

## Corruption in Azerbaijan

Statement submitted by Khadija Ismayilova, Azerbaijan

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Dear Mr Chairman:

I am grateful to the U.S. Helsinki Commission for holding this very important hearing and for giving me the opportunity to speak about corruption in Azerbaijan.

I am a contributor to Radio Free Europe/Radio Liberty, which is a leading source for independent news for Azerbaijanis, despite being banned on local broadcast frequencies in Azerbaijan. The radio has the leading role in uncovering corruption in the country.

Azerbaijan has joined the Open Government Partnership, initiated by U.S. President Obama and Brazilian President Rousseff in 2012. In a letter of intent in October 2011, Azeri Foreign Minister Mammadyarov informed his American counterpart U.S. Secretary of State Hillary Clinton about Azerbaijan's long history of combatting corruption. Azerbaijan has undertaken number of commitments within the context of its participation in OGP, including access to information. However, in the very same 2012, Azerbaijan has changed its legislation to restrict access to information.

Since June 2012, when the laws "On state registration and state registry of legal entities" and "On commercial secrets" have been amended, information about the founders of commercial legal entities and their shares in the charter capital is considered confidential.

With the same legislative move the law "On the right to obtain information" had been changed. The new version of the law states that information deemed contrary to the purposes of the protection of political, economic, military, financial and credit and monetary interests of the Republic of Azerbaijan, to the protection of public order, health and morality, protection of rights and freedoms, commercial and other economic interests of other individuals, ensuring the prestige and impartiality of the court, shall not be released even following information requests.

These legislative actions were the government's response to a series of journalistic investigations revealing high level corruption and conflicts of interest, including involving the president's family.

The facts cited in those investigations show that the families of the Azerbaijani president and several ministers are beneficiaries of monopolies in most of the non-oil sector of the economy. Thus, the president's daughters control more than 70 percent of mobile communications and one of two backbone internet providers, control assets in the three biggest holding companies (AzEnCo, Pasha Holding and Ata Holding) and several banks. The holdings and companies controlled or linked to the president's family enjoy biggest public contracts. In most of the cases the ownership of the companies has been hidden behind a chain of offshore companies registered in Panama and British Virgin Islands.

Most high-profile visitors to Baku, including members and staffers of the U.S. Congress, stay in the Four Seasons Hotel, which is part of the president's family's company. Over 30 architectural sites, including part of the ancient city wall, were destroyed during the construction of the hotel. This and several other business endeavors of the president's family have cost many ordinary Azerbaijanis their property. The citizens have failed to restore their property rights in the courts of Azerbaijan. Those whom the government has failed to intimidate have sought justice in the European Court of Human Rights.

Even the construction of the National Flag square, which was presented as a symbol of pride for Azerbaijanis, has become an unfortunate example of corrupt practices. The government allocated 30 million AZN (\$38,5 million) to build "the highest flagpole in the world." The 162 meter - high flagpole kept its supremacy only for several months, as Tajikistan, another OSCE member country also leading in corrupt listings, has built one that is higher by two meters. The contract for building the flag square was granted to AzEnCo, a company owned by President Aliyev's daughters.

Azerbaijan is a part of the Extractive Industry Transparency Initiative since 2004. As in many other global initiatives, the Azerbaijani government uses the membership as an argument against criticisms of corruption. The country is currently under scrutiny by EITI, as one of the main parts

of the Initiative - civil society - is paralyzed and cannot serve as a watchdog. In non-oil extractive industries government-linked monopolies have a huge stake. In 2007 the government of Azerbaijan signed a contract to develop six gold and copper mines with a consortium that is co-owned by President Aliyev's daughters.

The oil-related extractive industry is partly under oligarchic control as well. Offshore companies, hiding Azerbaijani names and linked to the State Oil Company's management or the president's family's businesses, appear as partners in joint ventures, winning oil production and trade contracts.

Investigations also reveal that the transportation minister's son and his business partners enjoy exclusive opportunities in the public transportation sector of Azerbaijan. The money, the source of which is highly questionable, is being invested by Mr. Anar Mammadov in lobbying activities in the United States through the Azerbaijan-America Alliance. The lobbying events are attended by number of the U.S. Congress.

Unlike U.S. officials and members of Congress, Azerbaijani officials and members of parliament do not file asset declarations. The Azerbaijani president signed a decree requiring to do so, but none of the officials, including the president himself, has ever filed a declaration, referring to the fact that the Cabinet of Ministers has neglected to create a template for such a document.

The candidates for the presidency and parliament are required to fill in a form declaring their assets, however, this information is not provided. I sued the Central Election Commission for refusing to provide this information.

Investigations reveal that some members of the Azerbaijani parliament own businesses. A constitutional requirement to stop their mandate in case of a conflict of interest is neglected.

Corruption in Azerbaijan undermines not only the well-being of the country's citizens but also endangers the country's independence. Corruption in education and healthcare puts people's lives at risk, and as a solution, they seek remedy in neighboring countries.

You might have heard many times from Azerbaijani interlocutors that the country exists in very difficult geography: it is sandwiched between Russia and Iran. These are the two main destinations for people who fail to find healthcare and jobs in Azerbaijan. Monopolies and corruption in Azerbaijan have created a huge problem with the availability of basic services. According to WHO data, Azerbaijanis pay 70 percent of their healthcare expenses, even though the country claims to provide medical care for free.

