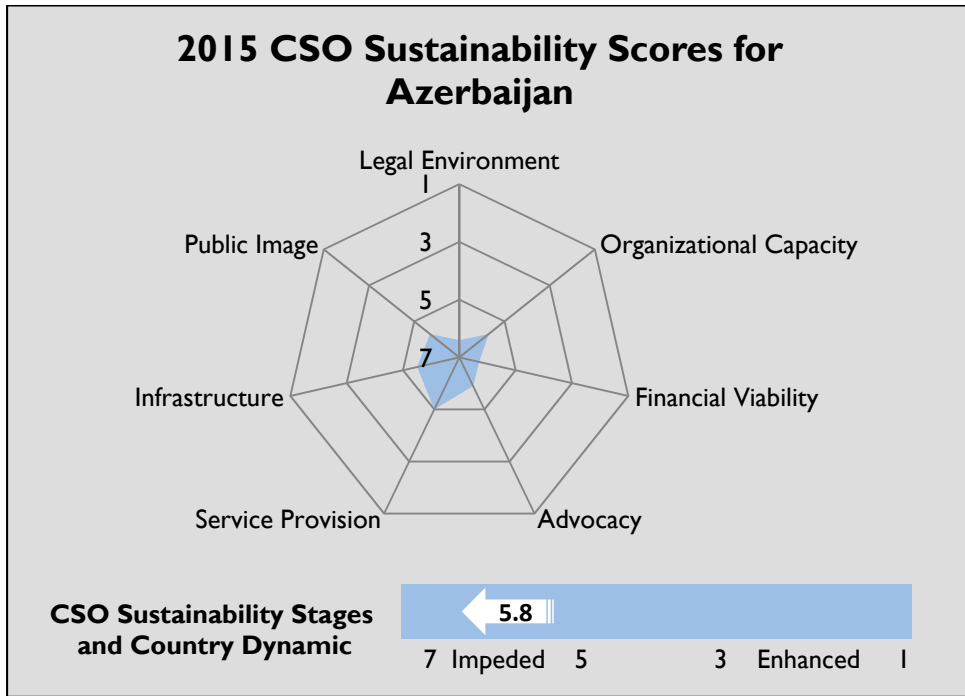


AZERBAIJAN



CSO SUSTAINABILITY: 5.8



The unprecedented crackdown on CSOs in Azerbaijan that began in 2014 intensified in 2015. Critical voices were systematically silenced through investigations, interrogations, penalties, searches, travel bans, and freezing of bank accounts. CSOs therefore significantly reduced their operations, engaged in self-censorship, and diminished their international advocacy efforts. As funding opportunities decreased, many CSOs became affiliated with the government, shifted their focus to non-sensitive topics, left the country, or exited the sector. As a result, very few independent CSOs, most of which are represented just by their leaders, remain in Azerbaijan.

Azerbaijan's treatment of CSOs had repercussions internationally. In April, Azerbaijan's status in the Extractive Industries Transparency Initiative (EITI) was downgraded from "compliant" to "candidate" status as a result of the crackdown on CSOs, including members of the EITI Coalition in Azerbaijan. In September, the European Parliament adopted Resolution 2015/2840 (RSP) on Azerbaijan, which called on the

Government of Azerbaijan to “immediately end its crackdown on civil society and human rights work...including by repealing the laws severely restricting civil society, unfreezing bank accounts of non-governmental groups and their leaders, and allowing access to foreign funding.”

The government portrayed such actions as Western interference in the country’s internal affairs and consequently sought to stop international donor support to civil society and the media with the adoption of a number of rules that restrict CSOs’ access to funding. These rules give the Ministry of Justice (MoJ) broad discretion to approve grants, contracts, donations, and related matters, making the operation of CSOs and foreign donors nearly impossible.

