



WHITE PAPER 2025



American Chamber of Commerce in Azerbaijan
(AmCham)



AMCHAM

AMERICAN CHAMBER OF
COMMERCE IN AZERBAIJAN

**American Chamber of Commerce in Azerbaijan
White Paper - 2025**

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Dear readers of the White Paper, esteemed members, and valued partners,

As the American Chamber of Commerce in Azerbaijan (AmCham Azerbaijan), we are pleased to present the 2025 edition of the White Paper – another important step in our mission to support the country’s economic development and the continuous improvement of its business environment!

This publication reflects the collective perspective, priorities, and practical recommendations of the private sector, developed in alignment with the new stage of Azerbaijan’s economic development amid rapidly evolving global economic dynamics. In recent years, large-scale economic reforms, the strengthening of public–private sector cooperation, and the adoption of

modern governance approaches have contributed to a transformative shift in the country’s business ecosystem. This cooperation model has become one of the essential foundations of economic modernization, enabling the creation of a more competitive, transparent, and innovation-driven environment. As AmCham Azerbaijan, we consider it a priority to contribute to this partnership, to provide solution-oriented proposals based on practical private-sector experience, and to remain a reliable partner in the implementation of economic policy.

Prepared biennially, the White Paper consolidates sector-specific developments, emerging challenges, and opportunities observed within the business environment. This publication serves both as a platform for private sector thought leadership and an institutional tool that supports dialogue with government agencies while contributing to the implementation of the country’s reform agenda. In this context, the 2025 White Paper is not merely a compilation of recommendations – it represents the meaningful participation of the private sector in shaping Azerbaijan’s long-term economic development strategy.

This year’s edition includes 129 recommendations developed by 11 committees and 1 working group. The proposals cover a wide range of strategic areas, including taxation and customs, banking and finance, insurance, supply chain and logistics, fast-moving consumer goods, human resources and labor relations, legal and compliance matters, risk management, sustainable development, the digital economy and innovation, tourism and hospitality, as well as construction and real estate.

All recommendations featured in the White Paper have undergone a multi-stage professional review and refinement process. Initially consolidated by AmCham Azerbaijan’s committees, these proposals were further discussed with relevant

Letter from the President

government authorities to ensure alignment with their perspectives and sectoral approaches. This process ensures that the recommendations reflect both the outlook of the business community and the realities inherent in the country's institutional governance framework.

We extend our sincere gratitude to the chairs of the committees, the members of AmCham Azerbaijan, the specialists involved, and all organizations that contributed to the preparation of this document. We also express our deep appreciation to the relevant government agencies that participated in the discussions, shared their views, and demonstrated openness to cooperation throughout the process. This joint approach has enabled the White Paper to become a purpose-driven, impactful, and practical resource addressing real needs.

We are confident that the recommendations presented in the 2025 White Paper will contribute to further improving the business environment, enhancing economic activity, strengthening the investment climate, and advancing long-term sustainable development goals. AmCham Azerbaijan will continue to serve as a trusted partner that conveys the voice of the private sector, supports public-private cooperation, and contributes meaningfully to the economic progress of our country.

We hope that the 2025 White Paper will be of great value to all readers, and we thank you for your interest in this publication.

Sincerely,

*Dayanat Sadullayev,
President of AmCham Azerbaijan*

INTRODUCTION

Introduction

The American Chamber of Commerce in Azerbaijan (AmCham Azerbaijan) continues to steadily expand its activities as the leading private-sector platform supporting the development of the country’s business environment, institutional strengthening, and sustainable economic progress. Since 1996, the Chamber has acted as a representative of both local and foreign business communities in the country and today unites more than 280 companies operating across various sectors of the Azerbaijani economy. Owing to its broad membership base, AmCham plays an important role in enhancing public–private sector partnership, establishing effective dialogue between business and government, and facilitating the integration of advanced international practices into the business environment. The White Paper, prepared by AmCham Azerbaijan every two years, is widely recognized as a traditional policy document contributing to the development of the national economy. The purpose of the document is to systematically present the private sector’s collective position, priorities, and sector-specific proposals aimed at further improving the business environment in Azerbaijan. Each edition is developed with the involvement of the Chamber’s committees, working groups, Board of Directors, and the broader membership community, and is intended to provide practical, targeted, and impactful contributions to the country’s economic agenda. Each proposal included in the White Paper is prepared in accordance with a unified approach and consists of two main components. The “Introduction” section provides a concise yet substantive overview of the current situation in the relevant area, practical challenges, factors affecting the business environment, and the need for change. The “Recommendation” section outlines concrete measures to address the issue, including proposed legal or institutional reforms and practical implementation mechanisms. This structure ensures both the justification of recommendations and clarity from an implementation perspective, thereby enabling a unified methodology for the document.

