federation and Turkey)

The Azerbaijani government has demonstrated sufficient activity over the past period. For example, relevant negotiations with Georgia and the Russian Federation were continued, and according to information acquired by the Committee, there is some progress.

2. Implement the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime and sign the new 2005 convention on laundering, search, seizure and confiscation of the proceeds from crime and on the financing of terrorism, which is its natural follow-up

Regarding this special measure, unfortunately, there is no progress. The 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime has yet to be signed.

3. Establish a dialogue on matters related to the movement of people including on readmission and on visa issues

It can be noted that it is too early to talk about any significant progress regarding issues related to the settlement of people, including readmission and visa issues, although the Azerbaijani government has participated in discussions and various international events.

4. Review the implementation of the National Action Plan for Combating the Trafficking of Persons as adopted in 2003; assess progress made and envisage follow-up measures

The Azerbaijani government has implemented most of the types of activity envisaged by the National Action Plan to Combat Human Trafficking. The Azerbaijan Republic joined that protocol on 13 May 2003 and approved "The National Action Plan to Combat Human Trafficking in the Azerbaijan Republic" on 6 May 2004. According to the National Action Plan, the national coordinator – a person responsible for implementing the National Action Plan to Combat Human Trafficking in the Azerbaijan Republic – was appointed by the order issued by the Interior Ministry of the Azerbaijan Republic on 19 May 2004 and a department to combat human trafficking was set up at the Interior Ministry. According to Point 1 of the National Action Plan, the Cabinet of Ministers, the Justice Ministry, the Interior Ministry, the Prosecutor-General's Office and the National Security Ministry of the Azerbaijan Republic

were instructed to ensure a legal basis in order to improve legislation on the fight against human trafficking and strengthen the fight against human trafficking. A number of important measures were taken in order to improve legislation related to human trafficking. For example, the Azerbaijan Republic joined the main international conventions against human trafficking and forced labor and introduced new articles 144-1 and 144-2 which criminalize sexual and labor exploitation. Along with that, the Criminal Code of the Azerbaijan Republic contains relevant articles that regulate the fight against this type of crime, and a number of legislative acts have been adopted to protect the rights of freedoms of children and women who are regarded as potential targets of this crime. The Azerbaijan Republic has adopted a law "On the fight against human trafficking" (28 June 2005) which regulates the prevention of human trafficking in the Azerbaijan Republic and determines the legal and organizational foundations of the fight against human trafficking and the legal status of human trafficking victims. In connection with the implementation of that law, the law of the Azerbaijan Republic "On addenda to several legislative acts of the Azerbaijan Republic" was adopted (30 December 2005). Apart from that, the following legal acts on the fight against human trafficking were adopted:

- The Cabinet of Ministers of the Azerbaijan Republic adopted a resolution approving "Rules of setting up, financing and operating special institutions for human trafficking victims, as well as overseeing their activity" (9 November, 2005);
- The Cabinet of Ministers of the Azerbaijan Republic adopted a resolution "On approving the statute on the fund to assist human trafficking victims" (12 January, 2006);
- The regulations "On temporary shelters for human trafficking victims" were approved by a decree issued by the Interior Ministry of the Azerbaijan Republic (17 February, 2006);
- The Cabinet of Ministers of the Azerbaijan Republic adopted a resolution "On rules of ensuring the social rehabilitation of human trafficking victims" (6 March, 2006).

However, there are still issues that need to be solved. The Azerbaijan Republic has yet to join the European Convention against Trafficking in Human Beings. The action plan adopted in 2003 expires in 2007. No action plan has been adopted for the next year. There is still no law on the crime, including on compensation for human trafficking victims. The law-enforcement agencies and the courts have yet to ensure effective investigations into criminal cases related to human trafficking.

5. Ensure proper implementation of the UN Convention against Trans-national Organised Crime and its three Protocols to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, against the Smuggling of Migrants by Land, Air and Sea, and against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition

It can be noted that although Azerbaijan joined the aforesaid convention and its protocols on 13 May 2003, there are still serious problems in implementing the requirements of that law. First of all, there is still no law that would envisage state compensation for victims of these crimes.