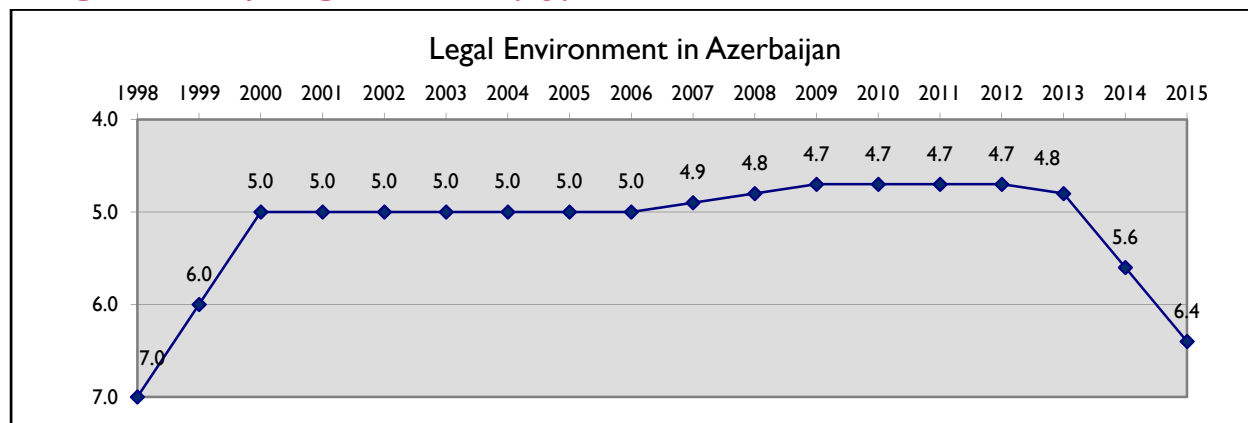
Political freedoms also continued to be highly restricted in Azerbaijan in 2015. Freedom House estimates that Azerbaijan still held at least ninety political prisoners during the year, putting the country at the top of the list for the number of political prisoners per capita. In October, the Council of Europe (CoE) withdrew from the joint working group on human rights issues in Azerbaijan, which it had been attending since October 2014 to promote dialogue between civil society and Azerbaijani authorities. The withdrawal was prompted by the drastically deteriorated situation for human rights defenders in the country, including their increased imprisonment and concerning detention conditions. Azerbaijan also experienced a major decline in media freedom in 2015. Freedom House now ranks the country as the worst jailer of journalists in Eurasia. In addition, Azerbaijan denied visas to representatives of The Guardian and other mass media outlets that planned to come to the country to cover the inaugural European Games, an international multi-sport event in June for athletes representing European National Olympic Committees.

In November, Azerbaijan held parliamentary elections, which were boycotted by all the opposition parties. OSCE/ODIHR, Europe’s largest monitor of elections, canceled its mission to observe the elections due to restrictions imposed by the Azerbaijani authorities. The ruling New Azerbaijan Party and other parties and candidates publicly loyal to it won the vast majority of the parliament’s 125 seats. Meanwhile, 9.6 percent of seats went to “quasi-opposition” candidates—pro-government candidates that pose as opposition candidates in an attempt to display political pluralism in the parliament. Genuine opposition parties do not have seats in the parliament. Only 16.8 percent of the seats were filled by women.

The economic situation in Azerbaijan was also difficult in 2015. A worldwide drop in oil prices led to a two-fold devaluation of the national currency in February and December 2015, while also weakening the banking sector.

Despite the difficult operating environment, the CSO sector is diverse, with organizations working in human rights, culture, education, health care, democracy, environment, women’s rights and gender equality, economics and entrepreneurship, conflict transformation and peace-building, youth, and other areas. According to the MoJ, by the end of 2015 the number of registered CSOs—including non-governmental organizations (NGOs, which include foundations and public unions) and other entities—was 4,100. In addition, an estimated 1,000 unregistered groups continue to carry out activities. Many CSOs—both international and domestic—suspended their operations in 2015, both because of the restrictive environment and the resulting lack of financial resources.

LEGAL ENVIRONMENT: 6.4



The registration of CSOs in Azerbaijan has been a key problem in the legal environment for the last fifteen years. CSOs claim that the MoJ uses administrative impediments to delay registration for months, if not years. After each round of review, the MoJ often imposes new, extralegal requirements, some of which can be very difficult to fulfill. For example, the MoJ often requires a letter of recommendation from a relevant state agency, despite the fact that state agencies generally will not provide letters of recommendations to unregistered organizations. On the other hand, when the MoJ has the political will, CSOs can register relatively quickly. The MoJ registered only twenty-seven NGOs in 2015, and their names were not made public. In December 2014, the Venice Commission of the CoE recommended that Azerbaijan reconsider its registration practices for CSOs, create conditions suitable for CSOs' activities, and reassess its restrictions on foreign-funded CSOs. Azerbaijan has fully dismissed these recommendations as attempts to interfere with the country's sovereignty.

In 2015, the Cabinet adopted new rules on registering grants of domestic or foreign origin (June), donations of domestic or foreign origin (October), and foreign service contracts (October), as well as new rules governing the operation of foreign donors (December). The new rules give the MoJ broad discretion to decide whether to register such contracts, grants, and donations, and their registration requires an extensive list of documents and information. Registration is often refused based on technicalities, extending the process for months or years. As a result of such delays, donors often cancel their grants or contracts as the projects expire. The MoJ issued few "permission notifications"—as approvals are called—in 2015, and the list of such notifications is not made public. There is no appeals process if the MoJ denies the registration of a donation, grant, or service contract unless there is a procedural violation, which can be appealed administratively. However, this measure is rarely, if ever, used as NGOs fear it could prompt an investigation. Instead, NGOs sometimes try to negotiate with the government or re-negotiate with the donor for more flexible funding.