Sector:	No. of proposals:
Banking, finance, and insurance	26
Tax and customs	25
Legal and compliance	18
Fast-moving consumer goods	9
Innovation and digital economy	9
Human resources and labor	8
Supply chain	8
Marketing, communications, and business development	7
Sustainable development and corporate impact	4
Total	114

The 2023 edition of the White Paper included a total of 114 recommendations. Their sectoral distribution was as follows:

Analyses indicate that approximately 30% of the recommendations have been partially or fully implemented. This outcome reflects the effectiveness of cooperation with public institutions and demonstrates the continued positive trend of incorporating private-sector concerns into the decision-making process.

The current 2025 edition of the White Paper has been developed with broader sectoral coverage, a larger number of initiatives, and a stronger strategic outlook. This year, a total of 129 recommendations, submitted by 11 committees and 1 working group, encompasses key sectors of the national economy. These recommendations take into account recent developments in the business environment, evolving needs, and the challenges facing Azerbaijan at its new economic stage against the backdrop of accelerated global transformation, both in sector-specific and macroeconomic contexts. The sectoral distribution of these recommendations is as follows:

Sector:	No. of proposals:
Innovation and digital economy	32
Banking, finance, and insurance	18
Tax and customs	18
Fast-moving consumer goods	14
Supply chain	10
Human resources and labor	9
Travel, hospitality, and tourism	9
Legal and compliance	8
Marketing, communications, and business development	4
Sustainable development and corporate impact	3
Risk management	2
Construction	2
Total	129

The analysis of data collected over the previous period demonstrates that targeted measures in a number of key areas are particularly essential for further improvement of the business environment. In this context, the following issues emerge as primary priorities within the development agenda:

1. Enhancing digital data exchange between banks and public institutions and advancing the Open API framework;
2. Integrating public services into the banking ecosystem and expanding service provision through mobile banking;
3. Optimizing costs and improving data accessibility for credit information, rating infrastructure, and financial markets;

4. Strengthening risk-based supervision, simplifying compliance processes, and introducing third-party trust mechanisms;
5. Harmonizing capital adequacy, investment fund, and deposit system frameworks with international standards;
6. Improving risk assessment, product diversity, and agency mechanisms within the insurance market;
7. Applying circular economy principles and defining strategic directions for the green economy;
8. Developing green transport, including e-mobility and charging infrastructure.
9. Modernizing regulatory requirements on food safety, ensuring process transparency, and improving real-time permitting systems;
10. Enhancing the efficiency of customs control and transit procedures for fast-moving consumer goods;
11. Improving labeling, allergen standards, hygiene requirements, and accelerating laboratory processes;
12. Updating the corporate law framework, including enhancement of shareholder relations and governance standards;
13. Establishing specialized courts within the judicial system and optimizing procedural timelines;
14. Improving transparency and institutional capacity in the protection of intellectual property rights;
15. Strengthening digital infrastructure resilience, regional connectivity, and developing standardized frameworks for data centers;
16. Expanding API-based data exchange, open data initiatives, and integration frameworks for digital government products;
17. Promoting the application and governance of artificial intelligence, the use of AI models in education, and establishing international cooperation platforms.
18. Enhancing mechanisms for cybersecurity, digital trust, and preparedness for quantum technologies;
19. Developing digital human capital, expanding training and bootcamp models, and improving certification and lifelong learning frameworks;
20. Introducing tax incentives for the startup ecosystem, attracting investment, and establishing new legal structures;
21. Modernizing education, standards, and the advertising environment in the field of public relations and communications;
22. Defining requirements for business continuity planning and improving risk-based supervision frameworks;
23. Introducing new approaches to managing fraud risks, supplier risks, and operational risk assessment;
24. Updating service standards in the tourism sector, improving the visa regime, and promoting tourism through international events;
25. Simplifying customs procedures, establishing alternative expert laboratories, and enhancing competition in logistics;

26. Strengthening transparency, objectivity, and competition principles in public procurement, and improving procurement requirements;
27. Simplifying mechanisms related to tax administration, VAT, and corporate income tax, and implementing incentive-based policies;
28. Amending the Customs Code, increasing transparency in certification and temporary import mechanisms;
29. Reducing project delay risks in the construction sector and improving frameworks related to mortgage mechanisms, among others.

Recent economic developments in the region, as well as the expansion of transportation and logistics corridors, have created significant strategic opportunities for Azerbaijan. In particular, the new geo-economic landscape emerging in the South Caucasus has further reinforced the country's role within transit, trade, and investment routes, facilitating stronger linkages between domestic and foreign markets. These new corridors not only broaden transport capabilities but also offer additional prospects for new business cooperation models, diversification of production and service sectors, interregional integration, and enhanced competitiveness.

