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Implementation of the European Neighbourhood Policy in Azerbaijan Progress in 2013 and recommendations for action

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

Neighbourhood at the Crossroads: Implementation of the European Neighbourhood Policy in 2013

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on the progress made between 1 January and 31 December 2013 in implementing the EU-Azerbaijan European Neighbourhood Policy (ENP) Action Plan, although developments outside this reporting period are also taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Azerbaijan. Information on regional and multilateral sector processes is contained in the Eastern Partnership Implementation Report.

The EU-Azerbaijan political dialogue in 2013 was intense. Commissioner Štefan Füle visited Baku in May and visits were made to Brussels by President Ilham Aliyev in June, by the Deputy Foreign Minister in April and December, by the Speaker of Parliament in June and by the Minister of Economic Development in August. The EU Special Representative (EUSR) for the South Caucasus and the Crisis in Georgia, and the EUSR for Central Asia visited Azerbaijan several times.

2013 was a decisive year in EU-Azerbaijani bilateral relations. The Strategic Energy Partnership with Azerbaijan was strengthened by the signature of the final investment decision on the Shah Deniz II gas project that includes the construction of the Southern Gas Corridor. The Shah-Deniz II consortium's decision can be seen as a strategic step towards stronger European energy security and as a major milestone for the diversification of energy supplies. Trilateral discussions between the EU, Azerbaijan and Turkmenistan on the Trans Caspian Pipeline also continued.

However, in contrast very little progress was seen on democratic governance and human rights reform.

The overall environment for independent civil society has been made more restrictive after several rounds of amendments to legislation on non-governmental organisations (NGOs). The amendments adopted warranted a statement by the spokespersons of the High Representative for Foreign Affairs and Security Policy/Vice President of the Commission Ashton and Commissioner Füle in February 2014 underlining that, despite the Government's efforts to engage civil society on its proposals, they remain concerned by the overall impact of this legislation on civil society.

Despite progress in the implementation of the National Human Rights Action Plan reported by the government, political opponents were harassed, pressure was put on civil society and human rights activists, while the media and public discourse was effectively controlled. The OSCE office in Baku was downgraded to the status of project co-ordinator, the negotiations of its mandate and budget are still ongoing. The local office of the Council of Europe remained without an appointed head, despite the upcoming Azerbaijani chairmanship of the Committee of Ministers in the Council of Europe in May-November 2014.

Significant efforts are therefore required if Azerbaijan is to meet its commitments on democracy, protection of human rights and fundamental freedoms. In particular, major

concerns remain over Azerbaijan's respect for the rule of law and the independence of the judiciary, as well as over freedom of assembly and freedom of expression. A number of prosecutions have raised concerns within the international community as being potentially politically motivated.

In relation to the presidential elections in October 2013, the High Representative Ashton and Commissioner Füle said that the elections demonstrated the commitment of the people of Azerbaijan to the democratic process. However, they also took note of conclusions by the Organisation for Security and Co-operation in Europe / Office for Democratic Institutions and Human Rights (OSCE/ODIHR) that identified significant problems at all stages of the election day process, including limitations on freedom of expression, freedom of assembly and freedom of association that did not guarantee a level playing field for candidates. They further encouraged the Azerbaijani authorities to consider the recommendations by the international community, with a view to continuing to develop the path towards democracy and the rule of law in Azerbaijan.

Azerbaijan managed to keep stability of its macro-economic environment due to growth in the non-oil economy and greater social stability. Measures were taken to upgrade the transport infrastructure and to promote rural development. Further efforts are needed to diversify the economy, including the development of human capital and the establishment of a business-friendly environment.

Azerbaijan's participation in the Eastern Partnership (EaP) Summit in Vilnius, which coincided with the signing of the Visa Facilitation Agreement and the Mobility Partnership, underlined the potential to further develop EU-Azerbaijani bilateral relations. Negotiations continued on the Association Agreement and on a Strategic Modernisation Partnership. Azerbaijan continued negotiations on WTO membership, but with little determination and, as a result, the meeting of the Working Party on accession of Azerbaijan was not convened in 2013. Negotiations were launched on an aviation agreement.

Azerbaijan committed to carrying out a public expenditure and financial accountability assessment in 2014, on the basis of which a new comprehensive, clear, time-bound and results-oriented multiannual public financial management action plan can be adopted for the period from 2014.

For most of 2013, the stalemate continued in the Minsk Process, which aims to settle the Nagorno-Karabakh conflict. Election cycles in Armenia (February) and Azerbaijan (October) affected progress. Tensions on the ground and around the potential launch of flights to Nagorno-Karabakh against the background of escalation of the arms race and confrontational rhetoric did not contribute to a constructive atmosphere in the search for a solution. However, in an encouraging development, the Presidents of the two countries reconvened in November 2013 for the first time since January 2012 at a summit in Vienna, mediated by the OSCE Minsk Group Co-Chairs, at which they agreed to advance negotiations towards a peaceful settlement and to meet again in the months ahead. Amidst deadly armed clashes in late January and early February 2014, the Minsk Group Co-Chairs met with the sides and called on them to exercise restraint in their actions and rhetoric and emphasized the need to continue negotiations at the highest level. The EU

continued to give its full support to the OSCE Minsk Group Co-Chairs in their work to facilitate a lasting settlement. The EU Special Representative for the South Caucasus and the crisis in Georgia visited the region four times in 2013 in efforts to help defuse tension and to explore conflict transformation opportunities. The EU also financially supported peace-building activities through the 'European Partnership for the Peaceful Settlement of the Conflict in Nagorno-Karabakh' project, bringing together stakeholders across the conflict divide.

The Azerbaijani Government continued to improve the situation for internally displaced persons (IDPs) and refugees, in particular by providing new housing and education facilities, and carrying out mine clearance activities.

Corruption remained a serious issue, obstructing economic and business development. The government initiated visible measures against corruption and to increase transparency by launching on the basis of the "one-stop-shop" principle the State Agency for Public Service and Social Innovations under the President of Azerbaijan (ASAN), the services of which were made available also on mobile applications as well as on online e-government services in the regions. The government also adopted two action plans on the fight against corruption, one covering the launch of services to improve statutory audits of officials and legal entities and another one covering the creation of an independent anti-corruption department of the State Prosecutor.

