



Azerbaijan Country Strategy 2025-2030

Approved by the Board of Directors on 29 January 2025



European Bank
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		ADB	Asian Development Bank	LCY	Local Currency
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		ASB	Advice for Small Businesses	MoU	Memorandum of Understanding
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		CBAR	Central Bank of the Republic of Azerbaijan	ODA	Official Development Assistance
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		EE	Energy Efficiency	PPP	Public-Private Partnership
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		ESG	Environmental, Social, and Governance	PR2	Performance Requirements
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		E5P	Eastern Europe Energy Efficiency and Environment Partnership Fund	RSF	Risk Sharing Framework
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		FI	Financial Institution	SECO	State Secretariat for Economic Affairs (Switzerland)
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		GET	Green Economy Transition	SOE	State-owned Enterprise
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		ICA	Industry, Commerce & Agribusiness	TES	Total Energy Supply
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		IEA	International Energy Agency	TMT	Technology, Media, Telecom
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		IEA	International Energy Agency	WiB	Women in Business Programme
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Azerbaijan's commitment to and application of the political principles as stated in Article 1 of the Agreement Establishing the Bank has, over the previous Country Strategy period, been marked by international concerns regarding the protection of human rights and fundamental freedoms, notably restrictions on freedom of assembly, association and expression. Some changes were observed in the judiciary, as well as in the adoption of anti-corruption measures; however, important challenges have remained.

Over the previous strategy period, Azerbaijan's economy proved vulnerable to energy price fluctuations and experienced sluggish growth. Although the economic outlook temporarily improved in 2021 and 2022 on the back of rising energy prices, the country's heavy reliance on oil and gas continued to hinder income convergence and non-oil sector development. While some efforts to diversify the export structure have been made, predominantly with low value-added products, the overall structure barely changed. Energy exports will continue to drive-growth for the foreseeable future.

Azerbaijan's political economy continues to be defined by the country's centralised political system and resource-driven economic model. While some improvements have been made in recent years, such as the establishment of state investment holdings, which aim to strengthen the governance and operational workings of major SOEs, implementation of a systematic and consistent reform agenda has been challenging. Attracting foreign investment will be crucial to supporting private sector growth and the reform agenda over the new strategy period, and will require further improvements to the business environment, including to address deficiencies in the legal-judicial system, high customs tariffs and large SOE presence.

Geopolitical uncertainties and the need for energy diversification have reinforced Azerbaijan's role as an energy supplier and transport hub, reviving interest in the Middle Corridor and its potential trade benefits. Although these remain largely untapped, the government is pursuing a number of multimodal projects to better connect the country to international transport networks. Despite growing interest in renewable energy and energy efficiency, the economic benefits brought about by the extractives industry and a high level of energy self-sufficiency have also limited green transition aspirations to date.

With these considerations in mind, going forward the Bank will seek to help Azerbaijan harness its untapped solar and wind power potential, including by strengthening the electric grid and supporting renewable energy exports, and further enhance the country's sustainability and climate resilience. Additionally, it will continue to focus on supporting greater economic diversification and private sector development by providing financial assistance to the non-extractive sector and SMEs, encouraging exports and strengthening regional connectivity to foster sustainable growth. In doing so, the Bank will couple its investments with robust policy engagement across priorities to support enhanced governance, particularly in view of its continuing centrality under the Bank's forthcoming Strategic and Capital Framework.

The Bank is therefore set to pursue the following strategic priorities in Azerbaijan in 2025-2030:

- Foster greater economic diversification through a stronger, more competitive and inclusive private sector and improved governance; and
- Accelerate Green Economy Transition and improve regional connectivity.

Azerbaijan – EBRD Snapshot

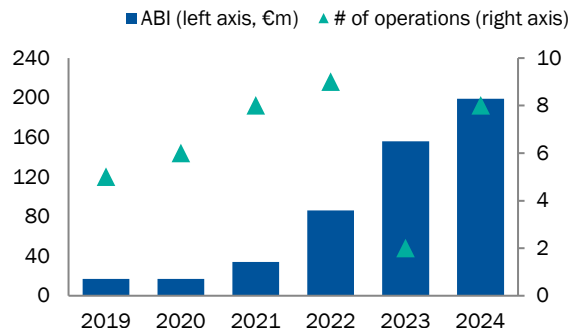


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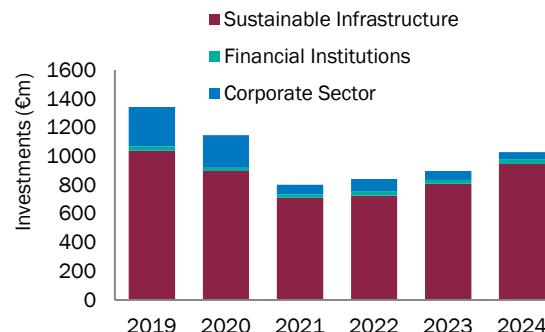
EBRD investment activities in Azerbaijan (as of December 2024)

Portfolio	€1,030m	Active projects	33
Equity share	1%	Operating assets	€754m
Private Sector Share ¹	86.5%	Net cum. investment	€4,040m

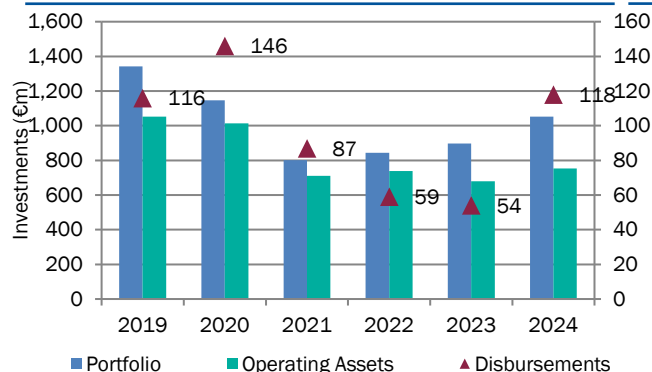
ABI and operations



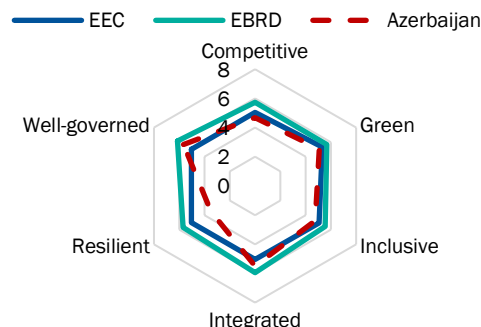
Portfolio composition



Portfolio dynamics



Transition Gaps²



Azerbaijan context figures

	Azerbaijan	Comparators
Population (million) ³ (2022)	10.1	Georgia (3.7) Moldova (2.5) Kazakhstan (19.8)
GDP per capita (PPP, in constant 2017 USD) ³ (2022)	15,214.7	Georgia (17,991.6) Moldova (13,304.4) Kazakhstan (26,024.3)
New Business Density ⁴ (New registrations per 1,000 population, 2020)	1.3	Georgia (7.5) Moldova (1.9) Kazakhstan (3.5)
Unemployment (%) ⁵ (2022)	5.6	Georgia (17.3) Moldova (0.9) Kazakhstan (4.9)
Youth unemployment (%) ⁵ (2022)	13.6	Georgia (30.4) Moldova (2.8) Kazakhstan (3.8)
Female labour force participation (%) ⁵ (2022)	74.6	Georgia (60.9) Moldova (73.3) Kazakhstan (73.1)
Energy intensity TES/GDP (MJ 2017\$ PPP) ⁶ (2020)	4.7	Georgia (4.0) Moldova (5.1) Kazakhstan (5.8)
Emission intensity/GDP (kgCO ₂ /2017 PPP\$ of GDP) ⁶ (2020)	0.2	Georgia (0.2) Moldova (0.3) Kazakhstan (0.4)

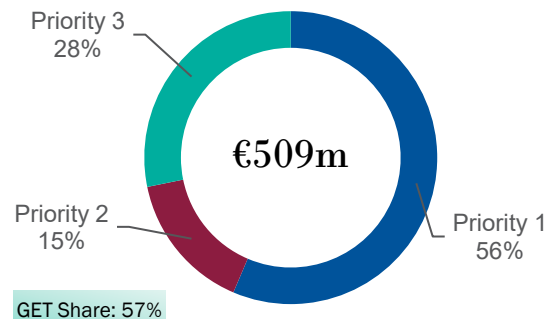
1 Cumulative Bank Investment: 5 year rolling basis on portfolio; 2 Cf. EBRD Transition Report 2021-2022; 3 IMF WEO April 2024 4 Entrepreneurship Survey and database (Moldova data is from 2018 due to missing recent data; 5 ILO; 6 World Bank