These shifts, being among the key factors shaping the long-term development trajectory of the business environment, have a substantial impact on the context of the 2025 White Paper. At the same time, the recommendations presented within the document derive from the needs of multiple sectors and, in parallel with the opportunities arising from new economic corridors, aim to support systematic improvements across various areas of the national economy.

Moreover, the rapid advancement of artificial intelligence, the transition of global competition into a new phase, and the expansion of the digital economy impose new requirements on business models, operational efficiency, and governance systems in Azerbaijan. For this reason, proposals related to AI, digitalization, and innovation have become one of the core components of the 2025 White Paper.

We firmly believe that the initiatives put forward within the framework of the 2025 White Paper will be carefully reviewed by the relevant public institutions, and their implementation will bring additional momentum to the modernization of Azerbaijan's economy. The realization of the recommendations reflected in this document – representing the unified position of the private sector – will make a vital contribution both to the development of a more enabling business environment and to the strengthening of sustainable and inclusive economic growth in the country.

I BANKING,
FINANCE,
AND INSURANCE

A. Banking

1. Granting customers the right to choose their bank for salary and pension payment cards

The current practice of issuing salary and pension payment cards exclusively through certain banks limits healthy competition in the market. Under such conditions, banks holding dominant positions are able to dictate terms to customers, while other banks face difficulties entering this segment. As a result, one group of banks effectively shapes the market, while others are forced to operate according to the rules set by them. This situation leads to higher service fees for citizens and restricted freedom of choice.

This practice contradicts the principles of “free and fair competition” enshrined in the Competition Code of the Republic of Azerbaijan, as well as Article 14.2 of the Law “On Protection of Consumer Rights”, which guarantees the consumer’s right to freely choose services. According to the law, directing a consumer to a specific service or provider, thereby restricting freedom of choice, is prohibited.

In this context, restricting the issuance of salary and pension cards to a limited number of banks may be viewed as a de facto limitation on consumer choice. Allowing individuals to select their own bank would enable normal market forces to operate more effectively.

Such an approach would give citizens the ability to choose providers based on service quality, transparency and financial conditions, while at the same time incentivising banks to improve efficiency, customer service and innovation in a genuinely competitive environment. This, in turn, would enhance both consumer welfare and the long-term competitiveness of the banking sector.

Recommendation:

It is therefore recommended that the relevant public authorities adopt arrangements ensuring that the choice of banks for salary and pension payments in the public sector is guided by the free choice of citizens and the principles of fair and open competition.

2. Digitalization of state–bank relations: data transfer and development of Open API platforms

Neighboring countries Turkiye, Russia, and Kazakhstan have already implemented OPEN API technologies, enabling banks to provide users with real-time, direct, and secure access to personal data stored in government databases (such as tax obligations, administrative fines, social status, real estate, and vehicle information) through their digital platforms.

In Azerbaijan, the legal foundation for this approach already exists. Under the Law “On Credit Bureaus,” mechanisms are in place allowing the sharing of a customer’s credit history with third parties with the customer’s consent. The same principle can be applied to enable secure data exchange between banks

and state information systems. This would serve two key purposes: saving time and resources for citizens, by minimizing paperwork and in-person procedures; and improving the accuracy of customer information and the quality of decision-making within banks.

Recommendation:

It would be appropriate to establish interoperable data-exchange mechanisms enabling the secure and centralised transmission of information held in state information systems through OPEN API technologies. Within this framework, banks could integrate with the relevant state databases on the basis of a customer's written or electronic consent, allowing real-time verification of tax, administrative, social, legal and other relevant data.

All data-transfer processes should be designed in strict accordance with the principles of data minimisation, purpose limitation and security, and must fully comply with national personal-data protection legislation as well as internationally recognised information-security standards. Such an approach would facilitate digital cooperation between public authorities and the banking sector, improve operational efficiency and enhance the quality and reliability of data-driven decision-making.

3. Enabling banks to become a “primary digital gateway” through the integration of public services into mobile banking applications

Although a significant portion of public services in the Republic of Azerbaijan has already been digitalized, citizens are still required to physically visit ASAN Service centers and wait in line to access some services such as renewing driver's licenses, registering vehicles, obtaining official certificates, or paying state fees. This current approach results in lost time for citizens and additional administrative costs for the state.

Integrating public services into mobile banking applications would eliminate the need for citizens to travel to service centers, increase the daily usage rate of banking apps, and effectively turn banks into the country's “primary digital gateway.” As a result queues at public service centers would be significantly reduced, the share of e-services in overall public service delivery would increase, real-time statistical data could be collected more efficiently, and the need for additional administrative staff and resources would diminish.

