

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

STRATEGY FOR AZERBAIJAN

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

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ABBREVIATIONS AND ACRONYMS

AIP	Access to Information Policy
Capex	Capital expenditures
COP	Conference of the Parties
CSOs	Civil Society Organisations
EBRD	European Bank for Reconstruction and Development
EU	European Union
GDP	Gross domestic product
Opex	Operating expenses
OSCE	Organization for Security and Co-operation in Europe
SMEs	Small and medium-sized enterprises
TANAP	Trans Anatolian Pipeline
TAP	Trans Adriatic Pipeline
TMT	Technology, Media, and Telecommunications
UN	United Nations

1. INTRODUCTION

The objective of this report is to summarise the key comments received from stakeholders during the public consultation on the EBRD's draft Azerbaijan Country Strategy (hereinafter – draft Strategy) and to provide responses of the Bank's management.

The public consultation process was in line with the EBRD's Access to Information Policy (AIP) and Access to Information Directive stipulating that the Bank's draft country strategies are disclosed for a period of 45 calendar days during which time the public is invited to send comments to the Bank.

The draft Strategy was posted on the EBRD website in English and Azerbaijani, and the public was invited to share their comments from 4 October 2024 until 17 November 2024. The previous Country Strategy for Azerbaijan was also made available to the public on the EBRD website: <https://www.ebrd.com/where-we-are/azerbaijan/overview.html>.

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

The Bank received one set of written comments on the draft Strategy, jointly submitted by Crude Accountability, CEE Bankwatch Network, and Freedom Now. The written comments received and relevant EBRD responses are outlined in this report. The Bank's responses varied in length and complexity depending on the issues/suggestions raised and their relevance to the draft Strategy for Azerbaijan. The length of EBRD responses does not imply the importance of the respective question/comment.

In line with the Bank's increased efforts to involve civil society at an early stage of elaborating the country strategy, on 22 April 2024 the EBRD organised an in-person public consultation meeting with CSOs in Azerbaijan. The objective of the meeting was to collect civil society's feedback during the preparatory phase of developing the draft Strategy.

Five participants from five different CSOs participated in the consultation meeting. The EBRD was represented by the EBRD Resident Office team in Azerbaijan, as well as by the Country Strategy, Policy Strategy Delivery, and Civil Society Engagement teams. Annex 1 to this report comprises a summary of key messages received from civil society during the public consultation meeting.

Overall, the elaboration of the draft Strategy benefited from the public consultation process. The Bank highly appreciates the time and efforts of all stakeholders that provided their valuable inputs and comments.

2. SUMMARY OF COMMENTS AND EBRD RESPONSES

No.	Public Comments/Feedback	EBRD Response
1.	Political assessment and application of Article 1	
1.1	<p>The draft Strategy fails to consider the human rights situation in Azerbaijan and must be revised to include an adequate and nuanced assessment of the situation. The political assessment in the draft Strategy must give more attention to the issues related to attacks on civil society, independent media, fundamental freedoms, democracy, and human rights in Azerbaijan. The EBRD should reassess its current investment strategy in Azerbaijan, particularly those investments involving the government or state-run corporations, in alignment with Article 1.</p> <p>The EBRD mentioned in the draft Strategy the concerns of third parties regarding the current political state of Azerbaijan. However, the wording of the current draft Strategy lacks conviction and presents these concerns as the perspectives of third-party organisations, with no clear indication of the Bank's own stance.</p>	<p>Political Assessment in the context of Article 1 has been prepared in accordance with the Methodology set out in the Board-approved (2013) Procedures to Implement the Political Aspects of the Mandate of the EBRD. The Methodology provides that political assessment should be grounded in the assessments of accepted "reference points", which include the UN and its agencies, Council of Europe, the OSCE, the EU and some other international organisations, which have relevant expertise and produce regular reports on Article 1 situation in the EBRD Countries of Operation. The preparation process for the political assessment in the context of Article 1 situation in Azerbaijan comprised consultations with all key stakeholders, including country authorities and CSOs, as well as discussions with and feedback from other shareholders of the Bank.</p> <p>The Article 1 statement (a statement of "compliance") clearly articulates that, in the Bank's view, <i>"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."</i> Article 1 challenges, including those listed by CSOs, are all recorded under relevant sub-headings and substantiated by quotes from reports of the Bank's reference points. While not listing individual cases, which is not a practice for the Bank's political assessments, the political assessment in the context of Article 1 situation in Azerbaijan highlights the existing deficiencies in ensuring the protection of human rights, notably restrictions on fundamental freedoms of assembly, association and expression; excessive restrictions for operations of CSOs; repression of opposition political</p>