1. Implementation of Previous Strategy (2019 - 2024)

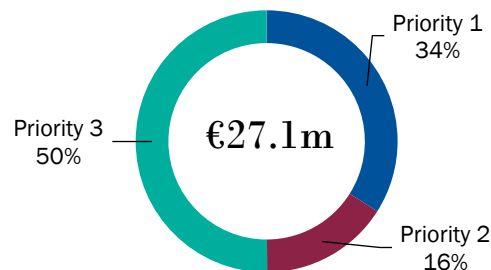
1.1. Key Transition Results Achieved during Previous Strategy (1/2)

Strategic alignment 2019 - 2024

Cumulative Annual Business Investment (ABI)



Technical assistance and co-investment funds¹



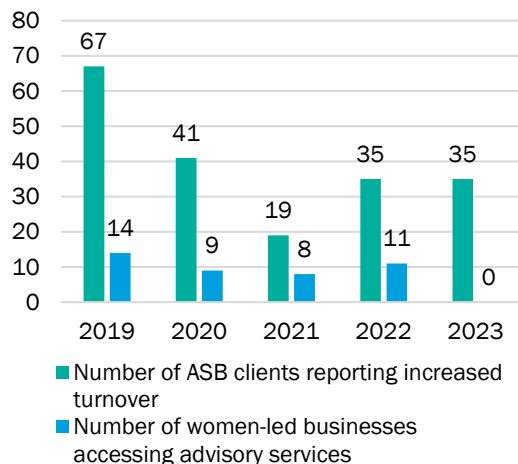
Transition impact performance²



Priority 1

Promote Economic Diversification by Supporting Competitiveness and Good Governance

Key quantitative results



Key transition results

- Strengthened and diversified SME access to finance by providing around US\$94m to leading producers and retailers across sectors, including food and beverage, white goods and electronics from 2019 to 2023
- Resumed MSME financing in 2019 after a 5-year gap and channelled close to US\$20m through the first credit line for MSMEs via PFIs, of which US\$11.5m was to support agriculture businesses in rural areas
- Provided tailored advisory services to nearly 300 SMEs, with a focus on improving operational and in house accounting standards, and expanded the Women in Business, Blue Ribbon and Star Venture programmes, helping to spur entrepreneurship and strengthen private sector competitiveness
- Extended a loan of up to US\$50m to national telecommunication operator Aztelekom to finance the rollout of broadband infrastructure to more than 280,000 households, coupled with support for reforms and good governance through development of Action Plans for Competitive Safeguards and Corporate Governance
- With financial support from the EU, provided technical assistance to the export and investment promotion agency AZPROMO to boost foreign direct investment in non-oil sectors and increase integration into European value chains
- Supported the agribusiness sector by allocating a €12.5m loan (total funding €25m) to Aurora LLC to finance a new state-of-the-art pasta production facility and develop a training programme in collaboration with TVET education provider

1. Technical assistance and co-investment funds data until December 2022; 2. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio

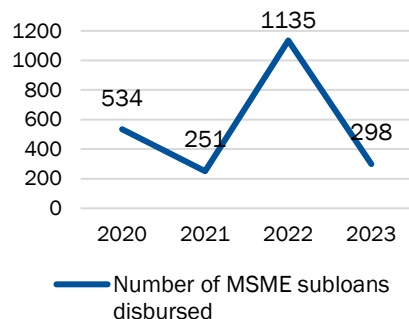


1. Implementation of Previous Strategy (2019 - 2024)

1.1. Key Transition Results Achieved during Previous Strategy (2/2)

Priority 2 | Strengthen Resilience by Developing Financial Markets

Key quantitative results

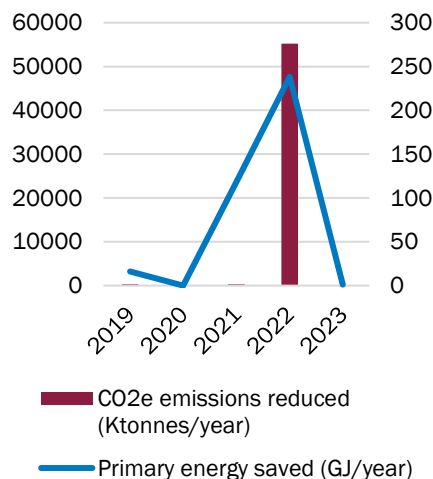


Key transition results

- Catalysed capital and money markets development, including by facilitating legislative improvements in the areas of derivatives and securitisation, which is under consideration by CBAR and Parliament
- Signed US\$200m swap facility with the Central Bank of the Republic of Azerbaijan (CBAR) to improve currency pricing and facilitate local currency lending to businesses, including to mitigate the impact of COVID-19
- Engaged with the CBAR to improve financial market conditions for IFI LCY bond issuances
- Implemented a capacity building programme for select PFIs to restore and strengthen resilience and sustainability following the banking sector crisis, including by increasing efficiency and transparency of internal processes, enhancing organisational structures and improving balance sheet structure and profitability
- Helped the CBAR develop Azerbaijan's Money Market through (i) a diagnostics study in 2019, (ii) knowledge sharing, and (iii) sector-wide discussions under the EBRD-proposed Money Market Working Group
- Assisted CBAR in developing and adopting an ESG Roadmap for the FI Sector, including green bond legislation. Furthermore, together with CBAR conducted a series of Climate Risk Transition Masterclasses for local banks

Priority 3 | Support Green Economy Transition and Regional Connectivity

Key quantitative results



Key transition results

- Co-financed up to US\$167m for the construction of a 240-megawatt (MW) wind power plant, the first privately-owned utility-scale wind power project in the country and the largest wind power plant in the Caucasus
- Invested US\$ 19.5 million to commission the first privately owned, utility-scale solar power project in Azerbaijan, a 230-megawatt (MW) photovoltaic (PV) solar power plant, helping to support the national decarbonisation agenda and increasing the availability of domestic gas for exports
- Co-financed up to US\$ 160m for the construction of two solar power plants in Azerbaijan (with a combined capacity of 760 MW), the largest renewable energy projects in the Caucasus expected to save over 600,000 tonnes of CO2 annually.
- Extended the first green-focused loan to a local bank under the SME Competitiveness and Inclusion Programme and re-launched the RSF in 2024 with a local bank to support SMEs
- Following Azerbaijan's accession to the E5P framework, completed a high-level assessment resulting in the selection of five projects for a preliminary feasibility study to determine their eligibility for E5P grants
- Launched Green Cities programme in Ganja with initial projects to upgrade the city's solid waste management systems (€10m) and street lighting networks (€12.5m) and prepared a Green City Action Plan for Ganja city (adopted in April 2024)
- Boosted Azerbaijan's transit, import and export cargo capacity and supply chain resilience by providing loans to manufacturer Gemza Group (€5.6m) and transport services provider W&E Forward (US\$4 million) to construct three dry warehouses and one refrigerated warehouse, respectively
- Assisted the Ministry of Energy in establishing the Energy Regulatory Agency, implementing renewable energy auctions, developing a low-carbon hydrogen market study and the National Hydrogen Strategic Outlook, assessing the transmission grid potential to integrate RE projects and developing the regulatory framework for small-scale renewable energy. In 2022, an MoU was signed to continue cooperation in the power sector, including development of a low carbon pathway for the power sector



1. Implementation of Previous Strategy (2019 - 2024)

1.2. Challenges to Implementation and Key Lessons

Context for implementation

Over the previous strategy period, Azerbaijan's economy proved vulnerable to energy price fluctuations and experienced sluggish growth. Although the economic outlook temporarily improved in 2021 and 2022 on the back of rising energy prices, the country's heavy reliance on oil continued to hinder income convergence and non-oil sector development. While some efforts to diversify the export structure have been made, predominantly with low value-added products, the overall structure barely changed. Azerbaijan's political economy continues to be defined by the country's centralised political system and resource-driven economic model. While some improvements have been made in recent years, such as the establishment of state investment holdings, which aim to strengthen the governance and operational workings of major SOEs, implementation of a systematic and consistent reform agenda has been challenging. Attracting foreign investment will be crucial to supporting private sector growth and the reform agenda over the new strategy period, and will require further improvements to the business environment, including to address deficiencies in the legal-judicial system, high customs tariffs and large SOE presence. Geopolitical uncertainties and the need for energy diversification have reinforced Azerbaijan's role as an energy supplier and transport hub, reviving interest in the Middle Corridor and its potential trade benefits. Despite growing interest in renewable energy and energy efficiency, the economic benefits brought about by the extractives industry and a high level of energy self-sufficiency also continue to limit green transition aspirations. Going forward, the Bank will seek to help Azerbaijan harness its untapped solar and wind power potential, including as an exporter, and further enhance the country's sustainability and climate resilience. Additionally, it will continue to focus on supporting greater economic diversification and private sector development by providing financial assistance to the non-extractive sector and SMEs, encouraging exports and strengthening regional connectivity to foster sustainable growth. Across both priorities it will couple its investments with robust policy engagement to support enhanced governance.