Recommendations:

1. It is necessary to expedite the signing of the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime.
2. The main principles regarding readmission and visa issues, taken as a basis by the government, should be disclosed to citizens. At the same time, citizens should be given the right to access information regarding the agreements that the government has reached with other countries on this matter.
3. It is necessary to lift the visa regime for citizens of European countries and the USA (unilaterally), as is the case with most of the CIS countries.
4. It is necessary to expedite the signing of the European Convention against Trafficking in Human Beings.
5. The action plan on the fight against human trafficking in 2008 should be adopted as soon as possible.
6. It is necessary to expedite the adoption of the law on compensation to victims of crime and human trafficking.
7. It is necessary to expedite the adoption of the law on state compensation for victims of the crimes indicated in the UN Convention against Transnational Organized Crime and its three protocols – the Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children, the Protocol against the Smuggling of Migrants by Land, Sea and Air and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition.

Priority area 10

STRENGTHEN REGIONAL COOPERATION

1. Enhance participation in regional cooperation initiatives, e.g. environment, education, border management, transport as well as in the parliamentary sphere

During the period we describe, we can only note a one-off case in relations between Baku and Yerevan when representatives of the Azerbaijani and Armenian intelligentsia paid mutual visits in summer (June 2007), led by the two countries' ambassadors to Russia – Polad Bulbuloglu and Armen Smbatyan, which lent an official nature to the visit. Moreover, for the first time after the establishment of the cease-fire (1994) the same delegation crossed the military contact line and flew to Shusha where they held a meeting with the leaders of the Armenian community. Before that, Nagorno Karabakh was visited only by delegations of representatives of Azerbaijan's civil society. The representatives of the intelligentsia were received by the presidents of Azerbaijan and Armenia. Unfortunately, this initiative was not continued, and what's more, a meeting planned between representatives of the Azerbaijani and Armenian communities of Nagorno Karabakh did not take place. The reason is that the local authorities in Nagorno Karabakh refused to authorize the meeting at the communal level. The pretext was the composition of the delegation, specifically, the leader of the Karabakh Azerbaijanis "appointed" by the Baku authorities.

Regional cooperation between the South Caucasus countries is continuing to develop in the following formats:

1. Strategic cooperation (political, economic and partially, military) between Azerbaijan and Georgia (with Turkey's active involvement);
2. Economic cooperation between Armenia and Georgia;
3. Cooperation between the three countries of the region in international organizations (the Council of Europe, the OSCE, NATO and so on) and projects (The Black Sea Economic Cooperation Organization, TRACECA, the Caucasus Regional Economic Center and so on).

Even in the third format, the cooperation between Azerbaijan and Armenia is more virtual than real. The reason, as is known, is that the Nagorno Karabakh conflict has still not been solved. Even such a promising initiative as the establishment of the South Caucasus Parliamentary Assembly (not to mention economic cooperation between Azerbaijan and Armenia) is still impossible.

Large-scale processes of integration are characteristic mainly in the sphere of energy transportation and the establishment with this aim of communications that involve Azerbaijan, Georgia and Turkey. For example, in February 2007, an Azerbaijani-Georgian-Turkish agreement on the construction of the Kars-Tbilisi-Akhalkalaki-Baku railway was signed in Tbilisi. The construction of the Baku-Tbilisi-Erzurum gas pipeline was completed on Turkish territory in June, which allowed Azerbaijan to start exporting gas to that country. In November, Turkey opened a transit gas pipeline (on the border with Greece) which carries natural gas from the Azerbaijani deposit Shah Daniz to Europe. Finally, the three countries (Azerbaijan, Georgia and Turkey) started setting up a single electricity system that may

involve neighboring countries as well. Azerbaijan is the only country in the region that has signed a separate memorandum on energy with the EU.

Though the EU, on the whole, keeps to the correct position that the conflicts in the South Caucasus have a different nature and should be solved in different formats and with differentiated methods, we cannot but point out that there are some legal and political principles that are equally applicable to all conflicts in the South Caucasus. In the context of implementing action plans, EU organizations have a unique chance to discuss these principles and suggest that the conflicting sides take them as a basis for the negotiating process.

The EU initiative to create a Turkey-Azerbaijan-Armenia format for the negotiating process is important, because relations and problems between these three states are decisive for stability and security in the region.