Furthermore, in December 2015, the MoJ adopted a new set of restrictive rules On Studying the Activities of Non-governmental Organizations, Branches or Representative Offices of Foreign Non-governmental Organizations. These rules establish a procedure for the MoJ to inspect the activities of local and foreign NGOs with registered offices in Azerbaijan, granting broad powers to the MoJ to conduct inspections and very few guarantees to protect the rights of NGOs. According to the rules, the government can undertake "regular" or "extraordinary" inspections on NGOs. The rules do not set any restrictions on the frequency of inspections in either case, meaning the MoJ potentially could inspect the same NGO multiple times over the course of one year. Furthermore, the rules do not limit the number of years of activities that the MoJ can inspect. If an NGO fails to submit the required documents and information or give false information, the government can impose fines from 2,500 to 15,000 manat (about \$1,600 to about \$10,000) under the Code on Administrative Offences. If violations are discovered with regard to money laundering, financing of terrorism, or other financial or property crimes, criminal or administrative measures may be imposed.

Besides the requirement that CSOs obtain approval for each grant they seek to receive, as of October 2014 foreign donors must receive approval for each grant they seek to give. International NGOs that seek to provide grants must undergo an onerous multi-tier system, including registering their branch or office in Azerbaijan; signing an agreement with the MoJ; and receiving approval for each grant from the Ministry of Finance. The Cabinet of Ministers released the procedures for this system only in December 2015, creating a fourteen-month gap in donors' operations. As a result, some funds that were transferred to CSOs in 2014 without the necessary "permission notification," including grants awarded by the German Marshall Fund, remained frozen in intermediate banks during this time. No donor institution or international NGO had attempted to navigate the new procedure by the end of 2015.

In the run-up to the parliamentary elections in 2015, the government more strictly implemented the requirement that CSOs obtain official permission from the Presidential Administration before launching any public activities, including all events and meetings, in conference spaces. Such permission does not extend to whole projects or programs; rather CSOs must continually seek permission for each activity, causing significant delays in project implementation. CSOs that violate this requirement could have their activities canceled, their organizations blacklisted, or their staff harassed. As in 2014, it therefore remained practically impossible for CSOs to organize public events.

The number and intensity of investigations on CSOs escalated in 2015. Similar to 2014, in 2015 the Chief Prosecutor's Office and the Heavy Crimes Investigation Department of the Prosecutor's Office launched investigations into hundreds of CSOs. This wave of investigations was related to criminal case No. 142006023, or the so-called "NGO case," launched against several foreign and local NGOs for violations of the "abuse of power" and "service forgery" provisions of the criminal code based on supposed irregularities found in their activities. This case purportedly gave law enforcement the grounds to interfere in the activities of CSOs, interrogate activists, ban travel of CSO leaders, seize assets, freeze bank accounts, and intimidate CSOs' affiliates, including participants in events. Although no new CSO leaders were arrested in 2015, those arrested in 2014 were sentenced in 2015 to five-and-a-half to eight-and-a-half years of imprisonment. The government targeted only independent CSOs that worked on sensitive topics or had international advocacy capacity and foreign funding. CSOs affiliated with or funded by US-based donors were the subject of particular attention. At least thirty-one organizations were given penalties ranging from 70 manat to 797,000 manat (about \$47 to \$531,000) in 2015.

The tax treatment of CSOs and donors remained the same in 2015—they do not receive any tax exemptions or deductions in practice. The government requires CSOs to pay VAT for products and services even though the law does not apply VAT to grants received from foreign sources and recognized by the Ministry of Taxes. The Cabinet of Ministers has a special list of CSOs working on humanitarian and social issues, and their staff members are exempt from the 22 percent Social Protection Fund payment. However, only CSOs that receive special favor with the government are included on this list, which has shrunk from forty-two CSOs in 2011 to fourteen CSOs in 2015. Direct recipients of USAID funding are also exempt from the 22 percent Social Protection Fund payment under a special agreement between the government and USAID.

CSOs can legally earn income through the provision of goods and services, but do not receive any tax exemptions on earned income. However, with the introduction of the new rules on registration of service contracts in October 2015, CSOs as well as branches or representative offices of international NGOs registered in Azerbaijan must undergo a complicated procedure to register with the MoJ any service contract they sign with a foreign party. These rules do not apply to contracts signed with local state and non-state stakeholders, which are less common in Azerbaijan. The Administrative Code does not contain specific penalties against local or international NGOs for failure to register a service contract.