Implementation challenges

- Challenges accessing reasonably priced local currency have limited the Bank's ability to offer affordable financing solutions
- Significant presence of SOEs and links between private businesses and the government have limited investment opportunities for EBRD in the corporate sector and hindered its ability to improve economic and corporate governance
- Limited administrative capacity and lengthy government approval processes have led to delays in TC and investment projects, hampering progress in sovereign investments
- Large-scale state support programmes limited opportunities to lend to the local private sector and advance a competitive domestic market
- Credit penetration is low, with banking sector assets accounting for 30% of GDP, while competition for good clients from local banks is high
- Lack of FDI outside of hydrocarbons sector hindered operational delivery and private sector growth

Key lessons & way forward

- Continue cooperation with the Central Bank to improve local currency access, including through direct swap facilities and innovative arrangements such as RSFs
- The establishment of state investment holdings may present an opening to strengthen corporate governance, including through long contemplated reforms on commercialisation and privatisation of SOEs
- Look to strengthen TC and capacity building with counterparts in strategic sectors such as energy efficiency and other green projects, leveraging, where possible, EU blended financing for sovereign and sub-sovereign lending
- Foster dialogue with the authorities to revamp the subsidy system, aligning it with market-driven incentives in the medium term, while developing a robust project pipeline that spotlights emerging industry leaders
- Leveraging donor resources, look to expand the Bank's impact where possible through additional PFIs and client-focused FI products introducing new features to the local market
- Support targeted measures to strengthen economic governance, improve the business environment and open new sectors to foreign participation

2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

Azerbaijan – Main Macroeconomic Indicators

	2019	2020	2021	2022	2023
GDP growth (% y-o-y)	2.5	-4.2	5.6	4.7	1.1
CPI inflation (% avg.)	2.6	2.8	6.7	13.9	8.8
Government balance (% of GDP)	8.9	-6.4	4.1	6.0	n/a
Current account balance (% of GDP)	9.1	-0.5	15.1	29.8	11.5
Net FDI (% of GDP) <i>[minus indicates inflow]</i>	2.9	1.8	4.1	6.5	2.9
External debt (% of GDP)	47.2	55.7	43.6	31.5	n/a
Gross reserves (% of GDP)	13.0	14.9	12.9	11.4	16.0
General government gross debt (% of GDP)	30.0	36.3	44.8	29.5	n/a
Unemployment rate (%)	5.0	7.2	6.0	5.6	5.5
Nominal GDP (\$bn)	48.2	42.7	54.8	78.8	72.4

Source: National authorities, IMF

The strong economic growth of the past two years has started to moderate. GDP grew 4.7 per cent in 2022, driven by strong growth in the non-oil and gas sector (9.1 per cent year on year), which benefited from large foreign-currency inflows as the high global prices of oil and gas boosted export revenues. However, the economy slowed in the second half of 2022 as global energy prices moderated and inflation reduced growth in real incomes. GDP growth decelerated sharply to 1.1 per cent year on year in 2023.

Monetary policy tightening continues to curtail inflation, but domestic demand remains strong. Inflation eased to 8.8 per cent in 2023, after peaking at 15.6 per cent in October 2022. The authorities first reacted with significant monetary tightening. The CBAR raised the policy rate to 9.0 per cent in May 2023, its tenth rate rise in the last two years. However, CBAR cut the policy rate by another 25 bp to 7.75 per cent in February 2024 in consideration of subsiding consumer prices.

Domestic demand has remained solid. Lending to households has continued to rise, up 25.1 per cent year on year between January and September 2023, on top of a 30 per cent increase in 2022. Amid relatively high domestic demand, in mid-2023, the government approved an increase in budgetary spending to boost public-sector wages, increase public investments and strengthen the country's defence capabilities. Government spending and public investment needs are expected to remain high given large-scale reconstruction needs, further placing a premium on attracting foreign investment.

The economy remains highly dependent on the oil and gas sector, which generates more than 40 per cent of GDP and has a share of more than 90 per cent of the country's exports. Strong public investments will likely drive domestic demand in the period ahead. However, slow progress in diversification of the economy and vulnerability to volatile oil prices constrain country's long-term growth potential and income convergence.

2. Economic Context

2.2 Key Transition Challenges (I/II)

Competitive (4.29)

- Azerbaijan's economy features a significant presence of **State-owned Enterprises (SOEs)** and several major **conglomerates with strong political ties**. While SOEs have not been officially granted monopolistic powers, many benefit from a dominant market position. This translates into the state influence over pricing in key sectors, including utilities.
- Diversification from the oil-dominant economy** remains a key challenge while **non-oil and gas sector private firms suffer from weak competitiveness** and are constrained by a lack of access to finance.
- Although the authorities acknowledge that SOE governance needs to be strengthened, **reform implementation remains slow**.

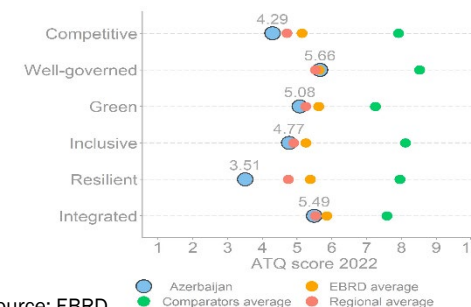
Well-governed (5.66)

- Corporate governance standards still lag behind** regional peers due to slow SOE reform progress, weak institutional capacity, and understaffed government agencies.
- Geopolitical developments and reliance on oil and gas sector further hamper the governance reform agenda**. Political will can appear to fluctuate depending on oil revenue while indicators relating to the rule of law and perception of corruption failed to substantially improve between 2018 and 2022.¹
- Judicial and legal reform need a comprehensive approach rather than fragmented measures**. These weaknesses, coupled with the large SOE presence and high customs tariffs, weigh on the investment climate and negatively affect the investor base.
- The establishment of AIH (Azerbaijan Investment Holding) in August 2020 and AZCON in January 2025 represents a major opportunity to strengthen the corporate governance of SOEs**. AIH manages 11 out of 19 major SOEs across the natural resources, transport, utilities and financial sectors on behalf of government who is the shareholder. However, further reforms are needed in order to reduce political involvement and influence in SOE activities.

Green (5.08)

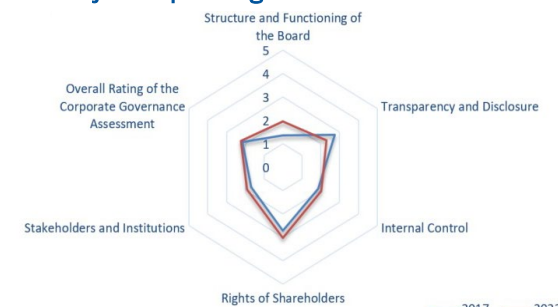
- Economic growth over the past three decades has largely been driven by fossil fuel extraction**, with oil and natural gas contributing around 96.9 per cent of Azerbaijan's export revenues.
- Due to a combination of political, geographic, and social factors, **Azerbaijan is highly vulnerable to climate change**. Temperatures are predicted to rise at a faster rate than the global average and extreme weather events, such as flooding, droughts and heat stress, are expected to increase in frequency, impacting human health, livelihoods and ecosystems.
- The share of renewable energy sources (RES) in total energy supply (TES) has remained stable but low since the 1990s**. TES relies heavily on natural gas (70.5 per cent in 2020) and oil (28.2 per cent in 2020). Importantly, coal is not used in the country.
- Interest in renewable energy and energy efficiency** has only recently begun to grow. The government recognises that renewable energy in power generation can help diversify energy sources and meet climate policy objectives.
- The country has excellent solar and wind resources and significant prospects for biomass, geothermal and hydropower**. The government is aiming for renewable energy to provide 30 per cent of electricity generating capacity by 2030, roughly twice the current share.

Azerbaijan ATQ Overview 2022



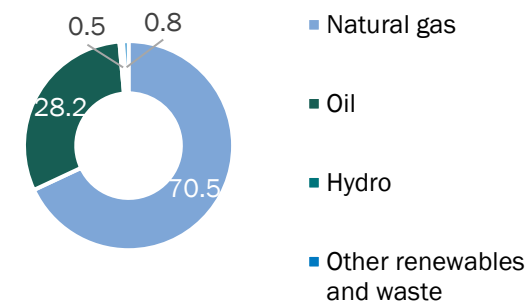
Source: EBRD

Azerbaijan corporate governance assessment



Source: EBRD

Total energy supply by source, 2020



Source: IEA

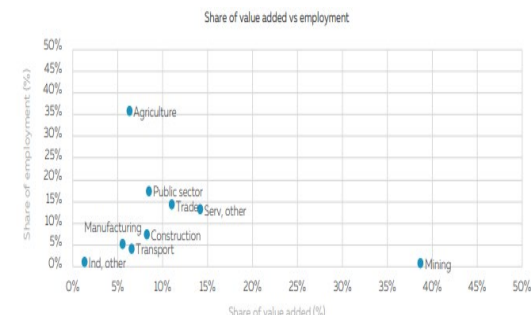
2. Economic Context

2.2 Key Transition Challenges (II/II)

Inclusive (4.77)

- **Employment is unevenly distributed, with a high concentration in low productivity sectors**, especially in agriculture. The **mining sector (extractive industry including oil and gas)** accounted for the smallest share of employment **but the biggest share of value added** in 2022.
- Although Azerbaijan has improved on the Human Capital Index in the last few years, **skills development remains a key challenge** to convergence to Europe and Central Asia levels.
- **A skills shortage is exacerbating low skills development**, with a qualifications mismatch in the labour market and a low digital skills proficiency of the population.
- **Quality of education and training institutions has created additional labour market challenges**. Pupils from disadvantaged backgrounds tend to have lower scores in PISA than those from high income groups.
- **Legal barriers to equal employment were softened with amended labour legislation**. As a result, Azerbaijan's score of Women, Business and the Law by the World Bank increased to 85 from 78.8.