International Practice:

Bank / Super-App	Integrated Government Services	Usage Indicators
Kaspi.kz	≈ 40 services – digital ID, driver's license renewal, online transfer of vehicle ownership, business registration	• 9.6 million users accessed the <i>GovTech</i> section in 2022 via Kaspi.kz
Halyk Bank	48–52 services – driver's license reissuance, online queue booking for the Public Service Center (analogous to ASAN Service)	• Access to 48 services; 5.7 million transactions completed in H1 2023 through Halyk Bank

The example of Kazakhstan clearly demonstrates the success of this model. Within the Kaspi Bank super-app ecosystem, the bank has become the primary distributor of government services, with over 10 million citizens now using digital documents through the platform. Reaching nearly 75% of the population, Kaspi Bank has significantly improved citizen satisfaction while enhancing the efficiency of public service delivery. Applying a similar approach in Azerbaijan through the integration of ASAN Service APIs into mobile banking applications could deliver substantial benefits to citizens, the banking sector, and public institutions within a short period of time.

Recommendation:

AmCham recommends the establishment of the necessary technical and legal framework to enable the integration of public services into mobile banking applications.

In this context, it would be appropriate to develop mechanisms allowing for the secure and phased integration of government digital service platforms with banking applications, to set unified security and data-protection standards for data exchange, and to ensure that any transfer of personal data takes place solely on the basis of the user’s written or electronic consent.

Such an approach would strengthen the role of banking applications as a primary access point to everyday digital services, while also improving the efficiency of public service delivery and reducing the overall administrative burden.

4. Optimization of data access costs via ASAN Finance and the Azerbaijan Credit Bureau (ACB) information platforms

Under current regulations, banks are required to pay a separate fee for each data request made through the ASAN Finance and Azerbaijan Credit Bureau (ACB) platforms in order to obtain customer information such as employment status, pension details, taxpayer ID (TIN), and credit history. At present, these fees

amount to 2.36 AZN for employment and pension data; 1.09 AZN for taxpayer ID (TIN) verification; 1.18 AZN for credit data via ASAN Finance; and 1 AZN for additional data from ACB.

As a result, each loan application or product registration generates an additional cost of approximately 3.5–5 AZN per customer, which reduces operational profitability, particularly for retail lending and microcredit products. In many cases, these costs are passed on directly to customers, thereby negatively affecting financial accessibility. In contrast, in several CIS countries such as Russia, Kazakhstan, and Belarus, banks can access equivalent data free of charge and in real time through direct integration with relevant state information systems. Reducing data access costs would not only enhance operational efficiency but also enable more accurate risk assessment and fairer pricing of financial products.

Recommendation:

In light of the additional financial burden placed on both banks and customers by the fees charged for access to data provided through ASAN Finans and Azerbaijan Credit Bureau (ACB), it is recommended that these fees be reduced and recalibrated on a more flexible and proportionate basis.

Lowering these fees would help optimise banks' operating costs, encourage wider use of the relevant data and improve the accessibility of digital financial services, thereby supporting greater financial inclusion.

5. Optimization of customer due diligence (CDD) measures and the introduction of a third-party reliance mechanism

To enhance the effectiveness of Azerbaijan's AML/CFT regime, it is essential to reduce the excessive bureaucratic burden arising within customer due diligence (CDD) measures and to ensure a balanced approach to sectoral risks. Under the current circumstances, both banks and other obligated entities apply extensive documentation requirements and repetitive checks during the customer identification process. This not only slows down operational procedures but also, in some cases, results in customer dissatisfaction.

As envisaged under Article 5 of the AML/CFT Law and FATF Recommendation 17, the principle of reliance on third parties, including the sharing of customer information within this framework, could simplify the process and eliminate redundant checks. This mechanism holds significant potential for reducing duplication and the operational burden in the implementation of CDD measures. However, several obstacles – such as the low quality of CDD implementation in the non-bank sector, legal uncertainties related to the sharing of commercial and professional secrets, and the absence of a secure technological infrastructure for information exchange – substantially limit the practical application of this mechanism. Moreover, for this mechanism to function effectively, non-bank obligated entities capable of acting as third parties (e.g., notaries, real estate intermediaries, lawyers, and others) should adhere to higher standards in the application of CDD measures.

Recommendation:

The experience of advanced jurisdictions in implementing the third-party reliance mechanism and effectively applying international standards in this field should be studied, and legal and institutional frameworks should be established to ensure mutual recognition and exchange of customer information among banks and other obligated entities.

6. Improving the registration and verification mechanisms for family farms

The activities of family farms in the Republic of Azerbaijan are governed by a special legal regime. Under Article 9.4 of the Law of the Republic of Azerbaijan «On Family Farms», a family farm is treated as an entrepreneurial entity only where its annual turnover exceeds the upper threshold established by the relevant executive authority. Accordingly, within the prescribed turnover limits, family farms are legally entitled to operate without registration as taxpayers (TIN holders).