Currently, only a dozen well-trained lawyers, with and without membership in the Bar Association, provide legal support to CSOs and activists due to the high risk of state intimidation. Most lawyers representing political prisoners have been subjected to various forms of pressure and intimidation, sometimes driving

them to abandon their cases. For example, several lawyers, including Alaif Hasanov, a prominent lawyer who represents political prisoners, was excluded from the Bar Association in June 2015. Other lawyers have had travel bans imposed. In the regions, the situation is worse, as local authorities have more influence in local communities and can more easily intimidate families of lawyers, political activists, human rights defenders, journalists, and other critical voices. Therefore, no legal support is available outside of Baku.

ORGANIZATIONAL CAPACITY: 5.7



Donor engagement in Azerbaijan has dramatically declined since early 2014, which continued to impact the organizational capacity of CSOs in 2015. As a result of the bureaucracy they must navigate to operate in the country, donors have become reluctant to continue investing in the organizational development of CSOs. A major capacity building project, Building Local Capacities for Development (BLCD), funded by USAID and implemented by Chemonics International, ceased operations in 2015 after many months of government investigations and obstacles to their operation.

More than fifty large domestic CSOs and a number of international organizations, including OSCE, Oxfam, Counterpart International, World Vision, and Save the Children, had to completely stop their work in Azerbaijan in 2015. According to informal surveys by several CSOs, about one-third of CSOs in Azerbaijan have suspended their activities, as they were unable to maintain their staff and offices, while another third had to close their offices and now work from the homes of their staff. At the same time, the quality and quantity of the remaining local CSOs' activities significantly diminished because most had to allocate significant time and resources to fulfilling state requirements regarding registration, operation, and reporting, as well as addressing inspections and inquiries from state agencies.

An unwritten ban on implementing public events in conference spaces, enforcement of which intensified in the run-up to the parliamentary elections, hindered the constituency-building efforts of CSOs, essentially rendering local communities unreachable to them.

Most CSOs in Azerbaijan still do not engage in strategic planning. Very few CSOs fully understand management principles or meet international standards on governance, administration, or the management of their organizations, human resources, finances, or programs and projects. With the exception of a few dozen organizations, CSOs' internal management systems are typically weak. Only a few CSOs have separate governance and management structures. Boards of directors function only to formally satisfy procedures that are stipulated in organizations' charters and mandated by the MoJ. CSOs rarely establish structures that are more tailored to their individual needs. Templates for organizational charters provided in the legislation restrict CSOs' abilities to establish structures that are more tailored to their individual needs.

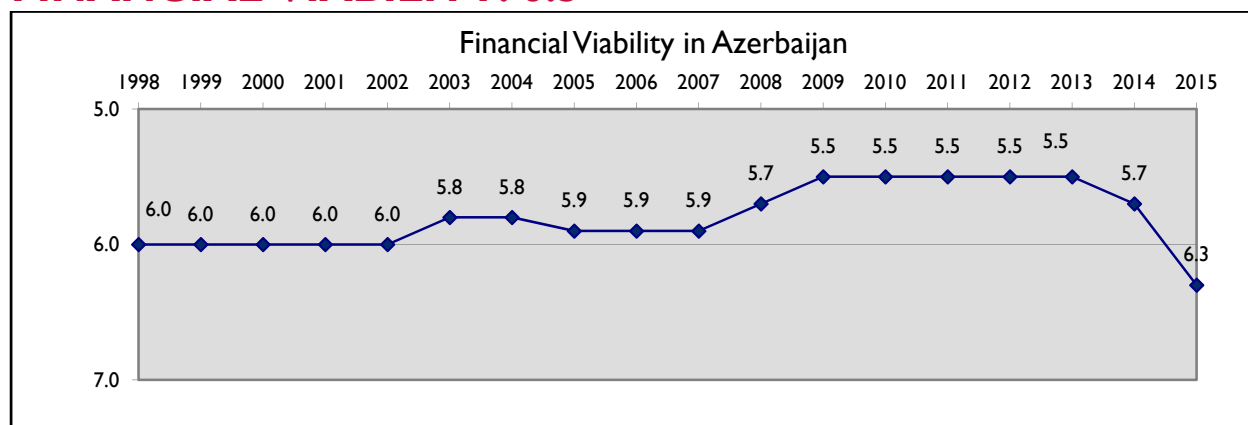
The capacities of regional CSOs are even more limited due to their restricted access to donors, lack of capacity building opportunities, scarce resources, and language barriers. Many regional CSO representatives

do not speak English or even Russian, preventing them from communicating with international organizations and embassies.

According to various stakeholders, many CSOs lost at least two-thirds of their staff in 2015 due to the dramatic loss of financial resources following the conclusion of contracts with donors signed in 2013. According to the 2015 World Giving Index, 20 percent of respondents in Azerbaijan reported that they participated in voluntary action in 2014, compared to 25 percent in 2013.