Azerbaijan acted on some of the key recommendations. It partly addressed its public financial management issues and took measures to fight corruption. However, it did not address key recommendations to bring its electoral legislation into line with OSCE/ODIHR recommendations to ensure full freedom of expression and assembly and full functioning of a civil society, nor did it amend laws on defamation and competition. On the basis of this year's report, and with a view to the sustained implementation of the ENP Action Plan in 2014, Azerbaijan is invited to:

- ensure *effective and comprehensive* implementation of the January 2013 resolution of the Parliamentary Assembly of the Council of Europe on the honouring of obligations and commitments by Azerbaijan;
- continue implementation of the human rights action plan adopted in December 2011;
- bring electoral legislation into line with OSCE/ODIHR recommendations and ensure effective implementation before the forthcoming municipal and parliamentary elections;
- continue the reform of the judiciary and adopt the Judiciary Reform Programme 2014-2020. Ensure full independence of the judiciary by *inter alia* enacting a law on the role of the Judicial Legal Council, establishing a fixed retirement age applicable to all judges, conducting an analysis of shortcomings in judicial practice, and giving full consideration to reports of alleged shortcomings resulting in unfair trials with a view to addressing these;
- adopt a law on defamation with the aim of decriminalising libel;
- step up efforts to investigate cases of harassment and murder of journalists and activists;
- implement the National Anti-Corruption Action Plan (NACAP) 2012-2015;

- carry out and publish a public expenditure and financial accountability assessment and ensure the comprehensive public finance management policy reforms on the basis of the findings;
- continue the policy of economic diversification and development of the regions, in particular adopting and implementing a law on competition to create more predictability and transparency in the market and a level playing field for investors;
- implement the actions scheduled for 2013-2014 under the Memorandum of Understanding in the field of energy;
- align policy, legislative and institutional frameworks for local self-governance in Azerbaijan to the European Charter for Local Self-Government;
- step up efforts towards agreement on the Madrid Principles, as a basis for peace, in accordance with the commitments undertaken by the Presidents of Azerbaijan and Armenia within the Minsk Group; refrain from actions and statements that could heighten tension and undermine the peace process;
- promote an environment conducive to progress in the conflict settlement, encourage and support related peace-building activities;
- ensure unimpeded access for representatives of the EU to Nagorno-Karabakh and surrounding regions in support of conflict transformation activities in full complementarity with the efforts of the Minsk Group.

2. POLITICAL DIALOGUE AND REFORM

The beginning of 2013 saw a heated political environment with the suppression of a number of unsanctioned protests and spontaneous unrest leading to a further deterioration of **the human rights situation**. A number of opposition leaders, youth activists and representatives of religious communities were detained and prosecuted. Political parties, civil society activists and human rights defenders faced serious obstacles in organising events, including EU-funded ones, both in Baku and in the regions, while opposition parties were frequently prevented by the authorities from visiting regions and holding meetings.

On 30 April, a second review of the human rights situation in Azerbaijan was conducted under the Universal Periodic Review (UPR) process of the United Nations. On 20 September, Azerbaijan presented its response at the 24th session of the Human Rights Council, accepting totally or partially 158 recommendations out of 162. In addition, Azerbaijan extended the standing invitation to the UN Special Procedures Rapporteurs.

Despite the adoption of a **national human rights action plan** in 2011, a number of its stipulations remained on paper only, including those with deadlines for implementation in 2012 and 2013. Among others, preparation of amendments ensuring the rights of people detained for the purposes of extradition and the development of proposals to ensure the compatibility of criminal legislation with international legal standards in order to prevent sexual exploitation of children, were not implemented.

The **electoral code** was not amended in 2013 to improve the composition of electoral commissions or candidate registration, as had been recommended *inter alia* by the OSCE/ODIHR.

The **pre-election climate** was marked by a significant tightening of political freedoms in almost all areas. The Central Electoral Commission's technical preparation for the presidential elections was good. One presidential candidate nominee, Ilgar Mammedov, and the Deputy Head of the Musavat Party, Tofiq Yagublu, were imprisoned in February. Protracted investigations prevented both from actively participating in the election. Mammedov attempted to launch his candidacy while detained but failed due to problems in the signature collection process. The EU Delegation, in agreement with EU Heads of Missions, issued a joint statement with the United States and Norway prior to the elections expressing hope for an inclusive, transparent and credible electoral process. The High Representative for Foreign and Security Policy / Commission Vice-President (HRVP) Ashton and Commissioner Füle issued a statement on the conduct of the presidential elections.

The **post-election phase** was marked by the arrest of Anar Mammadli, the chair of a prominent independent NGO which monitored the October elections. His arrest obstructed the release of the NGOs final election-monitoring report. The EU issued a statement expressing concern and calling for a speedy, fair, transparent and independent investigation. Azerbaijan reacted by suspending its participation in the Euronest Parliamentary Assembly.

Freedom of expression remained limited in media other than the internet, and in some aspects even deteriorated. Opposition efforts to gain access to public national TV failed. Opposition newspapers continued to suffer from disproportionate fines imposed following multiple defamation lawsuits. One of the main opposition newspapers had its bank account frozen and its website jammed. Another opposition newspaper was obliged to decrease its circulation due to financial problems. On the other hand, some opposition media received state funding. Azerbaijan continued its cooperation with the Venice Commission on a new draft law on defamation, but the draft has not yet been considered by Parliament. Instead, in May 2013, the government introduced amendments to the Criminal Code and the Code of Administrative Offences envisaging criminal penalties for libel and insult by the media on the internet, including social networks. Following their entry into force, the amendments' provisions were implemented against several Facebook users.

Although announced publicly by the authorities, investigation of harassment and **pressure against journalists** and activists did not progress, with perpetrators continuing to enjoy impunity. Some independent journalists were sentenced to heavy imprisonment during the reporting period.

Restrictions on the **freedom of assembly** continued along with the *de facto* interpretation of the requirement for prior notification as a request for authorisation. Some participants in peaceful protests in January and March were violently dispersed and temporarily detained. The authorities have also started implementing amendments introduced in late 2012, imposing considerable fines on those who participated in unsanctioned rallies.

Amendments adopted on 14 May increased the terms of administrative arrests for organising such rallies and for disobeying police, which led to further restrictions of freedom of assembly. In addition, on 26 November the National Assembly introduced draft amendments to the law on freedom of assembly which will restrict the use of masks or veils during public rallies. During the Universal Periodic Review exercise, several UN Member States recommended that Azerbaijan allow rallies in Baku city centre. Due to the authorities' definition of the city centre, demonstrations are effectively moved to the outskirts of the capital. However, several protests took place under these conditions.