		<p>activists and human rights defenders through intimidation, detentions and court cases; the routine practice of torture or ill-treatment by law enforcement authorities and the poor conditions of detention; and other.</p> <p>With regards to the EBRD's current investment strategy in Azerbaijan, its primary focus is to support private sector's role in the economy with greater diversification, improved economic governance and access to finance and skills. The strategy also envisages selectively engaging with public institutions on high-impact investments that support energy transition, resource efficiency, and climate resilience. These investments benefit population and businesses alike, including private sector. The Bank's engagements with public institutions are typically accompanied by robust policy components that support institutional and business climate reforms, further enhancing the positive impact from the Bank's investments.</p> <p>The Bank will continue to assess and monitor the political situation in Azerbaijan on a regular basis, as we do with all other Countries of Operations. The Bank will also continue to engage with key stakeholders, including CSOs, the Bank's Shareholders, and will align and coordinate views with key international partners. The Bank remains firmly committed to the political principles as stated in Article 1.</p>
2.	Implementation of the previous strategy	
2.1	<p>The effects of attracting new investments to the oil and gas sector of Azerbaijan via energy transition during the implementation of the previous strategy still need to be evaluated. As a COP29 host country, Azerbaijan was expected to reduce its reliance on fossil fuels and lead negotiations on this issue. However, its policy of increasing fossil fuel production, planning new projects with foreign companies such as BP and TotalEnergies, and actively boosting investments in the fossil fuel sector undermines this.</p>	<p>This section of the draft Strategy is dedicated to a review of <i>the EBRD's</i> activities during the previous strategy period (2019-2024). As recounted in Section 1.1 of the strategy, a number of the Bank's projects during this period were focused on supporting economic diversification away from the oil and gas sector and increasing renewable energy production. The continued centrality of the oil and gas sector to Azerbaijan's economy, however, is noted in Section 2, along with the Government's stated intention to increase the share of renewable energy capacity in electricity generation to 30 per cent by 2030.</p>

2.2	During the implementation of the previous strategy, monopolisation of economic sectors and control over financial resources was strengthened, and lucrative sectors within the private economy have created more barriers for outsiders.	During the previous strategy period the EBRD endeavoured to support the further development of open, competitive markets and private enterprise, including through strong financial and advisory support to SMEs and advancement of a number of policy measures to strengthen the local banking sector and improve access to finance for private businesses. Going forward, the establishment of Azerbaijan Investment Holding may also provide an opportunity to advance commercialisation and privatisation in sectors where the state's presence is high.
3.	Economic context	
3.1	The effects of declining oil revenues in Azerbaijan observed during the previous strategy session need to be evaluated for the current draft Strategy. In this regard, only the volatility of prices in the world market is indicated as a risk in the draft Strategy. However, the decrease in oil revenues is also related to the decrease in production and the increase in costs (Opex, Capex, transportation fee, etc.). Any downturn in oil and gas prices or global demand will have a disproportionate impact on the country's economy.	Decline of oil production due to depleting oil reserves is elaborated in the Azerbaijan diagnostics. At the same time, it is noted that gas production and export has doubled in the last ten years boosted by the completion of the Trans Adriatic Pipeline (TAP) and the Trans Anatolian Pipeline (TANAP). Hydrocarbons sector share in total exports revenues (90%) and in GDP (40%) remains unchanged in the last ten years. Therefore, we stress the high risk to the economy arising from volatility of oil and gas prices.
3.2	The draft Strategy should be adapted to the requirements of the post-oil era. In this regard, reforms in the field of market efficiency and economic freedoms, antimonopoly and competitiveness, transparency and anti-corruption, and ensuring the rule of law should be indicated as inevitable requirements of the post-oil era.	We note that slow progress in diversification of the economy constrains the country's long-term growth potential and income convergence. Therefore, the first priority in the draft Strategy envisages further support to diversification by strengthening governance, improving the business environment and supporting an inclusive private sector. We intend to provide financing and technical assistance to corporates and SMEs in the non-oil and gas sector, including agribusiness, TMT/digital services, manufacturing and services. Also, we will support business climate improvements, including through regulatory reform and digitalisation of government services to enhance transparency.
3.3	The draft Strategy should highlight the pressing issues of applying the Law on State Procurement during the spending of unallocated funds allocated from the budget.	The Law on State Procurement plays a critical role in ensuring transparency and accountability in public spending. It has the potential to optimise the use of unallocated funds from central government budgetary