In 2015, the overwhelming majority of independent CSOs had to give up their offices due to state repression and the lack of foreign funding. Some CSOs maintained equipment, furniture, and libraries in the homes of staff members; however, most independent CSOs had their equipment confiscated during investigations. Some CSOs reported that when computers were returned, they were not working well or at all. Other CSOs reported that the Humanitarian Assistance Commission of the Cabinet of Ministers diverted equipment they received from international organizations to other organizations. According to the CSOs, the Cabinet could do this because it granted a number of privileges to these organizations, such as an exemption from a 22 percent tax on labor contracts, thereby discouraging complaints from them.

FINANCIAL VIABILITY: 6.3



CSOs are now in a dire financial crisis due to the restrictive rules adopted in 2015 for registering all major types of financing: grants, donations, and service contracts. CSOs must obtain government approval to receive funding in any of these forms and the MoJ has wide discretion to deny approval. Moreover, in December, a multi-tier approval system for grants by foreign donors was introduced. The government has therefore fully blocked any possibility for independent CSOs to receive foreign funding and significantly complicated the operation of all CSOs in the country. As a result, many CSOs have suspended their activities or closed their offices, as described above.

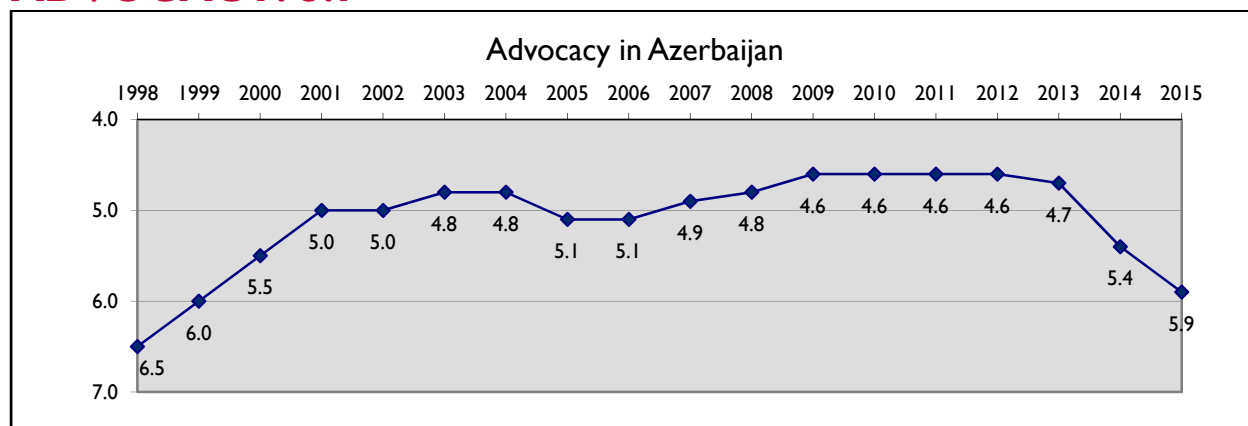
Under the restrictive legal framework, the only available source of funding for local CSOs is state funding, which is insufficient to make up for the loss in foreign funding. State funding is distributed through several national sources, such as the NGO Support Council under the auspices of the Presidential Administration, the National Fund of Science, the Youth Fund, and several ministries. While information about the levels of state funding is not published, the value of such funding likely decreased somewhat in 2015 due to devaluation of the national currency and the economic crisis following the global drop in oil prices, even though the amounts are increasing. Independent CSOs refrain from applying to state institutions for funding and would be unlikely to receive funding even if they did apply. With the exception of the NGO Support Council, which distributes grants in a biased but transparent manner, the grants process in government agencies is not open or transparent. Approved grants are mostly focused on uncontroversial issues, such as projects focused on art and culture, development of entrepreneurship, sports, the environment, children's rights, charity, and the promotion of Azerbaijan abroad.

CSOs still lack diverse methods of fundraising. Few CSOs collect membership fees, seek donations, or participate in commercial tenders (which are generally only awarded to businesses anyway).

Local philanthropy, which is already undeveloped, was discouraged even further by the newly adopted rules on donations. Failure to report a donation to the Ministry of Finance renders a CSO liable under the Code of Administrative Offences for fines between 5,000 to 8,000 manat (about \$3,000 to \$5,000). According to the 2015 World Giving Index, 10 percent of respondents in Azerbaijan reported donating to charities in 2014, compared to 14 percent in 2013. There are no tax benefits that incentivize corporate donations. Furthermore, businesses do not want to attract government attention and would rather donate anonymously or not at all. In 2015, local businesses, such as Pasha Holding, Bakcell, and Azercell, significantly reduced their formal support to NGOs, with the exception of co-funding the social events of some charity organizations.