New amendments to the **laws on NGOs and grants** and the Code of Administrative Offences came into force in March. By significantly increasing penalties for failure to register grants and for inaccurate financial reporting, as well as banning cash donations over AZN 200, the amendments exacerbated already-burdensome requirements for NGOs and restricted the working environment for non-registered NGOs. In December, the Parliament adopted another series of amendments that increased existing fines and added new administrative requirements. The amended NGO legislation was enacted in February 2014. This is likely to further limit the activity of local and foreign NGOs. Several NGOs, both local and international, continued attempts to register after years of unsuccessful efforts. Amendments in January allowed the Central Bank of Azerbaijan to monitor foreign funding of the bank accounts of all NGOs. However, a presidential decree of 20 November provided for the improvement of e-services for registered NGOs, including the possibility of registering grant contracts online.

In parallel, financial resources allocated to the Council of State Support for NGOs by the President of Azerbaijan were significantly increased, to approximately EUR 8.2 million from EUR 3.8 million in 2012. In addition, in 2013, some EUR 5 million was allocated from the state budget to the Azerbaijan Youth Foundation under the President.

In terms of **freedom of religion**, Azerbaijan continued the construction of mosques and venues for prayer for representatives of other religions. On 22 February, Parliament passed amendments to the law on freedom of religious belief, stipulating that all literature with religious content and all religious goods must carry stamps by the Committee on Work with Religious Structures. Reports were also received of religious communities that had not been allowed to register. A renowned theologian was arrested by police on charges of illegal possession of drugs; subsequently, charges against him were upgraded to arson. Several people received prison sentences for their participation in protests against the ban on hijab.

The fight against **corruption** lacked measures proportional to the perceived pervasiveness of the phenomenon in many sectors. Azerbaijan was ranked 127 out of 177 countries in the 2013 Corruption Perceptions Index. The implementation of existing legislation continued to be flawed, e.g. officials did not make required declarations of income, and the introduction of new business tax legislation effectively concealed private individuals' cash flows. Some, mostly low-level, corruption cases were reported. The establishment of an independent anti-corruption department under the State Prosecutors Office in October was an important milestone in the fight against corruption. In February, Azerbaijan adopted the Law on joining the Additional Protocol of the Convention on Criminal Liability for Corruption and the country announced in its official response to the

UN Universal Period Review that it had become a fully-fledged member of the International Anti-Corruption Academy. Azerbaijan adopted action plans on anti-corruption and on the Open Government Initiative, both covering 2012-2015. However, proposals to limit immunity from criminal prosecution of judges and Members of Parliament still need to be developed and implemented. In the area of public service, steps were taken to implement merit-based recruitment procedures for mid-level and junior civil servants but these have not yet been applied to senior civil servants. For the first time, one former MP from the ruling party was sentenced to three years imprisonment on corruption charges.

ASAN launched its activities in 2013 under the 'one-stop shop' principle and offices are being opened in Baku and the regions. This was an important step towards improving efficiency and transparency, reducing red tape and tackling corruption. An EU-funded project has supported ASAN since August, to develop corporate ISO and Human Resource Management (HRM) standards. During the reporting period, ASAN's staff increased from 120 to 260 employees.

Lack of **judicial independence** persisted in 2013. Access to legal counsel continued to be impeded, and on several occasions courts ruled in the absence of defendants' lawyers. In some cases, individuals were kept in pre-trial detention in the Ministry of National Security penitentiary facility and were not transferred to the Ministry of Interior within the 48 hours required by law. Pre-trial detentions lasted longer than one year, the presumption of innocence was denied, and trials were delayed without appropriate justification. Implementation of the EU budget support programme in the Ministry of Justice continued during 2013, but the lack of progress in meeting some of the conditions has hindered its smooth implementation.

A draft law on public participation, providing for the creation of Public Councils under central and local executive authorities, was enacted by the President in January 2014 after consultation with local civil society and international experts. The law will enter into force in mid-2014. The Public Councils, composed of **civil society** organisations, will be tasked with initiating public consultations in various forms and will have a consultative mandate. In addition, all draft legal acts are required to be made public before their adoption, and the consideration of related public recommendations. It also introduces the possibility of public hearings within the National Assembly. This reform represents a potentially positive step, given next year's local elections.

With respect to the promotion of **local democracy**, an EU-funded project "to build capacity for increased participation by citizens and increased accountability of elected bodies" successfully established Advisory Councils within a number of local communities, among other activities, but encountered obstacles, pressure and interference by authorities in several regions.

Democratic control over the armed and security forces remained a concern. An increasing number of non-combat casualties in the army and security forces over the year raised concerns among independent civil society organisations and led to public protests.

Other human rights and fundamental freedoms

Rulings by the European Court of Human Rights requiring measures to reform national legislation continued to be neglected. Repeated reports were received of **torture and ill-treatment** (including coerced public confessions) of young political activists during pre-trial detention. Despite calls by the international community, no effective investigation took place and no perpetrators were prosecuted during the reporting period. No secondary legislation to implement the 2012 law on the rights of individuals kept in detention facilities was approved. Pressure on independent lawyers continued with new reports of various other forms of harassment.

In February, amendments were made to the Administrative Code to increase penalties for the evasion of statutory audit requirements for officials and legal entities. The Chamber of Audit of Azerbaijan and the Ministry of Taxes concluded a partnership to develop audit services and to fight corruption.

On 30 September, the State Committee for **Family, Women and Children's Affairs** (SCFWCA) and the Ministry for Labour and Social Protection of the Population signed a joint national action plan on prevention of child labour exploitation, supported by an EU twinning project. Draft rules on state regulation of gender equality and domestic and inter-country adoption were developed and approved by the SCFWCA. Despite these positive measures and steps taken, there is still a need to formulate a national action plan to further safeguard women's rights, including combatting violence against women, improve gender equality through appropriate administrative and legal measures, and adopt and implement laws on child protection and prohibition of corporal punishment of children.

The office of the Human Rights Commissioner (Ombudsman), despite its broad mandate, was not able to realise its full potential in ensuring the effective promotion of human rights during 2013. Comprehensive legislation on **anti-discrimination** was not drafted.