The country has failed to establish an insurance system. The Soviet style healthcare management is corrupt, and the failure of the education system and drug monopolies make it impossible for Azerbaijanis to receive even basic medical services in the country. The solution is right there, next door, in Iran. Azerbaijani citizens enjoy healthcare services there at far more affordable prices than in their own country. Iranian government and private clinics attract more Azerbaijanis by providing special promotion packages. According to the Iranian embassy in Baku, every year 800,000 citizens out of a population of ten million Azerbaijanis travel to Iran for healthcare.

Millions of Azerbaijanis still depend on remittances coming from guest workers in Russia - those Azerbaijanis who could not find opportunities in their own oil-rich country and have left to earn their living on the territory of their northern neighbor.

Azerbaijanis will feel the full impact of corruption and mismanagement when the oil money runs out. A devastated economy and environment, in addition to the lack of savings for the future, may become a cause of societal unrest in foreseeable future. Seventy percent of Azerbaijan's budget comes from oil production. Oil is the main commodity of Azerbaijan, making up 92 percent of its exports.

Oil fuels corrupt construction projects, which create temporary employment. The so-called "white elephant" projects like the concert halls for Eurovision or stadiums for the Euro Olympics will hardly return investments and help Azerbaijanis earn a living in the post-oil period.

The state procurement system has become more transparent in the past two years, however it still fails to allow access to information enabling citizens to monitor procurement procedures. Even

with minimum access to information, using public sources, journalists have revealed facts of corruption.

Azerbaijani journalists and NGOs combatting corruption pay a personal price for these efforts. The country's broadcast media is under state control, Azadliq newspaper, the only newspaper that publishes investigative reports about the president's family, is barred from nationwide distribution and faces financial difficulties, and RFE/RL, BBC and VOA are banned on local broadcast frequencies. Online penetration is not good enough for the internet to become a substitute for TV. Weekly satellite TV programs from abroad are being jammed. The individual journalists who investigate corruption are being punished by intrusion into their privacy and smear campaigns in pro-government and the ruling party's media, and they are labeled enemies of the state. In some cases the journalists are being subject to enormous libel fines, even in cases when their story was not libelous.

The latest wave of pressure on NGOs has targeted the remnants of the research centers and media support institutions. The bank accounts of those NGOs are frozen, and leaders have had to leave the country or hide.

With the downgrading of the OSCE's mandate inside the country, most of the projects related to media and combatting corruption have stopped. The government of Azerbaijan has not approved any of the media-related proposals of the Baku project coordinator's office.

Investigative journalists in Azerbaijan have done their best to show the government where the problems are. In fact, the system of corruption in Azerbaijan is managed from the top, and top government officials are the main beneficiaries of corruption. Recent reforms made the corruption even more centralized, leaving less room for low-level officials to participate in corruption schemes.

And here I want to mention a positive part of the story. I want to single out the partial reform of the public service, in particular the establishment of so-called ASAN (easy) services. ASAN is an agency of the Azerbaijani government which provides a variety of public services to citizens. Services are made available at public service halls throughout the country. Currently, ASAN

endeavors to provide over 50 services at the main location in Baku.

These islands of good governance show that the Byzantine style of business is not a destiny for Azerbaijanis, and that public servants can be professional and effective when they wish. Although there are some open questions related to ASAN procurements, the agency has decreased petty corruption in many areas of service. However, the service is yet to become a nationwide provider of public services and lacks authority in key areas like custom clearances, NGO registration, etc.

Even these islands of good governance though cannot reduce all the risks. Does the Azerbaijani government understand the risks of corruption? It probably does, although the overall system is based on every citizen's contribution to corruption and lies. As Alexander Solzhenitsyn has described in his essay, "Live Not By Lies," the system, designed by the Soviet KGB, depends on everyone's participation. Azerbaijanis are tempted to pay bribes to ease their lives on many occasions every day. The country has failed to complete the land and property registry of the capital city, leaving up to 500,000 households outside the law. Doctors and teachers, who receive \$150 monthly salary, are forced to demand bribes. An analysis of cross-border trade statistics of neighboring countries shows that Azerbaijani customs have hid imported goods worth billions of dollars. The non-registered goods end up in the black market and create illegal businesses. Hundreds of thousands of Azerbaijanis have become forced accomplices of the corrupt system, thus becoming vulnerable and silent, making it easier for the government to suppress and rule.

Here I want to speak on how the global powers of the international community can help Azerbaijanis to stop living by lies.

## CONCLUSIONS

International institutions must pay more attention to the development of investigative journalism. Bad guys know how important investigative journalism is, and they invest a lot of money in buying out the broadcasters and silencing journalists. Good guys should know its importance as well.

The Azerbaijani government had been successful in jamming hour-long satellite TV programs, but it will be impossible for them to jam 24/7 programming. Azerbaijanis should receive 24/7 TV broadcasts of independent content which will not only inform the citizens on what is going on inside the country, but also become an alternative source of news to what is coming from Russia.

Azerbaijan needs to be held accountable to the Open Government Partnership and fulfill its commitments by granting access to information and by stopping harassment of journalists.

*These remarks are submitted in my individual capacity, and do not necessarily represent the views of RFE/RL.*