Very few CSOs meet international standards on financial management. The few CSOs that have adopted financial management systems have done so in order to fulfill the requirements of large donors, such as the EU and USAID. The capacities of regional CSOs are even more limited due to their limited access to donors, capacity-building opportunities, and other resources. The overwhelming majority of CSOs still do not publish annual reports with financial statements.

ADVOCACY: 5.9



Continuing harassment of CSO leaders has encouraged self-censorship by even the most outspoken activists, thereby minimizing both the quality and quantity of advocacy efforts in 2015.

Despite the difficult environment, some CSOs continue to work to promote policy dialogue with the government. However, the level of CSOs' access to the Central State Administration (CSA), Local State Administration (LSA), and the parliament depends on whether a CSO is considered independent or pro-government. Pro-government CSOs have much easier access to and support from state agencies, while independent CSOs have virtually no access—even sympathetic state officials cannot formally cooperate with CSOs due to the state's general policy to hamper CSO activities.

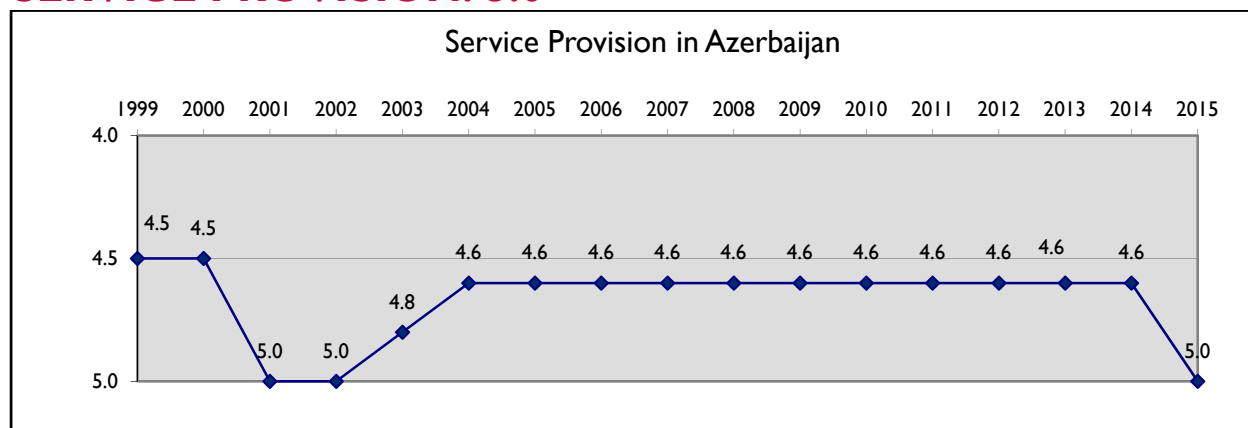
The 2014 Law on Public Participation, which stipulates the participation of CSOs in the Public Councils that should be created to monitor the work of CSAs and LSAs, presents the biggest potential to foster policy dialogue. However, CSOs have voiced concern about the slow implementation of the law, as only a few state agencies have created Public Councils to date. While CSOs welcomed the law, most of them believe that independent CSOs will not get seats in these councils, even once they are established. No public hearings have ever been organized by the CSA, LSAs, or the parliament in Azerbaijan.

In October 2014, the Joint Working Group on Human Rights Issues, composed of representatives of human rights organizations and authorities, was re-established in Azerbaijan on the initiative of the CoE. In October 2015, however, the CoE Secretary General announced his decision to withdraw CoE participation from the group, thus intensifying the perceptions of the public and the CSO sector that the group was biased and an ineffective tool for policy dialogue.

Though hundreds of CSOs have stopped functioning, the remaining ones continued their advocacy efforts, albeit in less visible or sustainable manners than in previous years. Though no broad-based advocacy actions or campaigns were conducted in 2015, several coalitions—including the EITI Coalition, Anti-Corruption Coalition, Women’s Parliament, and National Platform of Civil Society Forum at Eastern Partnership (EaP)—still operate to address certain thematic issues and encourage CSO activity despite the crackdown on CSOs. However, their agendas in 2015 were limited to discussing the ongoing crisis in the CSO sector and the national situation at large, rather than implementing specific campaigns. In general, CSOs focused on self-protection during the year rather than promoting the interests of their constituencies.

The CSO sector made no significant efforts to resist the onslaught of investigations, interrogations, penalties, searches, arrests, and travel bans against CSOs and their staff during the year. International advocacy opportunities were greatly limited in 2015 due to the increased number of travel bans on leaders and activists. Those international advocacy efforts made by local activists were done discreetly to avoid additional government attention. On the contrary, international counterparts spoke out in 2015 on behalf of their restricted Azerbaijani colleagues. For example, several UN human rights experts, such as the Special Rapporteur on the situation of human rights defenders, condemned the imprisonment of human rights defenders in Azerbaijan.