		<p>planning, supporting private sector growth and addressing cross-sector priorities such as the green transition, inclusiveness, and public infrastructure development. Whilst the Law aligns closely with achieving Priority 1 of the draft Strategy, its broader impact should not be overlooked, as improved transparency and accountability in procurement can enhance economic inclusion and diversity. The Bank remains committed to strengthening governance by leveraging the enabling environment created through the enactment of the Law on State Procurement. However, its full impact will depend on its effective implementation and it may be premature to assess its long-term outcomes due to the limited time since its application.</p>
4.	Priority 1: Foster greater economic diversification through a stronger, more competitive and inclusive private sector and improved governance	
4.1	<p>The draft Strategy document mostly deals with corruption in a political context, yet independent businesses are one of the groups that suffer the most from corruption in Azerbaijan. Therefore, it is imperative that the existing problems in the field of fiscal governance and budgetary control (financial transparency, budgetary participation, and open and competitive tenders) be addressed in the draft Strategy.</p>	<p>This issue goes beyond the scope of the draft Strategy, as fiscal governance, budgetary control and procurement practices are not areas currently contemplated for EBRD intervention. However, as noted in Priority 1, the Bank will continue to promote greater transparency in government services as a general matter, which it views as a crucial element of the business environment.</p>
5.	Priority 2: Accelerate green economy transition and improve regional connectivity	
5.1	<p>The slow pace of the energy transition in Azerbaijan and the challenges faced in implementing renewable energy initiatives are not only a concern for the environment but also significantly impact economic indicators. This impact is not to be underestimated, highlighting the potential risks and the need for a more rapid transition to renewable energy.</p>	<p>This impact is noted in the Economic Context and is indeed another reason why the Bank is prioritising the development of renewable energy in Azerbaijan.</p>
5.2	<p>It is critical to ensure comprehensive and time-bound decarbonisation plans for the oil and gas companies receiving public funds for renewable energy projects.</p>	<p>Decarbonisation is a critical part of the Bank's approach to promoting green transition in its countries of operation. As noted in Priority 2, the Bank will look for opportunities in Azerbaijan to develop "low carbon and climate resilient pathways in the power sector."</p>

5.3	It is necessary for Azerbaijan to finally kick-off the diversification of its energy sector by investing into sustainable renewables.	As noted above, further development of renewable energy is a critical part of the Bank's ongoing and future activities in Azerbaijan.
6.	Civil society engagement	
6.1	It is critical to translate the Bank's commitments to civil society engagement outlined in the EBRD's approach to civil society engagement for 2024-29 into EBRD objectives at the country level, especially in a context in which civic space and opportunities for rightsholder engagement are extremely restricted.	The Bank highly values its engagement with civil society and considers civil society actors to be key partners in promoting the principles of multiparty democracy and pluralism in the economies where the Bank operates. The key aspects and mechanisms of the Bank's engagement with civil society are detailed in the dedicated document – EBRD Approach to Civil Society Engagement 2024-29 (Approach). The strategic priorities of the Approach, including civil society engagement through meaningful mechanisms and advocacy for open civic space, are applicable to all EBRD Countries of Operation, including Azerbaijan.
6.2	Section 4. Defining Azerbaijan Country Strategy Priorities – complement “What can the Bank do?” with the following: <i>“Focused and operationally linked policy engagement to support institutional and business climate reforms and create an enabling environment for meaningful stakeholders engagement”</i> .	The Bank has been committed to promoting civic space and meaningful stakeholder engagement in Azerbaijan, as well as across the region. During the implementation of the previous Country Strategy, the Bank actively engaged with CSOs, local communities, and gender groups in various outreach activities and as implementation partners. For instance, as members of the project working group, local CSOs actively contributed to the preparation of the Green City Action Plan for Ganja city. The Bank also supported the Azerbaijan National Auto Club to improve child safety near to one of the schools in Sumgait city. Furthermore, the EBRD promoted mentoring and training initiatives for women entrepreneurs by working closely with local gender and business associations.
6.3	Section 5. Activities and Results Framework (1/2) – complement “Improved quality of institutions and economic governance” with the additional activity: <i>“Support the establishment of meaningful mechanisms for stakeholder engagement”</i> .	As noted in Section 7 of the draft Strategy, meaningful stakeholder engagement to safeguard environmental and social aspects of the Bank's planned activities will be an essential part of Bank projects in Azerbaijan.
6.4	Section 7. Implementation Risks and Environmental and Social Implications – complement “Risks to the strategy implementation” with the following: <i>“Reduced space for civil society will likely affect the effectiveness of investment risk management and compliance”</i> .	