Concentrated employment in low productivity sectors

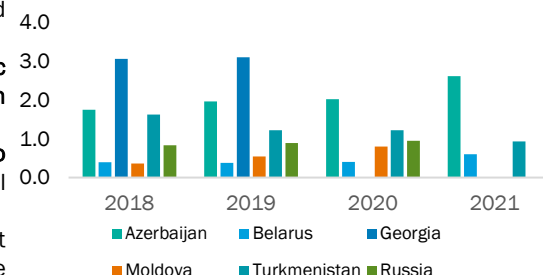


Source: EBRD

Integrated (5.49)

- **External trade accounts for about 2/3 of total output, lagging behind the EBRD average**. Energy exports make up roughly 90% of the country's exports, while non-oil exports remain subdued at 5% of GDP and mainly consist of low-value products.
- The country has relatively high infrastructure quality driven by high public spending, yet **domestic connectivity, especially outside of Baku, remains relatively underdeveloped, causing weaker performance on trade logistics**.
- While broadband coverage and adoption are generally high, **home internet speed is low compared to European countries and a digital divide continues to exist** between the capital and other urban and rural areas.
- In recent years, **the Middle Corridor** has gained significant popularity as an alternative transport route in light of various geopolitical developments, further exacerbated by the Russian invasion of Ukraine. While the potential benefits could be far-reaching, private sector interest for investments is very limited so far.

Total inland transport infrastructure investment (% of GDP)

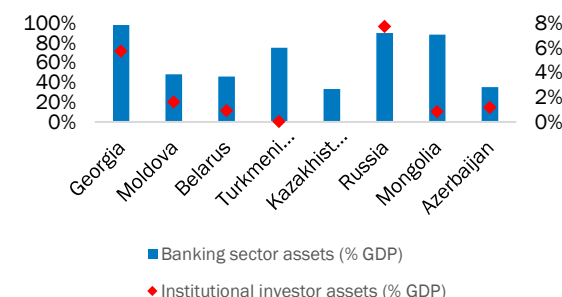


Source: OECD. Omission of certain comparators in some years is due to data availability issues.

Resilient (3.51)

- **Azerbaijan's financial system is dominated by the banking sector, with SOBs holding 1/3 of total assets**. Non-bank financial institutions are still thinly developed and only a few life insurance services exist. Institutional investor assets amounted to only 1.2 per cent of GDP in 2022.
- **Financial markets in Azerbaijan are still nascent** due to a weak legal and regulatory framework and local institutional investor base and under-developed money markets.
- **Although the energy sector remains a predominantly state-owned monopoly** and there is no independent energy regulator, concerted efforts to enhance competitiveness of energy sector are underway, initiated by the new Competition Code, the Law on electric power and the Law on state procurement.
- Reform progress in the electricity market requires **the legal unbundling of the electricity generation value chain**. Yet **slow and insufficient implementation of deregulation** has limited investor appetite. A new pledge of green energy projects including hydrogen and green ammonia would lead to further investment in renewables.

Banking sector and institutional investor assets (% of GDP)



Source: IMF FSI, OECD, S&P Capital, World Bank.

3. Government Priorities and Stakeholder Engagement



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3.1 Government Reform Priorities

Along with Azerbaijan 2030: National Priorities for Socio-Economic Development, Azerbaijan's Socio-Economic Strategy for 2022-2026 sets out a comprehensive plan to facilitate the transition to a private sector-led growth model and accelerate human capital development, aiming for sustained 5% growth in non-energy sectors. Among other aspects, the strategy sets out a number of key priorities, including:

- **A More Competitive and Sustainable Economy:** economic diversification and increased non-oil exports; strengthening the private sector; improving the rule of law; promoting SOE efficiency, governance and transparency; strengthening the financial sector's role in the economy; enhancing transparency in public procurement; fostering digitalization; ensuring macroeconomic and fiscal stability and promoting FDI in the non-hydrocarbon sector.
- **A More Dynamic, Inclusive and Equitable Society:** increasing wages; increasing private sector jobs and maintaining an equitable social safety net; promoting women's access to economic opportunities and addressing disparities between urban and rural living standards.
- **A Cleaner Environment and Greener Country:** promoting a more sustainable use of natural resources and the preservation of biodiversity; increasing vegetation and reducing unusable land; improving water supply, waste recycling, and protecting natural areas; expanding renewable energy sources and deploying green technologies to support climate action;
- **Enhanced Human Capital and Innovation:** improving the quality of vocational training and higher education; fostering digital skills; improving healthcare services; expanding research and increasing access to education; strengthening domestic potential for import substitution and localised production.

3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Strengthen financial intermediation, particularly in order to improve access to finance for SMEs, and enhance banking sector resilience
- Scale up renewable energy capacity and increase energy efficiency, with a view to enhancing renewable energy exports
- Promote greater regional connectivity, including by fostering enhanced transport links along the Middle Corridor and supporting development of Green Energy Corridors
- Accelerate digitalisation as a means for enhancing governance, transparency and innovation
- Continue developing sustainable urban infrastructure, including through the Green Cities Programme

3.3 Key Messages from Civil Society to EBRD

- CSOs endorsed the proposed priorities, noting that Azerbaijan's business environment needs improvement and that the overall economy could be strengthened by building capacities of the private sector, advancing legislative reforms and transparency, enhancing economic inclusion and digitalisation, and improving access to financial instruments.
- CSOs encouraged the Bank to green the economy and advance sustainable development by (i) investing in the diversification of renewables, (ii) improving access to financing, and (iii) fostering the competitiveness and transparency of the country's green sector.
- CSOs encouraged the Bank to promote overall public-private engagement, facilitate participation in political decision making, and support increased access to information. CSOs also requested capacity building assistance, which will help strengthen civic participation and accountability.



4. Defining Azerbaijan Country Strategy Priorities

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2025-2030)	What We Want to see in 2030
• SOEs and a number of large conglomerates have a significant impact in the economy • Low economic diversification; non-oil exports were 8% of total output in 2022 • Underdeveloped logistics infrastructure, primarily outside Baku, inhibits economic growth and value chain integration • Low credit penetration and lack of diversification limit financial resilience • Financial markets are in an early stage • A third of employment in low productivity agriculture; economy marked by skills shortages, urban/rural disparities and inclusion gaps • Corporate governance remains deficient with limited decision-making capacity and autonomy in public institutions • Continued regulatory and administrative challenges impede ease of doing business	• Government commitment to strengthen SOE governance, including through the establishment of state investment holdings • Increased interest and potential projects to develop the Middle Corridor could improve market linkages for companies in the non-oil sector • Recent capital markets reforms, improved market infrastructure and incentivised support mechanisms have increased issuer participation/financing • Increasing emphasis on vocational training, with six new centres planned by 2030 • Further steps to liberalise the economy and increase competition planned through high level action plans	• Effective instruments to help corporates and SMEs grow, including credit lines and non-financial tools through ASB • EBRD can support transport and logistics infrastructure to enhance trade and connectivity • Expertise in expanding financial products and capital/money markets • Financial/advisory support for underserved segments, e.g., WiB • EBRD can promote skills-enhancing solutions and greater financial inclusion • Strong track record in supporting economic governance, commercialisation and corporate governance in SOEs • Focused and operationally linked policy engagement to support institutional and business climate reforms • EBRD can support digital transition in the private and public sectors	Foster greater economic diversification through a stronger, more competitive and inclusive private sector and improved governance	• A more competitive, diverse and expansive private sector • Increased access to finance and skills • Improved quality of institutions and economic governance
• Large GDP gains from oil and gas production and high levels of energy self-sufficiency hinder green transition • Share of renewable energy sources (RES) in total energy supply (TES) has remained stable but low since the 1990s • Country is highly water stressed and vulnerable to climate change, with high-levels of industrial pollution • Domestic connectivity has received less focus than cross-border connectivity, with secondary road and rail networks requiring maintenance and modernisation • Although some improvements have been made, broadband internet speed is still low, with persistent digital divides mainly due to a lack of fixed infrastructure	• Significant untapped domestic renewable energy potential and growing awareness that exports are a viable long-term alternative to hydrocarbons • Green objectives integrated in key national policy documents and increased international cooperation on the green agenda, including in lead up to COP29 • Government commitment to position the country as a key transit and transport hub through infrastructure development • Increased interest in digitalisation measures to overcome geographic distance barriers and expand exports (e.g., e-commerce platforms and cross-border digital trade initiatives) • Plans for fibre optic cable in every household by the end of 2024	• Pursue financing of renewable energy projects by developing appropriate regulatory/policy frameworks • EBRD can support further governance reforms in the power and energy sector • Strong track record supporting climate resilience and decarbonisation and developing low carbon pathways • EBRD can facilitate green investments and strengthen energy and resource efficiency • Considerable experience developing sustainable infrastructure via dedicated GET frameworks (e.g., Green Cities) • Comprehensive approach to digital transition, including infrastructure and digital skills	Accelerate Green Economy Transition and improve regional connectivity	• Increased renewable energy capacity and support for green energy transition • Increased energy and resource efficiency and climate resilience • Improved quality and sustainability of transport networks, digital and municipal infrastructure