The protection of fundamental rights and freedoms continue to pose a particular concern in the **Nakhchivan** Autonomous Republic (NAR) of Azerbaijan. A delegation of Member States' Embassies and the local EU Delegation visited the NAR in February 2013 and held discussions on this subject with relevant actors.

Cooperation on foreign and security policy, conflict prevention and confidence building measures

Azerbaijan continued to align with **common foreign and security policy** (CFSP) declarations on a case-by-case basis. Between January and December 2013, the country aligned with seven out of thirty-two CFSP declarations to which it was invited to subscribe (22 % alignment, which is almost double that of previous years).

As regards the settlement of the Nagorno-Karabakh conflict, the stalemate in the Minsk Process persisted for most of 2013. Elections cycles in Armenia (February) and Azerbaijan (October) affected progress. Tensions on the ground and around the potential launch of flights to Nagorno-Karabakh against the background of escalation of the arms

race and confrontational rhetoric did not contribute to a constructive atmosphere in the search for a solution. However, in an encouraging development in November, the Presidents of the two countries reconvened for the first time since January 2012 in a summit in Vienna, mediated by the OSCE Minsk Group Co-Chairs, at which they discussed the way forward in the peace process and agreed to meet again the months ahead. A follow up meeting at the level of the two foreign ministers took place on 5 December in Kyiv during the OSCE Ministerial Council and the Minsk Group Co-Chairs travelled to the region on 15-19 December to discuss recent developments in the Nagorno-Karabakh peace process. In late January 2014, deadly armed clashes along the Line of Contact and the international border led to serious escalation of tension. The Minsk Group Co-Chairs met the two foreign ministers on 24 January in Paris and visited the region 4-5 February. They called on the sides to exercise restraint in their actions and rhetoric and emphasized the need to continue negotiations at the highest level. The EU continued to fully support the OSCE Minsk Group Co-Chairs in their work to facilitate a lasting settlement. The EUSR for the South Caucasus and the crisis in Georgia visited the region four times in 2013 in efforts to help defuse tension and explore conflict transformation opportunities. The EU also financially supported peace-building activities through the 'European Partnership for the Peaceful Settlement of the Conflict in Nagorno-Karabakh' project, bringing together stakeholders across the conflict divide.

Increased efforts as part of the Minsk Group process are needed to finalise agreement on the Madrid Principles as a basis for peace, in accordance with the commitments undertaken by the Presidents of Azerbaijan and Armenia. Parties should refrain from actions and statements that could heighten tension and undermine the peace process, and promote an environment conducive to progress in settling the conflict, while encouraging and supporting peace-building actions. Unimpeded access for EU representatives to Nagorno-Karabakh and the surrounding regions is needed to support conflict transformation activities, complementing the efforts of the Minsk Group.

The EU has supported activities that promote confidence and people-to-people contact, expand economic and business links, promote cultural and educational activities, and facilitate the dissemination of balanced information in both Azerbaijan and Armenia.

As a party to the **Nuclear Non-Proliferation Treaty (NPT)** and **Non-Nuclear Weapon State**, Azerbaijan continued constructive discussions at the Preparatory Committees for the 2015 NPT Ninth Review Conference. Azerbaijan has an additional protocol with the International Atomic Energy Agency (IAEA) and both sides work on a technical cooperation programme on nuclear safety and applying nuclear technologies in industry, including projects on a feasibility study for a research reactor and a radiation processing centre. There are no known nuclear reactors, research facilities, or uranium mines in Azerbaijan; however, a large quantity of radioactive waste is stored and managed in the country, a legacy of the Soviet era. This remains an issue of concern despite recent improvements. Azerbaijan's proposal to create a nuclear-free zone in the South Caucasus has not advanced in 2013. In March, the Azerbaijan National Academy of Science proposed that the IAEA should test the Metsamor nuclear power plant in extreme situations (e.g. to test resistance to earthquakes).

Azerbaijan did not accede to the **Mine Ban Treaty**, the **Convention on Conventional Weapons** or the **Convention on Cluster Munitions**. Baku officially says it fulfils all its obligations under the Ottawa Convention, but cannot accede to the Conventions before the Nagorno-Karabakh conflict is settled. Currently two national plans are being implemented as part of the national mine action programme. The first (mid-term) element, which aims to clear all suspected hazardous areas by the end of 2013, has little chance of materialising, considering the recent pace of mine clearance. The second (long-term) element relates to the improvement of operational and management capacity. Azerbaijan increased co-financing from 10% to 90%, being one of only a few mine-affected countries to tackle this issue largely through the state budget.

Russia's lease of the **Gabala radar** station expired in December 2012, and was not renewed due to irreconcilable lease expectations. The transfer of the station to Azerbaijan was completed in June.

In March, Azerbaijan tabled a proposal to decrease the size of the **local OSCE Office** in Baku. In July, the OSCE Permanent Council approved the decision to downgrade the local Office in Baku to a project coordinator from 1 January 2014. The new project coordinator is to continue carrying out projects in all three dimensions of the OSCE.

The CoE's local office remained without a permanent Head in 2013.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy¹

Following measured recovery over the last year when the economy grew by 2.2%, real GDP growth continued in 2013 and reached 5.8% year-on-year. While oil production increased by 0.2% due to efforts boosting production in big oil fields, the non-oil sector increased by over 10.0%. Growth in the non-oil sector was driven mainly by increased government spending and transfers of oil and gas export revenues, as well as high domestic demand supporting the expansion of the service sector and the already booming construction sector.

Inflationary pressures re-emerged in 2013, with a rebound in food and fuel prices, expansionary fiscal policy and a fast-growing non-oil economy. The average annual inflation nevertheless increased only moderately to 2.4% year-on-year in 2013 from 1% in 2012. The central bank reduced the key refinancing rate to 4.75% in February 2013, taking advantage of the low inflationary environment to encourage economic activity. The conduct of its activities remains constrained by the weak monetary policy transmission channel caused by the tightly managed exchange rate and the absence of well-developed money and bond-markets.

Azerbaijan continues to rely on hydrocarbon sales to finance state expenditure, as transfers from the State Oil Fund of Azerbaijan (SOFAZ) accounted for 58.43% of total

¹ Figures are from the national statistical office, the central bank, the IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

revenue in 2013, leading to a budget surplus of 0.47% of GDP (Ministry of Finance, SOFAZ). However, the growing reliance on oil exports raises concerns about the long-term sustainability of public finances since the state budget shows a deficit of 19.1% of GDP when SOFAZ transfers are excluded (Ministry of Finance, SOFAZ).