ANNEX 1. Consultation meeting with civil society on 22 April 2024

In the framework of elaborating a new country strategy for Azerbaijan, the Bank organised an in-person public consultation meeting with CSOs in Azerbaijan. The objective of the meeting was to collect civil society's feedback during the preparatory phase of developing the draft Strategy.

In their comments, the CSOs focused on (i) civil society landscape, transparency and good governance, human rights, rule of law; (ii) economic inclusion and private sector competitiveness; and (iii) green economy and sustainable development.

Civil society landscape, transparency and good governance, human rights, rule of law:

- **Civil society landscape.** The CSO sector needs further development through the simplification of legal regulations, improved funding, and capacity building support. In 2023, Azerbaijan was suspended from the Open Government Partnership.
- **Political participation.** More efforts should be invested in promoting political participation at the national level. CSOs have limited possibility to participate in and influence Azerbaijan's public policy. This leads to a lack of trust between the authorities and communities. It is advisable to promote platforms for political and public dialogue involving civil society, the private and public sectors.
- **Human rights.** The human rights situation in Azerbaijan remains challenging, with the freedom of speech and expression often subjected to limitations by authorities.
- **Rule of law.** CSOs underlined the need to (i) improve the independence of the judiciary and (ii) promote open government policies and initiatives. Legal reforms at the national level can help address corruption challenges.
- **Capacities of civil society.** A lack of financial and operational capacities of CSOs is a key challenge for the civil society sector of the country. CSOs encourage international development partners to help enhance the capacities of CSOs so that civil society can play a meaningful role and effectively engage with policymakers and other national stakeholders.
- **Access to information.** Civil society often encounters challenges in terms of accessing information on government initiatives and projects. This prevents the Azerbaijan's civil society from effectively monitoring public developments and keeping the government accountable.

Economic inclusion and private sector competitiveness:

- **Business environment.** The overall capacities of the business sector in Azerbaijan should be promoted to enhance its competitiveness on the international market. This could be achieved by providing more tax incentives, financial tools, and knowledge sharing opportunities to the private sector.
- **Social enterprises.** Civil society in Azerbaijan perceives an increasing opportunity for social enterprises to specialise in various sectors and deliver impact on the ground. The government is supportive of promoting social enterprise through legislation and various initiatives aimed at fostering an enabling environment for them.
- **Digitalisation in business.** Investment in digital infrastructure and digitalisation can enhance transparency in the business sector. Furthermore, social media could and should serve as an effective tool for civil society to hold local infrastructure and service

providers accountable, while also facilitating communication between civil society and government representatives.

- **Access to finance.** Azerbaijan's private sector struggles to access financing due to high interest rates. The EBRD and other international partners are encouraged to promote accessible financing to SMEs and other private sector actors.
- **Public-private collaboration.** Facilitating cooperation between government and various entities, including think-tanks and the private sector, has great potential to foster the creation of new business opportunities.
- **Market expansion.** The country's market opportunities could be expanded through stronger engagement with the Gulf countries and attracting additional regional and international investment.
- **Women's employment.** Considering the lack of equal employment opportunities for women, CSOs underscore the importance of enhancing both gender inclusion and women entrepreneurship in Azerbaijan. There are opportunities to support women entrepreneurs through better access to finance and by fostering an enabling environment through IT tools, capacity building, and knowledge sharing platforms.

Green economy and sustainable development:

- **Energy projects.** The number of green and sustainable energy projects remains very low with the country's strong focus on oil production and developments. International partners, including the EBRD, are encouraged to invest into designing and implementing more green and sustainable energy initiatives in Azerbaijan.
- **Investment in renewable energy.** The overall investment in renewable energy in the country could be further diversified through investment in the private sector. CSOs also suggest diversifying the sources of renewable energy production.
- **Access to finance for green CSOs.** Environment-focused CSOs in Azerbaijan often lack resources and have limited access to funding. They have no access to international financing due to complex legal requirements to register and report international funds, whilst local funding opportunities remain scarce.
- **Green sector competitiveness.** Civil society in Azerbaijan suggests promoting competition within the green energy development sector to enable business competitiveness. International partners are encouraged to mitigate the risks of monopolisation of the green sector.
- **Transparency in green economy.** It is advisable to increase the transparency regarding the ownership of energy-related projects implemented across the country. This could be achieved by disclosing more information on energy projects.