At the same time, Article 8.1.6 of the same Law expressly requires family farms to be registered with the relevant municipality of the settlement in which they operate. In practice, however, there are no unified, standardised or functional registration mechanisms to ensure the effective implementation of this statutory obligation.

Significant difficulties are encountered in obtaining certificates and confirmations issued by municipalities for the registration and verification of family farms. In many cases, such documents are either not issued at all or are provided in non-standardised formats that do not meet uniform requirements, which undermines their legal reliability and practical acceptance. As a result, although registration is required by law, its implementation is not ensured in a systematic or predictable manner.

These challenges are further compounded by the fact that the normative threshold for annual turnover has not been revised for a prolonged period. The current threshold was set in 2006 and has not been reassessed in light of subsequent changes in economic conditions, price levels and the market value of agricultural products. This creates a growing discrepancy between actual turnover levels and the regulatory thresholds, increasing legal uncertainty as to the status of family farms.

Recommendation:

To address the gap between the existing legal framework and its practical application, it is recommended that the following measures be considered:

- the introduction of unified, standardised and legally reliable documentation for the registration and verification of family farms at the municipal level;
- the organisation of the registration process in a manner that is accessible, clear and workable for farmers, while reducing divergent local practices;
- the introduction of centralised and, where possible, digital registration mechanisms for family farms; and
- the reassessment of the regulatory act establishing the upper annual

turnover threshold, taking into account current economic conditions. These measures would help to strengthen the effective implementation of the legal regime governing family farms, improve transparency in their registration and expand their access to formal institutional and financial mechanisms.

7. Review of mortgage fund credit limits and lending conditions

The mortgage lending system in the Republic of Azerbaijan provides long-term financing opportunities that help citizens access housing. However, in recent years, a sharp increase in real estate prices has put the credit amounts and limits established by the Mortgage and Credit Guarantee Fund (MCGF) out of alignment with actual market conditions.

Currently:

The maximum amount for standard mortgage loans is **150,000 AZN**;

The maximum amount for preferential (concessionary) mortgage loans is **100,000 AZN**.

At the same time, the average housing prices are as follows:

- In central districts of Baku: 2,500–3,000 AZN per m²;
- In Absheron and surrounding areas (for registered properties): 1,400–1,600 AZN per m².

Based on these figures, a 150,000 AZN mortgage allows citizens to purchase:

- Only 50–55 m² of housing in central Baku;
- Approximately 100 m² in suburban areas.

Most properties eligible for mortgage financing currently consist of social-type new constructions, where the average price per square meter also ranges between 2,500–3,000 AZN. Prices in older residential buildings (e.g., “Leningrad”, “Kiev” or post-1970 buildings) have also increased sharply – for instance, a three-room apartment valued at 85,000 AZN in 2017 is now worth over 150,000 AZN. Even in rural and peri-urban areas, price growth of 30–40% has been observed.

This dynamic significantly reduces citizens’ ability to purchase housing and limits banks’ capacity to offer mortgage products that meet real market demand.

Recommendation:

Updating the mortgage limits and conditions would help restore balance between supply and demand in the housing market, expand access to home ownership for young families and middle-income citizens, and stimulate mortgage circulation and liquidity in the banking sector. To achieve these objectives, it is recommended that the Mortgage and Credit Guarantee Fund (MCGF) implement the following measures:

1) Revision of credit limits:

- Raise the maximum limit for standard mortgage loans to **250,000 AZN**;
 - Raise the maximum limit for preferential mortgage loans to **150,000 AZN**.
- 2) Annual indexation mechanism:** Ensure automatic annual adjustment of mortgage limits in line with real estate market price increases and inflation indicators.
 - 3) Regional differentiation:** Apply different limits for Baku, Absheron, and regional areas. For example, implement a 1.2 multiplier for Baku and Absheron to reflect higher property prices.
 - 4) Expansion of the banking sector's role:** Increase the guarantee mechanisms and resource allocation limits directed toward bank mortgage portfolios to enable broader participation of commercial banks in mortgage lending. The MCGF should raise the annual funding limits allocated to banks and introduce a flexible quota system for distributing resources between preferential and standard mortgage loans.

B. Finance

1. Improving remote KYC regulation

Remote KYC without a video call is becoming more common. This approach is taken by investment platforms and fintechs in particular in order to streamline customer registration. In international practice there is no requirement for a video call during standard onboarding (e.g., CFD's, stock transactions, etc.). In some cases document upload can be complemented with a biometric selfie (with or without movement).

Video calls are typically used in KYC for enhanced security and compliance, especially when dealing with high-risk profiles, complex products (e.g., derivatives, private placements) or larger transactions. They are used for liveness verification to ensure that a person is real and present, which helps to prevent identity fraud or impersonation.