5. Activities and Results Framework (1/2)



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Priority 1: Foster greater economic diversification through a stronger, more competitive and inclusive private sector and improved governance

Key Objectives	Activities (Outputs)	Tracking Indicators (Outcomes)
A more competitive, diverse and expansive private sector	- Continue to support greater diversification of the economy and growth of the private sector by providing financing and technical assistance to corporates and SMEs in the non-oil and gas sector, including agribusiness, TMT/digital services, manufacturing and services, and infrastructure, with a focus on enhancing exports and promoting import substitution - Provide tailored finance and advisory to help promising SMEs expand, innovate and increase productivity through ASB's local consultancy, international advisory, Star Venture and WiB programmes - With a view to augmenting existing trade routes and developing new mechanisms, such as the Middle Corridor, look to support further trade, transport and logistics infrastructure, including intermodal solutions, and scale up related trade finance and digital trade - Look to support inbound FDI, anchor investors and private capital to further develop regional value chains, increase penetration of modern digital infrastructure and services, leveraging modern investment promotion tools to attract investment	- Number of clients reporting increased exports and/or productivity - Number/volume of TFP transactions supported by the Bank
Increased access to finance and skills	- Further enhance private access to finance by expanding the universe of PFIs in order to support dedicated credit lines, expanded use of risk sharing and local currency lending, leveraging donor funds as necessary, along with technical assistance to further strengthen banking sector resilience and support growth - Look to further support capital and money market development, including by improving the monetary policy framework, deploying new and/or innovative financial products (e.g., green bonds, sustainability bonds), as well as providing focused policy engagement on the regulatory framework and institutional set up - Help increase access to finance by underserved groups such as women-led SMEs, consider options for microfinance via the non-bank financial sector, and continue policy dialogue on inclusive financial systems and launch of financial products such as leasing and factoring - Strengthen human capital development by supporting market-relevant vocational training and skills development opportunities for all labour market segments (e.g. women, youth, elderly), including green and digital skills	- Number/volume of loans extended by PFIs disbursed for SMEs - Money market activity increased - Number of women-led businesses accessing finance - Number of people receiving new/improved skills (incl. green, digital) as a result of training (m/f)
Improved quality of institutions and economic governance	- In conjunction with government partners such as state investment holdings, help accelerate SOE reforms by supporting improved corporate governance, commercialisation, capacity-building and strategic workforce management at select SOEs, including steps towards full or partial privatisation where relevant - Support enhanced corporate governance in the private and public sectors - Continue to support private-led financing and delivery solutions (e.g., PPPs) for essential infrastructure services where additional - Support further business climate improvements, including through regulatory reform and digitalisation of government services to enhance transparency	- Number of clients improving corporate governance and/or operational performance - Number of (legal/institutional/regulatory) improvements to the business environment



5. Activities and Results Framework (2/2)



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Priority 2: Accelerate Green Economy Transition and Improve Regional Connectivity

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increased renewable energy capacity and support for green energy transition	- Provide direct finance to further develop domestic renewable energy sources, particularly solar and wind, coupled with policy/advisory support to strengthen the regulatory framework, and promote measures to increase the diversity of developers and suppliers - Help increase grid capacity, stability and resilience to better absorb renewable energy and explore opportunities to develop new technologies such as green hydrogen - Support further reforms in the power and electricity sector, e.g., to unbundle generation and transmission and promote longer term market liberalisation, including the establishment of an independent energy regulator - Look for opportunities to facilitate renewable energy exports, related storage capacity, and electricity interconnections, including potential support to develop Green Energy Corridors - Explore opportunities to support the development of low-carbon and climate resilient pathways in the power sector	- Renewable energy capacity installed (MW) - Legal/institutional/regulatory improvements to renewable energy and market design
Increased energy and resource efficiency and climate resilience	- Explore launching pilot green lending and green intermediated financing (including through different funds) as financing conditions permit - Promote climate risk management across clients and regulators and support partners in implementing the transition planning approach under EBRD's Paris alignment methodology - Support other green investments and related advisory in the corporate sector (including where feasible climate corporate governance) to increase energy and resource efficiency and climate resilience as well as reduce GHG emissions - Explore opportunities to promote greater climate resilience, and adaptation, including addressing water scarcity issues, and adoption of sustainability standards across material value chains, and look to boost women's participation in climate action	Total CO2e reduced (ton/y)
Improved quality and sustainability of transport networks, digital and municipal infrastructure	- Promote investments in sustainable and inclusive municipal and environmental infrastructure, including through the Green Cities programme, with a focus on expanding sectoral and geographic coverage. - Support enhanced domestic and regional transport connectivity, particularly along the Middle Corridor, through financing of green, inclusive and integrated transport investments along with related priority policy reforms and capacity-building in the sustainable roads, railways, maritime, ports and urban transport sectors, with active participation from the private sector where possible - Support enhanced operational efficiency, resilience and digitalisation of infrastructure - Strengthen quality, sustainability, security and inclusivity of digital infrastructure, focusing on expansion of broadband coverage to un- and under-served and rural areas	- Number of individuals with improved access to municipal services - Net increase in transport infrastructure usage and/or capacity - Net increase in digital infrastructure capacity



6. Mapping of International Partners' Complementarity in EBRD Business Areas

EBRD Business Areas

		Sectors								Cross-cutting Themes				
		Corporate Sector					Sustainable Infrastructure		FI		Strategic Initiatives			
Indicative annual average annual investments/ grants (€m, 2019 - 2023)		Food & Agribusiness	Manufacturing & Services	Real Estate	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank FIs	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
WB/IFC	42							€	€		€	€		€
ADB	21	€	P	P			€	€	€		€	€	P	€
EU	21	€	€	€			€	€			€	€		
SECO	18									€				€
EIB	17						€		€		€			€
BSTDB	11						€		€					€
EBRD	62	€	€				€	€	€		€	€	€	€

€ Area of significant investments

● Focus mostly on private sector

P Area of significant policy engagement

○ Focus mostly on public sector

Potential Areas of Cooperation



Green

- Continue collaboration with EU on energy sector reform agenda, and renewable energy framework development
- Pursue collaboration with WB, IFC, ADB, on green transition, particularly renewable energy projects
- Look for co-financing opportunities in municipal infrastructure, including through the Green Cities programme



Competitive

- Identify potential co-investments with ADB, EU, WB, IFC, EIB to further develop the non-oil export sector, support SMEs and improve the business climate, as well as cooperate on PFI expansion



Integrated

- Pursue collaboration on the Middle Corridor and the digital agenda to enhance connectivity



Well-Governed

- Coordinate with partners to engage with state investment holdings on commercialisation and transformation of largest SOEs

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of investments signed from 2019.