The current account surplus was projected to decline from 21.7% of GDP in the 2012 to 15.9% of GDP at the end of 2013, due both to weaker oil proceeds and growing imports responding to high domestic demand. The external position remained strong, supported by the sound reserve standing and low level of public debt that significantly mitigated the risks of the volatility of oil prices. However, the non-oil current account deficit of 17.4% of GDP remained large, due to government-related non-oil imports and gas-related Foreign Direct Investment.

In November, the government raised retail prices for various fuel products by between 25% and 33%. This was allegedly due to upfront investment needs and capacity problems in the refinery sector. At the same time, tariffs for various telecommunication services were reduced. Despite the consequences for ordinary households, no major protests against the price hikes were observed.

Baku hosted a number of international events such as the Davos World Economic Forum, and the first South Caucasus Forum. In June Azerbaijan organised a donor's conference in support of Palestine which did not lead to significant new commitments.

Social situation, employment and poverty reduction

Despite Azerbaijan classified by OECD/DAC as an upper middle income country and the progress made in reducing poverty levels through growth and social assistance programmes, significant inequalities remain. Officially the **unemployment rate** dropped to around 5% in the first half of 2013 but the methodology used to assess the real unemployment is debateable, with large categories of the population being *de facto* jobless. The real unemployment rate is likely to be much higher. At the same date, the unemployment benefit was AZN 260 per month (compared to AZN 224 on 1 January).

Average **monthly wages** grew in 2013 to AZN 423, or by over 6% compared to the same period of 2012. Discrepancies between different economic sectors remained high, with high average salaries in the oil sector (AZN 1566 per month) and disproportionately smaller wages in the non-oil sectors (AZN 387 in the non-oil sector, AZN 337 in the state sector and AZN 539 in the non-state sector). Substantial income disparities between Baku and the regions persisted in 2013.

Authorities continued implementing the 2009-2013 State Programme on socio-economic development of the regions of Azerbaijan, and the 2008-2015 State Programme of poverty reduction and economic development. The National Entrepreneurship Support Fund, under the Ministry for Economic Development, continued to provide concessional loans throughout the year, thus contributing to the creation of new jobs. Across 2013, subsidised lending from the Fund made up AZN 275 million. However, the distribution process for funds was not transparent, with many bureaucratic obstacles facing the beneficiaries.

A number of laws tackled the area of **social services** and **social protection**. A January presidential order approved support from the President's Reserve Fund to the Ministry of Labour and Social Security, aiming to provide social services to children with disabilities and to young people at risk. In February, the law on veterans was updated to provide social services to war veterans. The rules on granting preferential mortgage loans were also amended, thus increasing the maximum sum for social mortgages from AZN 35 000 to AZN 50 000 and reducing administrative requirements for accessing social mortgages. Parliament also made amendments to the law on labour **pensions** to simplify registration of documents for old-age pensions for citizens residing abroad. According to official statistics, Azerbaijan has 1.27 million pensioners and the average pension reached AZN 170 in October, while the average retirement pension was AZN 187.

Azerbaijani Ministry of Labour and Social Protection with support of the World Bank has developed over 200 occupational standards and continued to work on establishing a workforce resources development agency.

On 5 June, the National Action Group on the development project '**Azerbaijan 2020: vision into the future**' was launched, with the Minister of Economic Development leading on implementation. The action group was tasked with developing draft strategies and state programmes to implement the project but so far little involvement from independent experts and civil society has taken place.

Azerbaijan continued cooperation with international partners in the field of **rural development** and special reserve funds were allocated to the executive power to speed up socio-economic development. Agreements were signed with various donors to renovate and improve roads and water supply and sewerage systems in cities. The Cabinet of Ministers ordered the transfer of management of internal water supply and sewerage systems in apartment buildings from ministries and local authorities to the state company Azersu. This was generally considered a positive step in coordinated management. As a result of new, less permissive migration rules in place in Russia (one of the main destinations for Azerbaijani labour migration) overall remittances decreased, with a negative impact on the social situation of families living mostly in rural Azerbaijan.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU was Azerbaijan's main trading partner in 2012.² In 2012 **bilateral trade** flows decreased, compared to 2011, amounting to EUR 17.3 billion. EU exports to Azerbaijan consisted mainly of machinery and transport equipment. EU imports from Azerbaijan consisted mainly of mineral fuels.

There was no significant progress in Azerbaijan's **WTO accession**, which is a pre-condition for Deep and Comprehensive Free Trade Area (DCFTA) negotiations. No meetings of the WTO working party on the accession were convened in 2013. Nevertheless, technical work advanced in 2013 and working party activity resumed in February 2014.

² Data for 2013 was not available at the time of writing.

According to the World Bank classification, Azerbaijan is an ‘upper-middle income’ country, thus not qualifying to benefit from preferential treatment under the EU Generalised System of Preferences (GSP) from February 2014.

On **customs** regulations and procedures, informal obstacles in providing full information to the public on customs tariffs persisted. Corruption within the customs system represented one of the biggest difficulties for both local and foreign businesses. In order to reduce this burden, further progress in e-services is necessary. The State Customs Committee (SCC) took some measures to improve its Risk Management Centre activity. Following the entry into force of the new Customs Code in 2012, the SCC issued a number of implementing normative acts to implement the new rules. A new law on customs tariff came into force in July. It set out rules and guidelines for the applicability of customs tariffs, rules on payment of customs tariffs, customs declaration rules, safeguards for confidentiality of information, the rights and obligations of customs authorities and applicants, and tariff exemptions. The new customs control rules were approved by the government in January 2013.

In the area of **movement of goods** and **technical regulations**, the Standards Institute was restructured in October, into a Standardisation and Certification Institute, with a broader remit including a standards database and management of the national technical committees. In December, Azerbaijan adopted a law on accreditation.