In Azerbaijan SIMA is recognized as an advanced electronic signature system, which allows for biometric and liveness verification of the user.

Recommendation:

It is recommended to allow the use of remote or digital know your customer (KYC) mechanisms for investment services, including the use of approved biometric identification tools such as SIMA, with the exception of high-risk customers and large-scale transactions. Such mechanisms may be implemented within a risk-based and phased transition framework, taking into account the existing level of institutional and technological readiness.

2. Extending tax incentives for listed companies

Many countries promote tax incentives to encourage companies to access capital markets and become publicly listed. These incentives aim to reduce the cost of capital, improve transparency, and stimulate long-term investment. By offering fiscal benefits such as tax deductions, exemptions, or reduced rates public offerings have become more attractive to businesses.

Recommendation:

- 1) Corporate income tax reduction for listed companies with a certain level of free float rate;
- 2) Exemption on capital gains tax when companies issue shares through an IPO or secondary offering with a certain level of free float commitment;
- 3) Tax incentives for green bond issuers in order to stimulate ESG and sustainable financing.

3. Establishing rating agencies

Rating agencies are required to evaluate the solvency and default risks of listed bond issuers. The availability of ratings will boost investor confidence in the stock

market. Moreover, since the services of reputable foreign rating agencies are expensive, a local rating agency seems preferable in this regard.

Recommendation:

The appropriate infrastructure to set up rating agencies should be put in place.

4. Amendments to the Law of the Republic of Azerbaijan “On Investment Funds” and alignment of the Law with international standards

Investment funds are regarded as professional stock market participants. Therefore, the presence and operation of this kind of fund ensure the growth of the financial markets. It should be highlighted that the absence of these funds, which are primary participants in the financial market, has a detrimental effect on the growth of the capital market and causes domestic markets to deviate from the globally established norms.

Recommendation:

The law governing the operations of investment funds should be improved and brought into compliance with international standards to speed up market growth.

5. Integrating the domestic depository system with leading international depository and clearing systems

Responding to modern challenges is one of the top concerns for capital market development in the current era. In recent years, several countries have virtually eliminated the barriers that once prevented international investors from accessing their domestic capital markets. Most of Azerbaijan’s neighboring countries have almost completely eliminated the restrictions in this area and are working with the top clearing businesses globally.

This collaboration establishes a link between the domestic depository holding the bonds and the international depository, establishing the necessary framework for information sharing as well as allowing foreign investors to buy bonds issued on the domestic market from abroad. Currently, the lack of such integration prevents the flow of foreign capital into Azerbaijan.

Recommendation:

Ensure the integration of markets through cooperation with well-known international clearing companies that enable the integration of domestic markets with international markets.

C. Insurance

1. Proposals on insurable interest

The main reason for introducing the concept of insurable interest was to protect insurers from financial fraud and to distinguish between gambling-type risks and genuine insurance risks. In the absence of insurable interest, opportunistic individuals might insure property or interests with a high likelihood of loss and then collect the insurance payment when the event occurs. For this reason, the concept was introduced in the mid-18th century as a requirement for the validity of an insurance contract – namely, that there must be an insurable interest, defined as the possibility of a person suffering financial loss if the insured event occurs. While this issue was more topical in earlier centuries, as highlighted in many academic articles, with the expansion of insurance company operations the practical importance of insurable interest has diminished in its original form. Large insurance companies can now verify the existence of insurable interest at the underwriting stage and simply refuse to conclude a contract if it does not exist.

As noted above, the purpose of insurable interest is to protect the rights of the insurer. However, in its current wording in our Civil Code, the concept restricts insurers' ability to introduce new products rather than protecting them. In particular, the existence of a closed list of insurable interests in life insurance obliges insurers to design products only in accordance with that list, preventing the introduction of alternative products to the market.

Recommendation:

Considering the above and based on an analysis of international practice, we propose that the relevant provisions of the Civil Code be revised as follows:

“884.4. The insured person is a party to the insurance contract who pays the insurance premium.” ~~and has an insurable interest in taking out insurance for the insurance object.~~

*“884.6. The beneficiary is the person to whom the insurance payment is to be made under compulsory insurance laws or the insurance contract and who **has an insurable interest in taking out insurance for the insurance object.**”*

“889.1. Insurable interest is an interest that is conditioned by the possibility of a person suffering financial loss if the insured event occurs. ~~and which forms the basis of that person's right to insure the insurance object.~~

*“889.2. The existence of insurable interest is recognized by law or by civil-law contract. If there is no such recognized connection between the person and the subject of insurance, insurable interest is deemed not to exist. **The existence of insurable interest under an insurance contract must be monitored by the insurer.***

*“889.3. A ~~policyholder's~~ **person has the right, established by law,** to insure his or her own life and the life of his or her spouse, parents, children ...”*

Explanation of the amendment to Article 884:

In many jurisdictions, insurable interest is sought not between the policyholder and the insured person, but between the beneficiary and the insured person. This is because the purpose of insurable interest is primarily to prevent insurance fraud, which arises at the stage of payment of insurance benefits. The policyholder is the party that pays the insurance premium; therefore, we propose that insurable interest be linked to the policyholder and the beneficiary.