7. Implementation Risks and Environmental and Social Implications

Risks to the strategy implementation	Probability	Effect	Environmental and social implications
Vulnerability to commodity prices, with drops in the price of key export items triggering potential negative macroeconomic effects (e.g., recession), and weakening private sector demand, while a spike in prices may create a disincentive for reforms.	●	●	• Assessment and Management of E&S Impacts at sectoral and project level: Ensure that E&S impacts of projects and climate change vulnerability are assessed and mitigated, and meaningful stakeholder engagement is carried out. Encourage and support the Government to undertake Strategic Environmental and Social Impact Assessments for key sectors to ensure project site allocation based on E&S risk screening, avoid encroaching with protected areas and minimise impacts on sensitive receptors. • Labour and Working Conditions: Ensure that clients' HR policies and labour practices comply with EBRD PR2, promoting fair treatment, non-discrimination, non-harassment and equal opportunities of all project workers and encouraging sound worker-management relationships based on social dialogue. Support clients to build their capabilities for just transition through identifying, assessing and managing potential negative impacts on workers. TC funding will be required to support clients in managing these key labour risks and ensuring compliance with EBRD PR2 requirements. • Resource Efficiency and Pollution Prevention and Control: Support the development of renewable energy, energy efficiency, circular economy and waste management projects, including infrastructure and systems to encourage separation at source and recycle. Incorporate good industry practice and EU standards into project design and ensure climate mitigation and adaptation measures align with national climate goals. • Health and Safety: Improve occupational and community health and safety culture and practice through appropriate project appraisal, monitoring and technical cooperation. Road safety is a priority issue for transport projects and client fleet management and may require TC funds. Raise awareness of gender specific occupational health and safety risk (OHS) risk to support a more inclusive workplace. • Land Acquisition, Involuntary Resettlement and Economic Displacement: Encourage clients to improve information provision and meaningful stakeholder engagement with affected people. Provide special attention to vulnerable populations, including ethnic minorities, IDPs and refugees that may be disproportionately affected by projects. Where land users have no legal titles, clients will be required to ensure compensation and livelihood restoration in accordance with the Bank's requirements. • Biodiversity Conservation and Sustainable Management of Living Natural Resources: Ensure robust biodiversity impact assessments of projects in sensitive locations, integrating ESG requirements. • Financial Intermediaries: Ensure FI partners have adequate E&S and risk management capacity. • Stakeholder Engagement: Support clients in delivering meaningful consultation and project information disclosure accompanied with effective grievance mechanisms which are socially appropriate, readily accessible, regardless of gender, ethnicity, religion or any other socio-economic characteristics, and free from retaliation throughout the project lifecycle. • Monitoring and supervision: Work with clients to monitor E&S performance and address legacy issues associated with the Bank's portfolio. Adopt monitoring, reporting and verification requirements. • Institutional Strengthening and Capacity Building: Seek opportunities through TCs to build capacity within public and private sectors, to promote best practices to address systematic environmental and social issues.
A deterioration in the regional security situation could undermine investor confidence and restrict business opportunities.	●	●	
Strong competition from local banks and large-scale state programmes may limit EBRD capacity to lend to the private sector	●	●	
Insufficient access to long-term commercial local currency financing on competitive terms.	●	●	
The effectiveness of initiatives aimed at enhancing SOE performance and promoting private sector growth will be dependent on political will, potentially impacting competitiveness	●	●	
Limited availability of donor funds may constrain the Bank's ability to support the private sector, e.g., through the use of innovative advisory programmes and blended financial instruments	●	●	

● High ● Medium ● Low

8. Donor Partnerships Assessment



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Needs Assessment for the New Country Strategy Period

Various forms of donor funding will be necessary to achieve the objectives of the upcoming Country Strategy in Azerbaijan, including:

- Advisory services for SMEs along the identified priority areas to facilitate economic diversification;
- Policy engagement with focus on energy and business environment reforms;
- Technical assistance to enhance the digitalisation level of the private sector by facilitating the adoption of best practices;
- Technical assistance for green initiatives in transport, with a targeted focus on specific regions within the country;
- Support for promoting environmentally friendly and efficient transport practices, including enhanced digital and administrative technologies, in the Middle Corridor, as well as in urban transportation;
- Concessional finance for credit lines channelled through PFIs to enhance financial inclusion in underserved groups;
- Concessional finance to stimulate energy and resource efficiency; and development of sustainable and inclusive infrastructure through dedicated GET frameworks, utilising the Bank's experience under the Green Cities programme.

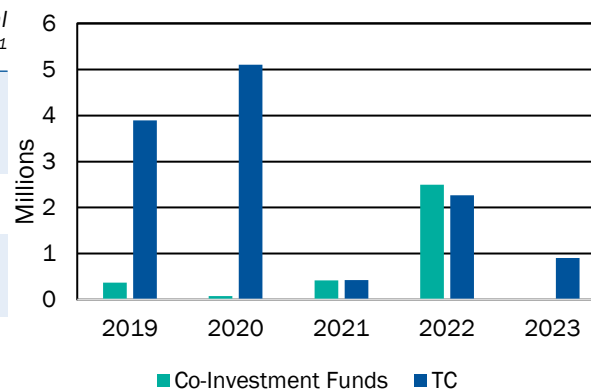
Potential Sources of Donor Funds

- Over the past five years, the SSF has been a notable source of concessional resources for Azerbaijan, and it is poised to maintain a significant role in the foreseeable future.
- Programmes such as ASB, Blue Ribbon, WiB and Star Venture can provide important financial and advisory support for SMEs.
- Donor supported WiB and YiB credit lines could be launched to help increase access to finance for female and youth entrepreneurs.
- Significant resources are available from the EU through the EFSD programmes to support green investments, digital transformation, and financial inclusion. Further EU support can be provided under the Neighbourhood Investment Platform.
- Azerbaijan is eligible for support from various multi-donor funds, including the Sustainable Infrastructure Fund, E5P, SBIF and HIPCA.
- TC grants are also available from several bilateral donors including Sweden, Luxembourg, Türkiye, as well as from the Azerbaijan TC fund supported by the Ministry of Economy.

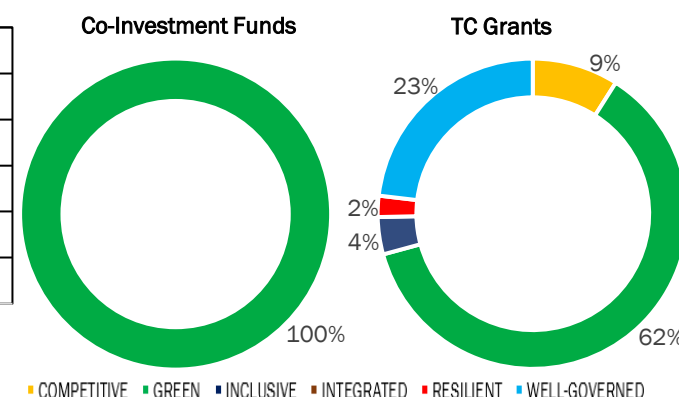
Selected Affordability Indicators

	EBRD regional percentile rank ¹	
GDP per capita (PPP, current. \$) ²	15,214.7	33rd
ODA Country	Yes	N/A
ODA as share of Gross National Income (%) ³	0.02	4 th
ODA per capita (\$ - current prices) ³	0.95	4 th

Donor finance during 2019-2023 (€m)⁴



Use of concessional funds in 2022-2023⁵



1. Simple percentile rank reported as the share of EBRD economies represented below Azerbaijan (for which data is available). 2. IMF (2024) 3. OECD (2021) 4. The methodology for reporting co-investment fund amounts changed from being based on client signings to being based on earmarks at the commitment level in 2022. Data from 2019 to 2022 for TC and co-investment fund amounts from 2022 to 2023 are based on earmarks at the commitment level, while co-investment fund amounts from 2019 to 2021 are based on client signings. 5. Based on the primary Transition Quality of earmarked donor funds.

Annex

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Annex 1 – Political Assessment in the Context of Article 1 (1/6)

Azerbaijan's commitment to and application of the political principles as stated in Article 1 of the Agreement Establishing the Bank has, over the previous Country Strategy period, been marked by international concerns regarding the protection of human rights and fundamental freedoms, notably restrictions on freedom of assembly, association and expression. Some changes were observed in the judiciary, as well as in the adoption of anti-corruption measures; however, important challenges have remained.

The constitutional provisions for the separation of powers and the exercise of fundamental rights and freedoms are in place. As a member of the United Nations, the OSCE and the Council of Europe, Azerbaijan has undertaken to honour the ensuing international commitments. Human rights, fundamental freedoms and the rule of law are important elements of the relationship between Azerbaijan and the EU. The 2018 EU-Azerbaijan Partnership Priorities, which *inter alia* include strengthening of institutions and good governance, including the fight against corruption, have been extended until 2024.

Nevertheless, the above-mentioned international organisations have remained concerned about the situation with human rights, democracy and the rule of law.¹ The EU in particular emphasised “the importance of an enabling environment for an active civil society as well as the respect of human rights, fundamental freedoms and of the rule of law in line with international standards and commitments undertaken.”² Further international concerns have been raised by the detentions of journalists and political activists in recent months.³

In January 2024, the Parliamentary Assembly of the Council of Europe (PACE) resolved not to ratify the credentials of the delegation of Azerbaijan, concluding that the country had “not fulfilled major commitments” stemming from its joining the CoE in January 2001.⁴ Ahead of the vote on the resolution, the parliamentary delegation of Azerbaijan announced that it suspends its participation in the PACE “for an indefinite period.”

Free Elections and Representative Government

Free, fair and competitive elections

The Constitution provides for a sovereign right of the people of Azerbaijan to establish their own form of governance through their representatives elected on the basis of universal, equal and direct suffrage by free, secret and personal ballot. Since Azerbaijan's independence in 1991, international observer missions have found shortcomings in the country's electoral processes.

During the previous Country Strategy period, Azerbaijan held two early parliamentary elections in February 2020 and in September 2024, and an early presidential election on 7 February 2024.

The 2024 early presidential election and early parliamentary elections were, for the first time since independence, held throughout the entire internationally recognised territory of Azerbaijan.

1. PACE: Progress of the Assembly's monitoring procedure (January-December 2023), Provisional version, p. 12; EU: Cooperation Implementation Report on Azerbaijan, Brussels, 14 July 2022, p.8; OSCE/ODIHR: Election Observation Mission (EOM), Republic of Azerbaijan, Early parliamentary elections, 9 February 2020, Final report, Warsaw, 17 July 2020, p.5.