Reforms in the **sanitary** and **phyto-sanitary** (SPS) field progressed slowly, as legal measures such as the amendment to the law of food products remained pending. Conditions set as part of the EU budget support programme relating to food safety and SPS measures have also not yet been met. For example, legislation eliminating the overlap of agencies responsible for food safety has not been passed, and veterinary procedures have not been fully harmonised with standards and procedures set by the World Organisation for Animal Health and the International Plant Protection Convention. In April and July, Azerbaijan provided feedback on the proposed recommendations regarding aflatoxin contamination in hazelnuts by the 2012 European Commission Food and Veterinary Office (FVO) mission to Azerbaijan. In April, the State Committee for Standardisation, Metrology and Patents established a laboratory to detect genetically modified foods in the domestic consumer market.

Azerbaijan advanced slightly, compared with the previous year, to 70th place³ (out of 189 economies) on ease of doing business in the World Bank’s annual report, ‘Doing Business 2014’. The **business climate** in Azerbaijan suffered from issues in obtaining construction permits, getting electricity and trading across borders. Problems continued to be reported with property registration. Further systemic reforms are needed to ensure property rights are protected. Azerbaijan moved up to 39th place (out of 148) in the World Economic Forum’s ‘Global Competitiveness Report 2013-2014’. Although some major improvements were seen, mainly in the areas of macroeconomics, labour market efficiency and innovation, Azerbaijan scores very low in other areas such as institutions, health, primary education, higher education and training, goods market efficiency or

³ Comparison is made with the ‘Doing Business 2013’ ranking, which was adjusted for changes in methodology and any revision of data due to corrections. For more information, see <http://www.doingbusiness.org>.

financial market development. Among the most problematic factors for doing business, the Report lists corruption, tax rates, an inadequately educated workforce, access to financing, tax regulations and inefficient government bureaucracy.

In the area of **financial services**, Azerbaijan transferred the functions of the State Securities Depository to the National Depository Centre (NDC). Calculating and clearing services for securities transactions, which were previously provided by the Baku Stock Exchange, were also transferred to the NDC. The approximation of legislation in the field of securities market to EU legislation is supported by an EU project.

There were no substantial regulatory changes in the areas of **establishment, company law, movement of capital and current payments**.

Other key areas

Tax collection has improved significantly but overall tax revenues are low by international standards, as tax revenues make up just 12% of GDP in Azerbaijan. This ratio decreased in recent years from a peak of 18% in 2007. This could be partly explained by the significant oil-driven GDP growth over this period, but was nevertheless worrying, in particular in view of the heavy reliance of budget expenditure on oil revenues. The amended Tax Code, developed with the support of an EU project, introduced measures to stimulate the increased use of cashless payment operations and new requirements for electronic reporting. It also provided the legal basis for e-auditing and Azerbaijan developed an action plan to introduce this.

Although the third reading of a draft **Competition** Code was planned for the spring session of Parliament, discussions were postponed. Lack of competition legislation is one of the key hindrances to further development of business and to foreign direct investments in Azerbaijan.

Progress was made after the entry into force in 2012 of the law on enforcement of **intellectual property rights** and combating piracy. An Intellectual Property Rights Centre was established under the Copyright Agency in early 2013, and is fully equipped and supported by IT specialists. In early 2013, Azerbaijan increased penalties for infringement of copyright law.

Regarding **statistics**, Azerbaijan continued work on harmonising sector accounts with European standards (ESA 2010) in the area of national accounts. The Statistical Office website has been reorganised to allow for improved dissemination of statistics and better presentation of metadata. The Statistical Office has undergone an ISO certification process for quality assurance.

In the area of **public finance management** (PFM), Azerbaijan largely completed the implementation of the Ministry of Finance action plan 2011-2013. However, issues of transparency and accountability in relation to the budget cycle were not fully addressed. After a serious setback in 2012, the dialogue was resumed on PFM. Disbursements under the ongoing EU budget support programmes are subject to timely development of a credible and comprehensive multiannual PFM action plan based on a public expenditure financial accountability (PEFA) assessment. Following Azerbaijan's official confirmation of its willingness to carry out a PEFA assessment, the World Bank developed, in close

cooperation with the EU Delegation and the Swiss Cooperation Office, a PEFA concept note, which needs the government's approval. The assessment was scheduled to start in March 2014, and is expected to be published in the course of 2014. It will provide the basis for a future comprehensive, clear, time-bound and results-oriented multiannual PFM action plan. There were no publically available detailed **audit** reports of the Chamber of Accounts throughout the reporting period. As part of the Fourth EUROSAI/ARABOSAI Conference on Supreme Audit Institutions, Baku issued a statement supporting the UN General Assembly Resolution on promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions.⁴

The implementation of the Small Business Act for Europe assessment recommendations (published in October 2012) will be reviewed in a second round covering the period 2012-2015. The main weaknesses in development of local **entrepreneurship** include limited new product lines, lack of innovative research and difficulty in long-term access to financial resources. The private sector is increasingly interested in development and recruitment of new staff, and opening regional branches in Azerbaijan and its neighbours. In September, the first European-Azerbaijani Investment Conference successfully took place in Baku, bringing together over 220 mainly SME representatives from more than 12 countries. The Conference was organised in the framework of the EU-sponsored East Invest programme. In August, the European Investment Bank and Azerbaijan concluded the Framework Agreement under which the Bank may start financing projects in the country.

There were no substantial regulatory changes in the area of **public procurement**.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Azerbaijan participated in the EaP flagship initiative on the 2011-2013 **Integrated Border Management** Flagship Initiative Training project and actively engaged with two EU-funded assessment missions in January and March, to prepare for a joint Azerbaijan-Georgia Green Border project. On border security, the State Border Service installed new portal monitors during its upgrade at the Ganja international airport. In April, **Frontex** and Azerbaijan's State Border Service signed a Working Arrangement to enable joint activities on information exchange and risk analyses, training and R&D in border management and border control. The first meeting of the Azerbaijani-Russian Commission on demarcation of the state border was held in Moscow in February and the demarcation process began. An agreement on construction of a bridge over the Samur River was reached during the Russian President's visit to Baku in August. Delineation of the state border with Georgia remains to be completed (with a 280 kilometre-long section of the 480 kilometre-long border already agreed).

EU-Azerbaijan negotiations on **Visa Facilitation and Readmission Agreements** were concluded in March and the two agreements were initialled in July. The Visa Facilitation Agreement was signed at the Vilnius EaP Summit in November. The EU-Azerbaijan Mobility Partnership was signed on 5 December.

⁴ Resolution A/66/209 of 22 December 2011.