Another important direction should be the establishment of the South Caucasus Parliamentary Assembly which is capable of moving forward the integration process in the South Caucasus significantly.

It is important to correlate the implementation of actions plans with initiatives formed in the context of concepts of cooperation “between two and three seas” (Caspian, Black and Baltic seas). Up to date, all these initiatives have lacked a vector directed at cooperation between the civil sector and NGOs of these regions. Due to well-known circumstances, issues that cannot be raised at the government level for the time being are quite acceptable for discussion at meetings between members of the public. In this regard, it is necessary to increase support for the region’s civil society.

Recommendations:

- 1) It is important to intensify the dialogue in the following directions:
 - **Political:** Discussions on a single concept of ending conflicts and the future territorial-state map of the region, the establishment of a regional parliamentary body, the development of priorities of the region’s political and defense orientation. It is also important to draw up a concept on the further development of cooperation between the countries of the Black Sea and Baltic regions;
 - **Legal:** The unification of the constitutional law of the South Caucasus countries, the establishment of a regional ombudsman’s office, the preparation of a joint concept directed against the spreading of criminal trafficking and drug dealing;
 - **Economic:** Cooperation and specialization of regions of the South Caucasus, a policy of forming free economic zones, a common energy policy and a common market;
 - **NGOs:** The establishment of NGO forums, youth and women’s organizations of the South Caucasus, a single policy of civil education and cooperation, the establishment of a forum of regional rights campaigners;
 - **Peacekeeping:** The expansion of the work of the regional organization – the Conference of Citizens of the South Caucasus;
 - **Ecology:** The creation of a map of acute ecological problems in the region and a plan to eliminate them within the framework of the activities of the Caucasus Regional Ecological Center;
 - **Municipalities:** Trans-border cooperation within the framework of the Local Government Charter of the Council of Europe;

- **Education:** The integration and unification of educational institutions within the framework of the Bologna Process, the formation of a system of regional and inter-regional distance education;
- **Culture, religion and science:** The establishment of a fund for the cultural heritage of the peoples of the Caucasus, an organization that would unite scientists of the South Caucasus, a forum of the region's religious figures;
- **Sports:** Regional sports Olympiads, especially among the youth;
- **Health:** The creation of a single format of the fight against epidemics, drug addiction and diseases characteristic of the region;
- **Information policy:** The creation of an all-regional news agency, radio and TV broadcasting, media outlets.

2) It is necessary to identify the strategy and tactics of the further activity of the expert community, non-government organizations and civil society of the region to join efforts in terms of both Caucasus and European integration. In this regard, it is necessary to support the establishment of basic organization that combines both the functions of the expert community and the functions of mediators between the region and European organizations. It is necessary to permanently inform the world community and interested organizations about the activity of such organizations, direct their work at informing wide public circles about the European Neighborhood Policy and use their capabilities to carry out regular monitoring of the course of the implementation of national action plans and the advance of the region's countries towards European standards. It is necessary to inform European organizations and the governments of the South Caucasus countries about their work.

3) In terms of the information strategy, it is better to translate into national languages of the region and disseminate documents of the European Parliament, especially those that are related to the European Neighborhood Policy, to create a series of publications, an electronic magazine and an all-Caucasus publication that will inform the societies of the South Caucasus.

4) To start moving forward the idea of creating a single South Caucasus human rights field – a Caucasus forum on human rights that could become a buffer between the governments and human rights organizations inside the republics.

5) To speed up the organizational development of the Permanent Conference of Citizens of the South Caucasus for Peace, Democracy and Regional Integration to a level that will make it possible to solve the tasks facing it.

10) The creation of a database and stage-by-stage involvement in the work of non-government organizations that work on similar problems in individual spheres. In this regard, it is necessary to create specialized regional public formats on education, human rights, ecology and tourism. To research the possibility of creating “a triangle of development” on the border of the three countries based in Georgia where a regional office of the organization can be set up in the Azerbaijani-populated village of Sadakhlo bordering on Armenia.