2. EU-Azerbaijan Cooperation Council, 19 July 2022, Main results.

3. EEAS: Statement by the Spokesperson on the detention of journalists and political activists, 21 December 2023. PACE: Statement by co-rapporteurs for the monitoring of Azerbaijan, Strasbourg, 16 January 2025; CoE Commissioner for Human Rights: Letter to the President of the Republic of Azerbaijan, Strasbourg, 18 November 2024.

4. PACE: Resolution 2527 (2024), 24 January 2024.

Annex 1 – Political Assessment in the Context of Article 1 (2/6)

The OSCE/ODIHR-led Election Observation Mission assessed that “the 7 February early presidential election took place in a restrictive environment, and while preparations were efficiently managed, it was marked by the stifling of critical voices and the absence of political alternatives.” The observers also added that “longstanding severe limitations on fundamental freedoms of association, expression and peaceful assembly both in law and in practice run contrary to standards for genuine democratic elections.”⁵

Assessing the early parliamentary elections on 1 September 2024, the International Election Observation Mission, consisting of OSCE/ODIHR and OSCE Parliamentary Assembly, concluded that the elections “took place in a restrictive political and legal environment that does not enable genuine pluralism and resulted in a contest devoid of competition.” While acknowledging efficiency in preparing the elections, international observers noted that “the election administration lacked impartiality and took a formalistic approach that limited the inclusivity of the election.” The observers also highlighted that the campaign was “barely visible” against the background of “continued repression of dissenting voices.”^{6 & 7}

Separation of powers and effective checks and balance

The Constitution of the Republic of Azerbaijan proclaims that state power is based on a principle of separation of powers.

Executive power is vested in the President who is also the Head of State. The President has wide constitutional powers relative to the legislature and the judiciary. The President appoints and dismisses the Prime Minister and members of Cabinet of Ministers and establishes central and local executive authorities.

The President proposes the judges of the Constitutional Court, Supreme Court, and other courts for formal parliamentary approval. By consent of the parliament, the President also appoints and dismisses the Prosecutor General. The presidential term is seven years, and the President has a right to call early presidential elections without defining specific conditions.

Legislative power is exercised by the unicameral parliament – Milli Majlis – of 125 MPs elected for five-year terms under a majoritarian system from single-mandate constituencies. The ruling New Azerbaijan Party (Yeni Azərbaycan Partiyası) retains a dominant position in the legislature and in the political system.

Effective power to govern of elected officials

In line with the Constitution, the sole source of state power in Azerbaijan is the people of Azerbaijan, and no one except authorized representatives elected by the people has the right to represent the people and speak on their behalf. The key political decision-maker is the President, who is elected in a direct national election. President Ilham Aliyev has been in office since October 2003. Since coming to power, President Aliyev has been re-elected four times. The 2009 constitutional amendments have removed presidential term limits, while the 2016 constitutional amendments extended the presidential term to seven years.

Civil Society, Media and Participation

Scale and independence of civil society

Although there are currently more than 4,700 registered civil society organisations (CSOs), including non-governmental organisations (NGOs), the implementation of the 2020-2022 national action plan on the promotion of an open government has not improved substantially the operating space for CSOs. The registration process for CSOs has remained lengthy and burdensome, with a risk of registration denial.

5. OSCE/ODIHR: *Republic of Azerbaijan, Early presidential election, 7 February 2024, Statement of Preliminary Findings and Conclusions*, p.1.

6. *International Election Observation Mission: Azerbaijan – Early Parliamentary Elections, 1 September 2024, Statement of Preliminary Findings and Conclusions*, p. 1.

7. *The Government of Azerbaijan disagrees with the assessment of the conduct of the elections.*

Annex 1 – Political Assessment in the Context of Article 1 (3/6)

The authorities state that any refusal of registration can be appealed to a higher authority or court, while documents for registration can be re-submitted. During the previous Country Strategy period, the European Court of Human Rights (ECtHR) processed several cases against Azerbaijan for impeding the work of CSOs.⁸ The grant registration procedure has remained challenging. The 2017 legislation on NGOs has not been changed, maintaining the “single window” procedure for registering grant agreements. In a positive development, the Cabinet of Ministers adopted in May 2021 amendments providing for the electronic registration of grants, service contracts and donations. The concern about excessive restrictions in relation to the registration of and access to grants by NGOs was raised in the framework of the fourth cycle of the UN Human Rights Council’s Universal Periodic Review (UNHRC UPR).⁹ Separately, following Azerbaijan’s inactive status since 2016, the Open Government Partnership’s (OGP) Steering Committee permanently suspended the country’s OGP membership in August 2023, as earlier recommendations for improving the civil society environment were not addressed.¹⁰

Access to funding is a major challenge for the civil society sector. The Agency for State Support to NGOs, established in 2021 to replace the former NGO Support Council, is a key tool for managing government grants to CSOs. In 2023, upcoming changes to the national grant competitions to provide CSOs with more financial and operational flexibility were announced.

Independence and pluralism of media operating without censorship

Fundamental freedoms of expression and media, and the right of access to information are guaranteed by the Constitution. State censorship is prohibited.

According to official data, more than 5100 media outlets operate in Azerbaijan, and the overall number of Internet users exceeds 80% of the population. Over the previous Country Strategy period, television has remained the main source of political information, with social networks increasing in prominence. Relevant international organisations have repeatedly expressed concerns regarding measures that narrow space for independent journalism and media in practice and negatively impact the work of journalists, including harassment and mistreatment.¹¹ Recently, there has been an increase in the number of detentions of independent journalists.¹²

A new Law on Media was enacted in February 2022. While the authorities stressed the consultative and inclusive nature of the adoption process and that the law took into account international norms and practices, international reports criticised it for “posing significant limitations and restrictions on the right to freedom of expression and freedom of the media” and for having a “chilling effect” in an “already extremely confined space for independent journalism and media” in Azerbaijan.¹³

Defamation has remained a criminal offence that can lead to imprisonment, despite calls to decriminalise it.¹⁴

Multiple channels of civic and political participation

Under the Constitution, citizens of Azerbaijan have the right to freely participate in the political life of society and state, directly or through their representatives. In practice, concerns have remained about how free and uninterrupted this participation is in view of the existing restrictions on civil and political rights and freedoms.

8. EU: Cooperation Implementation Report on Azerbaijan, 14 July 2022, pp. 4-5.

9. UN Human Rights Council (HRC): Universal Periodic Review (UPR) – Azerbaijan, Fourth Cycle, Compilation of UN information, 31 August 2023, p.3.

10. Open Government Partnership: Azerbaijan Permanently Suspended from the Open Government Partnership, Washington, D.C., 17 August 2023.

11. OSCE Representative on Freedom of Media (RFM): Statements on 12 February 2020 and on 29 January 2021; OSCE/ODIHR: EOM, Early parliamentary elections, 9 February 2020, Final report, pp. 16-17.

12. EEAS: Statement by the Spokesperson on the detention of journalists and political activists, 21 December 2023; OSCE/ODIHR: Early presidential election, 7 February 2024, Statement of Preliminary Findings and Conclusions, p. 12. European Parliament: Resolution on “Continued repression of civil society and independent media in Azerbaijan”, Strasbourg, 19 December 2024.

13. OSCE RFM: Legal Analysis on the Law of the Republic of Azerbaijan ‘On Media’, 24 February 2022; CoE Commissioner on Human Rights: Letter to President Ilham Aliyev of Azerbaijan, Strasbourg, 18 January 2022; CoE: Joint Opinion of the Venice Commission and the Directorate General of Human Rights and Rule of Law (DGL) on the Law on Media, Venice, 20 June 2022; EU Cooperation Implementation Report, pp. 5-6; OSCE/ODIHR: Early presidential election, 7 February 2024, Statement of Preliminary Findings and Conclusions, p. 12.

14. OSCE/ODIHR: Early presidential election, 7 February 2024, Statement of Preliminary Findings and Conclusions, p. 11; EU Cooperation Implementation Report, pp. 5-6.

Annex 1 – Political Assessment in the Context of Article 1 (4/6)

Although different forms of participation are envisaged at the national level, including but not limited to public discussions, working groups and public councils, CSOs point to challenges in contributing to the decision-making process and monitoring of public policies when engaging with state bodies. As part of the State Programme for the Development of Social Services for 2023-2026, adopted in 2023, CSOs will be involved in delivering social services across the country.