The new **Migration Code** came into force on 1 August. It takes into consideration international practice and EU legislation. Parliament adopted the text through a fast-track procedure, without consultation of the wider stakeholder community. In March, Parliament adopted amendments to the law on registration of foreigners, stateless persons and foreigners staying in Azerbaijan for more than 30 days, as well as amendments to the law on registration of residence. Property owners, managers of hotels and other similar facilities must now submit a copy of foreigners' passports within three working days to the relevant executive authorities. In May, Azerbaijan became a participant in the **Asylum Systems Quality Initiative** in Eastern Europe and South Caucasus, aimed at improving asylum procedures and refugee protection. The number of Azerbaijani nationals applying for asylum in the European countries decreased in the last year from 2 299 to 2 015, as reported by UNHCR.

Azerbaijan law enforcement authorities continued cooperation with international organisations in order to build its intelligence capacity to combat criminal activities up to international standards. In this context, a pilot project was launched in Azerbaijan, as part of a new EU initiative on preventing **organised crime** at EU borders. This initiative also includes Moldova, Turkey, and Bosnia and Herzegovina.

The Financial Monitoring Service continued to work jointly with Moneyval in order to address the full range of **anti-money laundering** and counter-terrorism financing issues identified in its Mutual Evaluation Report.

Azerbaijan continued efforts to combat **human trafficking** and continued to implement the 2009-2013 action plan on human trafficking. However, no substantive improvement in prosecution of cases and convictions was seen and Azerbaijan remains a source, transit, and destination country for trafficking in human beings for forced labour and sexual exploitation.

Azerbaijan continued to strengthen its **counterterrorism** efforts and had some success in reducing the presence of terrorist facilitators and preventing their activities. In March, an international conference on strengthening cooperation in the fight against terrorism took place in Baku, with wide international attendance. The government completed the modernisation of its Central Reference Laboratory, a bio-safety facility designed to conduct research on potential bioterrorism threats. As part of the Weapons of Mass Destruction Proliferation Prevention Programme, the government deployed seven radar stations along the Caspian coast to conduct maritime surveillance and detect smuggling. In 2013, Azerbaijan continued to participate in working group meetings of Caspian Sea littoral states which aim to coordinate efforts to fight terrorism, smuggling, drug trafficking and organised crime on the Caspian.

Azerbaijan adopted a new Programme on tackling **drugs** 2013-2018 and expressed interest in establishing a national drug monitoring scheme. Azerbaijan expressed interest to cooperate with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) and appointed a national correspondent to the EMCDDA.

As regards **data protection**, the Council of Europe's Additional Protocol to the Convention for the Protection of Individuals with regard to Automatic Processing of

Personal Data regarding supervisory authorities and transborder data flows remains unsigned. An independent data protection authority has not yet been established.

As regards **judicial cooperation** in civil matters, a number of conventions of the Hague Conference on Private International Law in the field of international legal cooperation and litigation, as well as the protection of children, remain unratified. Azerbaijan applied in 2013 to become Member of the Hague Conference on Private International Law. As regards **judicial cooperation** in criminal matters, the Second Protocol to the Council of Europe Convention on Mutual Legal Assistance in Criminal Matters remains unratified. The Third Additional Protocol to the 1957 European Convention on Extradition and was ratified in January 2014.

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

The first round of EU-Azerbaijan talks on the Common **Aviation** Area Agreement took place in January with participation by the State Aviation Administration and other Ministries. However, later in the year Azerbaijani authorities indicated that the country was not yet ready to join the European Common Aviation Area due to the specific situation of the state owned national carrier AZAL. No follow-up talks have been scheduled to date.

In September, a **Maritime Security Strategy** for Azerbaijan was approved by the President. As part of the EU twinning programme launched in 2012, EU experts supported the State Maritime Administration in their work towards meeting 28 EU Directives on maritime safety.

Azerbaijan Railways announced that the **Baku-Tbilisi-Kars (BTK) railway** would become operational in late 2014, despite frequent reports of possible delays. The BTK railway transport corridor project included construction of the new Kars-Akhalkalaki branch with a length of 98 km, of which 68 km would stretch through Turkey and 30 km through Georgia. Construction of the International Sea Port in Alyat was under way, and the first part of the construction is to be completed by 2015.

There were many notable events in Azerbaijan's **energy** sector during 2013. The Intergovernmental Agreement between Turkey and Azerbaijan on the Trans-Anatolian pipeline was ratified by Turkey in January (with Azerbaijan having ratified it the previous year). In June, the Shah Deniz II (SD II) shareholders' consortium selected the Trans-Adriatic Pipeline as the European supply route for SD II gas. In September, long-term gas sales agreements were signed with nine European companies to supply 10 bcm/year of SD II gas to Italy, Greece and Bulgaria. The signature of these agreements marked an important step towards the Final Investment Decision, which was concluded in December at a ceremony attended by Commissioner Oettinger and several heads of state and government.

Azerbaijan participated in negotiations with Turkmenistan and the EU on the construction of the Trans-Caspian Pipeline. Azerbaijan actively supported the conduct of

an Environmental Scoping Study on the Trans-Caspian Pipeline and in December hosted the second meeting of the Study's Steering Group Committee.

A third meeting under the EU-Azerbaijan Memorandum of Understanding (MoU) in the field of energy took place in Baku in February. The European Commission submitted an action plan to continue implementation of the MoU for endorsement by the Ministry of Industry and Energy. The planned areas of cooperation are greater legal consistency, oil and gas, electricity, renewable energy sources and energy efficiency.

In February, the State Agency for Alternative & Renewable Energy Sources (RES) was re-established as an entity independent of the Ministry of Industry and Energy. Concurrently, the Azalternativenerji company was created under the Agency's responsibility to design, produce, build, operate, and provide infrastructure for the development of alternative and renewable energy sources. The Agency organised a roundtable in November devoted to the first renewable power generation at Gobustan Hybrid Power Station, and confirmed plans to adopt a RES strategy to align Azerbaijan's RES and energy efficiency targets with the those of the EU.

In April, the Ministry of Industry and Energy confirmed that work was continuing on draft laws on gas and electricity, prepared as part of the twinning project. However, the draft laws would still require agreements of the Ministry of Justice, the Ministry of Economic Development, Bakielektrikshebeke JSC and SOFAZ.

An EU-funded twinning project in the field of radiation safety began in January.