Explanation of the amendment to Article 889.2:

In many countries (especially the UK and European states), it is the direct obligation of the insurer to check insurable interest. From the nature of insurance, it is also clear that this requirement is in the insurer's own interest. By adding this provision to the Civil Code, we assign insurers a duty to verify the existence of insurable interest when concluding a contract. In that case, if an insurer concludes an insurance contract without insurable interest, this may be identified as a breach during on-site inspections by the supervisory authority. As a result, insurers will exercise stricter control over insurable interest in different products, preventing abuse, and in doubtful cases they will also be able to agree specific situations with the Central Bank in advance.

Explanation of the amendment to Article 889.3:

First of all, it should be noted that in the legislation of most of the countries we examined (the Baltic states, European countries, CIS states, etc.) we did not encounter a specific closed list regarding insurable interest in life insurance. We understand that in a country such as Azerbaijan, where insurance is still developing, such a list may be needed at an early stage. For this reason, we propose two key changes to this provision:

(i) Initial expansion of the list: under international practice, insurable interest is also recognized in respect of the lives of the policyholder's siblings, grandchildren, grandparents, guardians, and business partners. Such contracts are offered by life insurance companies. Therefore, we propose to expand the list to include these categories. In addition, life insurance is one of the tools for improving welfare, and life and health insurance products offered by employers for the families of their employees increase both trust in insurance and social well-being. Similar products exist worldwide. Therefore, we propose to extend the list to include the family members of employees as well.

(ii) Insertion of the words "by law": Article 889.2 of the Civil Code states that insurable interest arises "by law or by civil law contract." By inserting the words "by law" into Article 889.3, we confirm that the list in that article constitutes insurable interests directly determined by law. Beyond that statutory list, life insurance companies may recognize insurable interest "under civil law contracts" in accordance with Article 889.2.

Under compulsory insurance against occupational accidents, companies must insure persons working under service contracts. However, Article 889.3 of the Civil Code does not reflect this situation in its list of insurable interests. In other

words, although the compulsory insurance law requires such persons to be insured, the Civil Code does not recognize insurable interest in this respect. Our proposed amendments to the Civil Code would remove this inconsistency. Under the new wording, insurers would be required to monitor the existence of insurable interest arising from civil law contracts, which would also prevent abuse.

2. Profit-sharing insurance

In global practice, insurance contracts based on profit-sharing currently constitute a major segment of the insurance market. Unfortunately, due to a relatively underdeveloped legal framework, this practice cannot yet be applied in our local insurance market. Under profit-sharing insurance contracts, it is not only profit that is shared but also, as a key feature, the possibility of sharing losses. We understand that moving to loss sharing may be risky before capital markets are ready and before clients' experience in investment management is sufficiently developed. However, we also believe that the supervisory authority could establish certain limits (such as a minimum guarantee percentage, etc.) in this regard. For this reason, as an initial step, we propose to introduce the following amendments to Article 917 of the Civil Code in order to allow loss-sharing under life insurance contracts in the legislation as well.

Recommendation:

We recommend giving Article 917 the following wording:

“917.1. Where an insurance contract is concluded on the condition of sharing profit and loss, the rules for the distribution of profit and loss shall be specified in a life insurance contract which provides for the insured’s participation in the insurer’s profit. Under such contracts, where loss occurs, it shall be possible, in the event of an insured event or termination of the contract, for the payment made to the insured to be less than the total amount of premiums paid under the insurance contract.”

We further propose adding the following:

“917.3. Where periodic insurance payments under life insurance are stipulated for an indefinite period, or where profit and loss sharing under the insurance contract is envisaged, the method of specifying the insurance sum shall be determined by agreement between the parties in the insurance contract.”

Under Articles 900 and 902 of the Civil Code, the insurance sum must be specified in the insurance contract. In annuity insurance, insurance payments may continue until the death of the insured person. In such cases, it is not possible to specify any fixed insurance sum or to determine the maximum amount of the insurer’s obligations. In profit-sharing products, the investment tools and funds to which premiums are allocated may yield unpredictable returns and/or losses. In such

circumstances, insurers in international practice do not specify a fixed upper limit as the insurance sum and leave the upper bound open. Therefore, we propose that the method for determining the insurance sum in such contracts should be regulated by the parties' agreement in the insurance contract.