Freedom to form political parties and existence of organised opposition

While the Constitution ensures the right to establish political parties, the overall political situation over the previous Country Strategy period has been marked by the lack of a truly pluralistic political landscape. The political opposition is organised but seems unable to present a strong challenge to the ruling party. Although a total of 25 parties contested the last parliamentary elections in September 2024 the ruling YAP was the only party with candidates in all constituencies while one opposition party urged voters to boycott, citing restrictions on citizens' rights and freedoms.¹⁵ A new Law on Political Parties entered into force in January 2023. While the authorities argued it was based on the need to modernise and consolidate the existing legislation and regulate the process of establishing a political party, the law was criticised by the Venice Commission and the OSCE/ODIHR for "introducing a number of new highly problematic provisions which risk having further chilling effects on pluralism in the country."¹⁶

Rule of Law and Access to Justice

Supremacy of the law

The Constitution is the supreme law of the country. The right to a fair trial is envisaged in the legislation. Despite some recent improvements, Azerbaijan has been one of the countries having the highest number of non-implemented judgements of the ECtHR and is "still facing serious structural or complex problems."¹⁷ The improvement of implementation of ECtHR judgement is an important priority of the CoE Action Plan for Azerbaijan 2022-2025.

Independence of the judiciary

Under the Constitution, the President of Azerbaijan is the guarantor of independence of the judiciary. During the previous Country Strategy period, Azerbaijan took further steps to strengthen reforms in the judicial system in implementation of the relevant 2019 presidential decree. The Ministry of Justice introduced digital tools and provided public e-services, and the enforcement of court judgements has continued to improve. The reform of the Judicial Legal Council (JLC), approved by the parliament in June 2023, was particularly welcomed by relevant international organisations. The number of judges in the JLC has been increased, with 9 out of 15 being elected by the Conference of Judges. Steps have also been taken to increase the number of members of Azerbaijan Bar Association. Further measures are nevertheless needed to ensure independence of the judiciary and restore the public confidence in the judicial system.¹⁸

Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law. The "executive's undue influence over the Prosecutor's Office" and the remaining "challenges related to the impartiality and effectiveness of the judiciary" continue to affect this right.¹⁹

15. IEOM: Azerbaijan –Early Parliamentary Elections, 1 September 2024, Statement of Preliminary Findings and Conclusions, pp. 11-12.

16. PACE: Progress of monitoring procedure (January-December 2023), p.12; OSCE/ODIHR: NAM report, p.6; Venice Commission (VC) and OSCE/ODIHR: Joint Opinion on the Law on Political Parties, Venice, 13 March 2023.

17. PACE: Progress of monitoring procedure (January-December 2023), p.13.

18. Ibid., pp. 12-13; EU Cooperation Implementation Report, p.8; European Parliament: Resolution on EU-Azerbaijan relations, Strasbourg, 15 March 2023.

19. EU Cooperation Implementation Report, pp.8-9.

Annex 1 – Political Assessment in the Context of Article 1 (5/6)

Effective policies and institutions to prevent corruption

Since the adoption of the previous Country Strategy, steps have been taken to reduce petty corruption and address high-level corruption, and some progress has been made in implementing recommendations of the Group of States against Corruption (GRECO) addressed to Azerbaijan in the Fourth Evaluation Phase. The comprehensive 2022-2026 National Action Plan to Strengthen the Fight Against Corruption, aimed at consolidating and reinforcing anti-corruption efforts, was adopted. The number of popular ASAN service centres has increased from 9 in 2015 to 27 in 2024. Nevertheless, corruption has remained a serious challenge. Some outstanding issues still need to be addressed, including the lack of an effective system of asset disclosure for members of parliament, judges and prosecutors.²⁰ The Fifth Round Evaluation Report on Preventing corruption and promoting integrity in central governments (top executive functions) and law enforcement agencies was approved by GRECO in March 2023 but has not yet been authorised by the authorities for publication.²¹ According to the Transparency International Corruption Perceptions Index 2023, Azerbaijan is ranked 154th out of 180 countries (its score is 23, unchanged compared to 2022).

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

A member of the UN, the OSCE and the CoE, Azerbaijan has ratified the core international treaties in the area of the protection of civil and political rights. The Constitution of the Republic of Azerbaijan also guarantees human dignity and fundamental rights and freedoms.

In 2023, Azerbaijan completed the fourth cycle of the UNHRC UPR.²²

The reporting process by relevant international organisations, including in the UPR framework, shows that deficiencies in ensuring the protection of human rights and fundamental freedoms, notably restrictions on freedom of assembly, association and expression, have continued to be of serious concern. There have been cases when public assemblies organised by opposition groups were denied authorisation and, when held, they were often dispersed by the police. Concerns have remained over repression of opposition political activists and human rights defenders through intimidation, arrests, detentions and court cases.²³

While the EU has assessed the recent arrests as conducted “on politically motivated charges” and called on Azerbaijan to release all those imprisoned “for exercising their fundamental rights,”²⁴ the government of Azerbaijan insists that the arrests are carried out “within the framework of the law” for committing specific criminal or administrative offences.

Political inclusiveness for women, ethnic and other minorities

The Constitution provides for the equality of rights between women and men and prohibits restrictions of rights and freedoms on the grounds of race, ethnicity, religion, gender or political or social affiliation. Improvements could be made by adopting a comprehensive anti-discrimination legislation and policy framework.²⁵

20. Ibid; see also UNHRC: UPR – Azerbaijan, Fourth Cycle, Compilation of UN information, p.2

21. GRECO: 95th Plenary meeting, Decisions, Strasbourg, 1 December 2023, p.8.

22. UNHRC: UPR – Azerbaijan, Fourth Cycle, Report of the Working Group, 28 December 2023.

23. EU: Cooperation Implementation Report, pp.5-6; PACE: Progress of monitoring procedure (January-December 2023), p.13; OSCE/ODIHR: NAM report, 22 December 2023, p.4; EP: Resolution on EU-Azerbaijan relations, 15 March 2023. PACE: Statement by co-rapporteurs for the monitoring of Azerbaijan, Strasbourg, 16 January 2025; CoE Commissioner for Human Rights: Letter to the President of the Republic of Azerbaijan, Strasbourg, 18 November 2024; EP: Resolution on “Continued repression of civil society and independent media in Azerbaijan”, Strasbourg, 19 December 2024.

24. EEAS: Statement by the Spokesperson on the human rights situation in Azerbaijan, 29 May 2024.

25. UNHRC: UPR – Azerbaijan, Fourth Cycle, Compilation of UN information, p.2.

Annex 1 – Political Assessment in the Context of Article 1 (6/6)

Women constituted 30% of the registered candidates in the 1 September 2024 early parliamentary elections, a significant increase from 21% in the previous elections. There was also a notable increase in the number of women who were elected during the last municipal elections in December 2019 (38.8%), as well as in the number of women employed in the prosecutor's office. The speaker of the outgoing parliament was a woman. Women, nevertheless, have remained under-represented in political and public life. Women held 18.6% of seats in the outgoing parliament and no ministerial posts (except the State Committee on Family, Women and Children's Problems). Increased female participation in political and public life could be strengthened by the adoption of special legal measures, such as quotas.²⁶ Azerbaijan has a robust national legal framework protecting women's rights in general and has taken steps to improve the regulatory framework on preventing domestic violence. In November 2020, the National Action Plan for the Prevention of Domestic Violence for the years 2020-2023 was adopted. The country, however, has not signed the CoE Istanbul Convention on preventing and combating violence against women and domestic violence.²⁷

Azerbaijan has a multicultural and multi-religious character. According to the EU and the CoE, although Azerbaijan's multiculturalism welcomes expressions of cultural identity, restrictions on democracy and an absence of comprehensive legislation and consultative mechanisms prevent national minorities from fully exercising their rights.²⁸ The rights of LGBTIQ communities are not fully recognised.²⁹ The first meeting in June 2023 of the Technical Committee for the "Promoting Equality in Azerbaijan", comprising representatives from the Ombudsperson's office, the Ministry of Foreign Affairs, the EU, the CoE and CSOs, was welcomed as a positive step.

Freedom from harassment, intimidation and torture

Azerbaijan is a signatory of the UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. The Constitution and Criminal Code also prohibit these acts. International monitoring bodies have, however, consistently expressed concerns about the routine practice of torture or ill-treatment by law enforcement authorities and about the poor conditions of detention.³⁰ The CoE's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) made an exceptional decision to issue a public statement on Azerbaijan on 3 July 2024, addressing the "persistent lack of cooperation by the Azerbaijani authorities with the CPT".³¹

26. OSCE/ODIHR: *Early presidential election, 7 February 2024, Statement of Preliminary Findings and Conclusions*, pp.2 and 4; IEOM: *Azerbaijan – Early Parliamentary Elections, 1 September 2024, Statement of Preliminary Findings and Conclusions*, p. 2; UN Committee on the Elimination of Discrimination against Women (CEDAW), *2022 Concluding observations on the sixth periodic report of Azerbaijan*, Paragraphs 9, 15, 19 and 27.

27. EU: *Cooperation Implementation Report*, pp. 7-8.

28. *Ibid.*

29. *Ibid.*; UNHRC: *UPR – Azerbaijan, Fourth Cycle, Compilation of UN information 2023*, p.9.

30. *Ibid.*, p.3; PACE: *Progress of monitoring procedure (January-December 2023)*, p. 13; EU: *Cooperation Implementation Report*, p.7.

31. The Council of Europe's CPT: *Public Statement on Azerbaijan, 3 July 2024. The Government of Azerbaijan has rejected the CPT's criticism.*