The establishment of permanent institutions:

- Groups working with national minorities are planning to hold Georgian-Abkhaz and Georgian-South Ossetian meetings in Baku in order to build confidence and secure cooperation between the NGOs and public of the conflicting sides; Azerbaijani NGOs

should cooperate with members of the public and NGOs of Azerbaijan's Georgian population; Georgian-Abkhaz and Georgian-South Ossetian meetings should be organized in Yerevan by the Armenian side; the Georgian side should hold Armenian-Azerbaijani meetings and cooperate with Georgia's Azerbaijani public organizations.

- Information services will organize a permanent link between all members of the organization and start publishing information bulletins and an electronic magazine.
- The conflicts and peacekeeping section that has more experience in cooperation will continue its activity to hold joint meetings and events for representatives of the conflicting sides both in the region and abroad. In 2008, the Helsinki Citizens' Assembly is planning to start an intensive and uninterrupted process of negotiations between the sides to the Karabakh conflict in order to achieve a single concept on the settlement of the conflict at the civil level, coordinating it with government agencies and international organizations. It is planned to prepare a book and make a film on its results.
- The section of legal issues will work on comparative research into the legislation of the region's countries on various spheres in order to bring it in line with Council of Europe and EU standards.

On the whole, the activity of these institutions should be aimed at a well-thought out strategy to involve in the process the best-known experts of the region and foreign specialists on the South Caucasus, funds and international organizations working in the sphere of the region's integration, and at its integration into European political and economic organizations. In fact, this work should be oriented to the largest possible public of the South Caucasus, the governments and organizations of the three countries, international organizations, funds, EU and Council of Europe representative offices in the region and the countries of the region.

2. Strengthen Azerbaijan participation in regional law enforcement cooperation initiatives in Southern Caucasus, including through EC-funded regional assistance initiatives such as SCAD

The Committee assessment of this priority has not been completed yet.

3. Support the Caucasus Regional Environmental Centre in meeting its objective to promote cooperation between Governmental and non-Governmental actors in the region, as well as enhance participation in its work

On 16 April 2007, the updated statute of the Regional Ecological Center for the Caucasus was signed at the main headquarters of the Regional Ecological Center for the Caucasus (Tbilisi, Georgia).⁷ This statute was signed by the founders of the center – representatives from Azerbaijan, Armenia, Georgia and the European Commission. On behalf of Azerbaijan, the updated statute was signed by the minister of ecology and natural resources.

Amendments to the statute of the REC Caucasus suggest changes to the structure of the leadership of the organization. They were made in compliance with the decisions made at a session of founders in Brussels in July 2006.

⁷ <http://www.rec-caucasus.org/recc/index.php?f=4&su=news180&t=index&lang=rus>

The new executive body of the REC Caucasus will be presented in the form of a troika, which will reflect the unique regional nature and previous achievements of the organization. The new structure of the executive body makes it possible to ensure more balanced management of the organization in order to intensify actions in the whole of the South Caucasus aimed at protecting the environment and developing a democratic civil society.

On 26 September 2007, the REC Caucasus organized a special regional meeting for representatives of South Caucasus NGOs and media, which drew up a view and a relevant document on the involvement of civil society in the “Environment for Europe” process through mechanisms of the European Neighborhood Policy (to be handed out at the Belgrade Conference).⁸

4. Enhance bilateral and multilateral cooperation in the Black Sea region – including strengthened regional economic cooperation through continued engagement with the Black Sea Economic Cooperation Organisation (BSEC) – and between the Black Sea and the Baltic Sea regions

The full assessment of the situation by ANCEI has not been completed yet.

5. Enhance youth exchanges and cooperation on a regional level

The full assessment of the situation by ANCEI has not been completed yet.

General Conclusion

However we may sum up that despite some evidences of growing government commitment in ENP implementation, what has been achieved is not sufficient and don not comply with the expected time-table of reforms. Especially pressing are commitments regarding the human rights and fundamental freedoms. Azerbaijan is stepping into the three successive years of elections. For any possible improvement under above mentioned priorities, the records of freedom of assembly and expression, electoral rights records should be improved. Access to justice and court independence is critical to guarantee these rights. They are also important for effective struggle against corruption and monopoly trends in economy.

⁸ <http://www.rec-caucasus.org/recc/index.php?t=index&f=4&su=news&no=&lang=eng>