Following a break of almost four years after the companies concerned reached agreement, Tengizchevroil resumed oil deliveries to the world markets via the Baku-Tbilisi-Ceyhan pipeline. Up to four million tonnes a year of Kazakh oil is expected to be pumped via the pipeline, in addition to the ongoing shipments of Turkmen oil (of which three million tonnes were transported in 2012).

In September, President Aliyev opened a new shipyard near Baku that is designed to serve the needs of both the Azerbaijani energy and maritime transport sectors.

New EU-funded **climate change** regional projects to assist Azerbaijan were launched in 2013, including Clima East and Climate Forum East.

In the area of **civil protection**, Azerbaijan was intensively involved in the regional flagship Programme for Prevention of, Preparedness for, and Response to natural and man-made disasters (PPRD East). Through the programme the country became better acquainted with the EU Civil Protection Mechanism and improved its connection with the Emergency Response Coordination Centre of the European Commission.

The Ministry of **Environment** made clean and drinkable water a priority in the country. A national target was set to reach good status in 50% of their waters by 2015. Azerbaijan is also concerned by land degradation, and developed reforestation actions along highways. Capacity-building to strengthen environmental governance in the country is provided by technical assistance through the twinning instrument and through EU

regional programmes and initiatives which cover adaptation to climate change, trans-boundary river management, water, environment information systems, forest law enforcement and air quality.

On **information society**, Azerbaijan declared 2013 the Year of ICT, aiming to further develop its ICT market and e-government services. An Information Technologies University was established in early 2013 and the first student admission was held for the 2013-2014 academic year. In February, Azerbaijan launched its first telecoms satellite 'Azerspace-1/Africasat-1a' aiming to provide voice, data, Internet, TV and radio broadcasting services covering eastern Europe, the Caucasus, central Asia and north Africa. In April, a Regulation on the State Foundation for Development of Information Technologies (SFDIT) was approved. SFDIT aims amongst others to provide support to entrepreneurship in the area of ICT, including through the development of a High Technologies Park. A new internet portal (www.e-gov.az) was created for providing e-services to the public, with more than 40 public entities currently connected and 187 types of services offered. In September, the UN General Assembly passed a resolution supporting Azerbaijan's initiative for the establishment of a Eurasian Connectivity Alliance with the International Telecommunication Union (ITU) as a way to improve the development of regional telecommunications transit routes in the Trans-Eurasian region. The implementation of the Trans-Eurasian Information Super Highway (TASIM) project continued

Regarding **audio-visual policy**, no progress was made as regards signature and ratification of relevant Council of Europe instruments.

On **research and innovation**, Azerbaijan increased its participation in the Seventh Framework Programme (FP7) to 25 projects, with a total EU contribution of EUR 1.66 million. A new FP7 project (R2I — Research to Innovation) involving the Cleaner Production and Energy Efficiency Centre was selected for EU funding of around EUR 1 million. It aims to foster research-industry partnerships in the field of energy-efficiency, supporting Azerbaijani innovation capacity and facilitate the commercial use of research results. A new FP7 regional project, the INCONET EaP, involving the National Academy of Sciences was launched in September for a three-year period to prepare for the transition to Horizon 2020 and promote the opportunities for cooperation of this new programme.

Azerbaijan indicated also its willingness to boost the country's participation in the upcoming Horizon 2020 programme through the establishment of a network of National Contact Points and the organisation of a Horizon 2020 launch event in Baku in early 2014.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

Azerbaijan continued to focus on improving its **education** system, and education reforms were identified as one of the three priority areas of the 2014-2017 European Neighbourhood Instrument for bilateral cooperation with Azerbaijan. A new Education Minister was appointed in April, who started by introducing structural changes in the Ministry to ensure efficiency and improve management. Departments for licensing and quality control, internal control, and student exchanges and educational development programmes were established.

A state strategy for the development of education was adopted in October with the aim of improving the quality of education, *inter alia* by introducing new teaching methods and new approaches to assessment, and giving a stronger focus to the needs of the private sector. As of 1 September, the monthly standard salaries for employees of educational institutions and scholarships for students in specialised secondary schools and higher educational institutions increased by 10%. Measures were also taken to improve the quality of school textbooks. The strategy should also increase participation rates for early childhood education, which remains low outside the bigger cities, as well as for vocational education and training (which only benefits 11% of young people). The Ministry of Education established a centre for career planning for students who received education as part of the State Programme on Azerbaijan Youth Education Abroad, in an effort to link education to the labour market. Since 2007, 2 612 students from Azerbaijan have gone abroad for education, of which 787 students in the 2013-2014 academic year.

No substantial modifications in the Azerbaijani **higher education** system took place, as the Minister was appointed in April 2013 and staff are still being appointed. Azerbaijan is currently involved in 30 **Tempus** projects. 13 projects, out of which three projects coordinated by Azerbaijani universities, were selected under the last project call. There is strong Azerbaijani participation in multi-country projects, mainly involving Georgia and Ukraine. In 2013, students and staff from Azerbaijan benefited from 157 scholarships to study at a European higher education institution, under nine new **Erasmus Mundus** partnerships. In addition, eight Masters students were awarded scholarships to take part in Erasmus Mundus joint masters courses of excellence. These included seven additional scholarships awarded under a special window for EaP countries. Since 2007, three institutions and one individual researcher benefited from Marie Curie Actions supporting researchers' training, mobility and career development.

In March, Azerbaijan officially joined the 'eTwinning plus' project for schools supporting collaboration through the use of ICT. 29 schools and 90 teachers from Azerbaijan are registered, and 18 schools are involved in projects so far.

Azerbaijani **youth** and youth organisations continued to participate in the **Youth in Action** programme. For 2013, additional funds were again provided to boost cooperation and exchanges among youth, youth workers and youth organisations in the form of an 'Eastern Partnership Youth Window'. 222 projects were selected in 2013 involving 718 young citizens of Azerbaijan.

Azerbaijan continued to play an important role as a bridge for intercultural dialogue. Baku hosted the World Forum on Intercultural Dialogue in May and the third World Humanitarian Forum in October.

The main developments in health sector reform were the Ministry of Health's adoption of rules for **recruitment of doctors** on a centralised competitive basis, and the appointment of a seven-member Commission to oversee this process. Parliament amended the law on **public health** protection, passing measures aimed at discouraging corruption.

Policy-makers from Azerbaijan also participated in a TAIEX multi-country workshop on the EU *acquis* on prevention and control of communicable diseases.