SERVICE PROVISION: 5.0



The quantity and range of social services provided by CSOs dramatically decreased in 2015 as a result of the dramatic decrease in funding resulting from the new rules on grants, donations, and service contracts, as well as the increase in investigations of CSOs. After the restrictive legislation on grants was adopted in June, more CSOs entered into service contracts with foreign organizations during the second half of 2015. Noticing this trend, the Cabinet of Ministers adopted the Rules on Registration of Service Contracts of NGOs in October, which entered into force in November. In practice, this effectively blocked further contracting with foreign donors. The MoJ has wide discretion to deny the registration of contracts, and such decisions can be political in nature, rather than technical or procedural. As a result of the state’s approach, and the fact that the provision of social services beyond donor-funded projects is uncommon, communities and beneficiaries were largely deprived of many services in 2015.

While now provided on a more limited scale, CSOs still provide some services ranging from basic service delivery to social, economic, and political empowerment. CSOs also engage in monitoring, investigation,

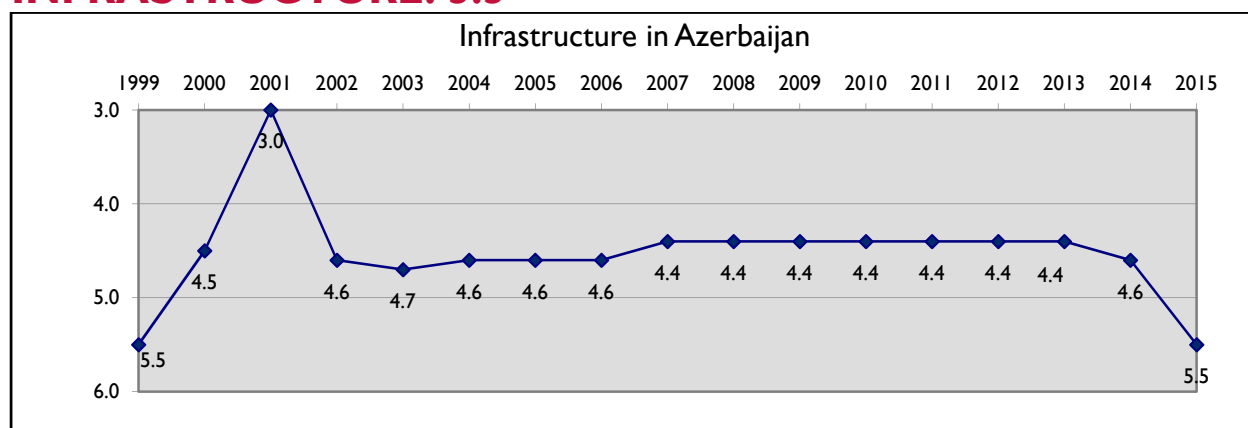
research, and analysis, which they provide to other CSOs, academia, international organizations, business agencies, and even the government. Service provision projects are mainly based on donor priorities. CSOs are rarely requested to conduct preliminary assessments of local needs.

The 2012 Law on Social Services provides the framework for the state to engage in social contracting with CSOs for the provision of services. However, social contracting continues to be limited by the state’s antipathy towards CSOs. State agencies therefore rarely cooperate with CSOs or contract with them.

Charging beneficiaries for services is not a popular practice among CSOs, mainly due to a dominant public perception that CSOs are non-commercial organizations. Charity organizations also experience difficulty charging fees for services, even if the income would be used to support the charity’s purposes.

The Law on Public Participation adopted in 2014 might be an opportunity for CSAs and CSOs to enter into dialogue and collaboration regarding service provision if the law is eventually implemented fully and independent CSOs have equal access to the Public Councils.

INFRASTRUCTURE: 5.5



The infrastructure supporting the CSO sector in Azerbaijan deteriorated significantly in 2015.

Regional Internet centers—which acted as local resource centers—closed in 2015 due to a lack of financial resources. Although the National NGO Forum has several regional coordination centers, typically only members of the Forum benefit from them.

Grantmaking—both from locally-raised funds and re-granting of international funds—decreased tremendously following the introduction of the new rules on donations and grants in 2015.

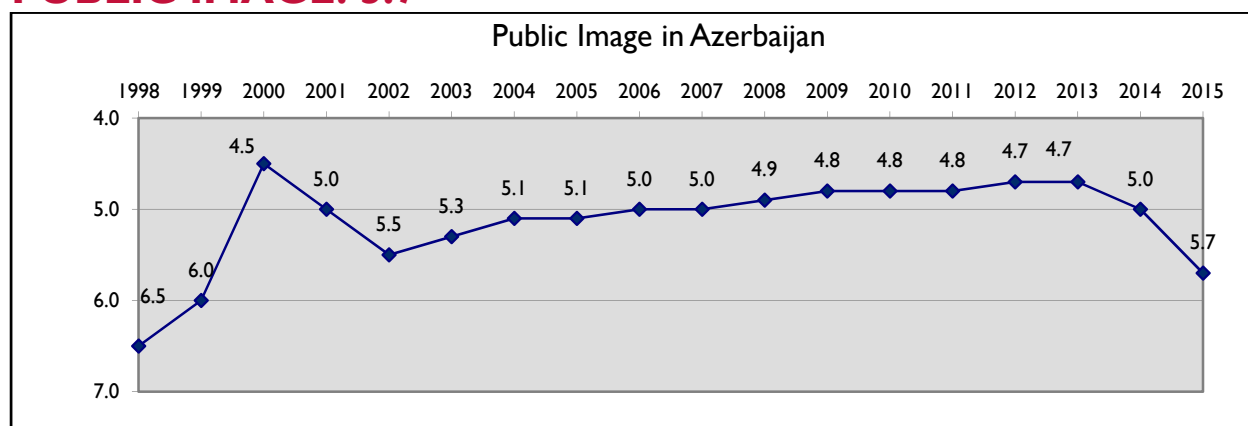
Some strong CSO coalitions, such as the National Budget Group, Access to Information Coalition, and BINA NGO Alliance for Municipality Development, ceased operations in 2014 and 2015 due to insufficient funding. A few other coalitions, such as the EITI Coalition, Anti-Corruption Coalition, Committee on Protection of Civil Society, Women’s Parliament, and National Platform of Civil Society Forum at Eastern Partnership (EaP), continued their work on a voluntary basis, as the new rules in 2015 rendered them unable to receive funding. Due to the decrease in resources, their capacities as coalitions, as well as the services provided by their members, have weakened. Furthermore, self-censorship within the surviving coalitions is strong, as they are closely watched by the government.

Foreign donors and international organizations, which used to be the main supporters of capacity building initiatives for CSOs, can no longer effectively operate in Azerbaijan. Due to the new and onerous regulations for grants, contracts, and donors, few international partners are willing to work in the country or to continue

investing in the organizational development of Azerbaijani CSOs while these regulations stand. Since it is virtually impossible to organize events in Azerbaijan, international partners sometimes invite their Azerbaijani colleagues abroad for capacity-building initiatives on themes such as integrated security, digital security, stress management, and change management. These opportunities are expensive and therefore accessible only to a limited number of organizations and leaders. BLCD, a multi-million dollar CSO capacity building project, ceased activity in 2015 after many months of government investigations and obstacles to their operation. Leaders and experts of prominent CSOs that ceased or reduced operations continue working as individual experts, providing research and writing services in various thematic areas, including CSO management topics. However, they rarely can organize trainings due to government restrictions on CSOs’ sources of funding and activities.

The CSO sector has much difficulty cultivating intersectoral partnerships. In general, businesses and academic institutions avoid working with CSOs because they view CSOs as critical of government and such relationships could therefore damage their relations with the government. Academic institutions also fear CSOs’ “politicized motives.” Political activism among students is closely monitored, with most universities assigning a staff member to follow students on social media. Except for a few private universities, CSOs have not been allowed to access students. CSOs’ relationship with media deteriorated after the government’s crackdown on CSOs in 2014 and 2015, which used the media to discredit CSOs.

PUBLIC IMAGE: 5.7



As in 2014, the government continued to use the media to publicly denounce CSOs as politicized organizations, foreign agents, tax evaders, and pro-Armenian actors. The “pro-Armenian” label was broadly applied to human rights organizations, presenting their peace-building missions as high treason. Azerbaijan experienced a major decline in media freedom in 2015. Except for a few independent mass media outlets, the media largely depends on remaining in the government’s favor. Furthermore, the media lacks interest in CSOs’ projects or other CSO-related topics.

The engagement of the Heavy Crimes department in the “NGO case” gave the impression of CSOs as traitors and perpetrators of “heavy crimes,” which undermined the sector’s image among the public, government officials, and academia. Internal conflicts within the CSO sector and lack of professionalism in most CSOs has exacerbated these issues. Although some CSOs have solid reputations as valuable sources of expertise, even “CSO-friendly” state and business actors have decided to avoid engaging CSOs until the central government’s attitude toward CSOs improves.

In recent years, social and other online media became important substitutes for CSOs to communicate with the public. However, even online, CSOs, activists, and media self-censor due to fear of government reprisal. Without sufficient media coverage, CSOs have little opportunity to reach their constituents to restore trust

and improve their public image. They also have been prevented from organizing events in public venues since 2014.

The overwhelming majority of CSOs still do not publish annual reports, have no websites, and have limited opportunities to share information about their activities, thereby strengthening the state's claims that CSOs lack transparency.