3. Expansion of the insurance agent institution

The institution of insurance brokerage is regarded worldwide as one of the main pillars of the insurance business. Insurance brokers constitute a key sales channel and play an important role in increasing access to insurance, particularly for people living in rural regions. With the development of technology and the expansion of ecosystems, the traditional understanding of the insurance broker has also begun to change. Many insurance products can now be offered to customers through non-traditional insurance agents (online marketplaces, fintechs, etc.) operating within broader ecosystems. Products sold through such non-traditional agents typically differ in that the sums insured and premiums are relatively low, policy issuance and claims-handling processes are simpler than in traditional insurance, and the products are sold through alternative sales channels, often using digital methods. Alternative sales channels do not usually include bank branches, traditional insurance agents and brokers; instead they comprise telecom operators, banking apps, supermarkets, NGOs, online marketplaces and similar entities. Through such non-traditional agents, insurance coverage is delivered more effectively to people living in remote regions.

The main target group for non-traditional agents is often low-income populations, and traditional sales channels are typically not interested in serving lower-income markets. This creates difficulties in delivering insurance via traditional channels to those segments. By contrast, the model of non-traditional agents is based on minimizing operating costs and facilitating access for target groups; therefore, using innovative and alternative sales channels is an inherent need for these agents. It should be noted that such brokers generally operate without a license. The licensing process normally requires extensive training and certification fees, which are not aligned with the nature of their core business. For this reason, in some countries non-traditional insurance agents are either not licensed at all or are subject to reduced regulatory requirements. In other jurisdictions, in order to protect consumer rights, training and minimum technical knowledge requirements are imposed for the regulation of their brokerage activities.

We are aware that the supervisory authority is planning to implement reforms related to the institution of insurance agents, including the addition of certain provisions concerning the activities of unlicensed insurance agents. In this context, applying a more flexible approach specifically toward the intermediaries mentioned above would make a significant contribution to the expansion of the insurance market. It should be noted that this approach differs from the concepts of tied and non-tied insurance agents; for example, a supermarket could act as an intermediary without being affiliated with any particular insurance company.

Therefore, explicitly addressing non-traditional intermediaries in the draft amendments envisaged by the supervisory authority with respect to the insurance agent institution would both have a positive impact on insurance accessibility and enable a wider range of players to enter the insurance market.

Recommendation:

A specific provision could be added to the Law of the Republic of Azerbaijan “On Insurance Activity” to regulate this issue, for example:

“Article 83-1. Other persons acting as brokers in insurance contracts

83-1.1. The requirements of Article 83.1 of this Law shall not apply to the following persons:

83-1.1.1. legal entities and individuals engaged in entrepreneurial activity without establishing a legal entity who act as brokers in insurance contracts for which the sum insured is below the limit determined by the Central Bank of the Republic of Azerbaijan;

83-1.1.2. legal entities and individuals engaged in entrepreneurial activity without establishing a legal entity who, within the scope of their core activity, act as brokers in the conclusion of insurance contracts relating to the products or services they offer to their customers;

83-1.2. The rules for supervision and reporting of the activities of the persons specified in Article 83-1 of this Law in the field of insurance brokerage shall be determined by the Central Bank.”

4. Role of life insurance companies in the establishment of private pension funds

Many developed countries operate private pension funds. This approach allows citizens to accumulate savings in both state and private pension funds, thereby strengthening pension provision and contributing to improved social welfare. Such systems not only help ensure financial security in old age, but also reduce the social burden on the state.

The development of a non-state pension system is highly important in terms of reducing the state’s social burden in relation to the elderly and supporting better pension provision for the population. At the same time, private pension funds become one of the main driving structures of financial markets and significantly stimulate capital market development. This, in turn, has a positive impact on the national economy and enables investors and entrepreneurs to operate in a more reliable financial environment.

As an important step towards improving Azerbaijan’s social security system and pension provision, a draft law has been prepared to establish a non-state pension system based on the introduction of private pension funds in our country. The purpose of this draft is not only to strengthen citizens’ pension provision but also to have a positive impact on capital market development. Implementation of the

draft law will increase the efficiency of the social security system, strengthen public confidence in pension funds, and ensure the sustainable development of financial markets.

For this purpose, it is important to take into account the following proposals:

Note 1: We note that detailed discussions with the participation of insurance companies would be preferable in order to determine the practical modalities of these proposals; a joint approach would allow more detailed analysis and recommendations to be prepared.

Note 2: While Proposal 1 below falls directly within the remit of the Central Bank of the Republic of Azerbaijan, Proposals 2 and 3 involve other government authorities to a greater extent. Our expectation from both the supervisory authority and the relevant state bodies is that they will not withhold their support in this area.

Recommendation:

1) **Participation of life insurance companies:** The crucial role of life insurance companies in the process of establishing private pension funds should be emphasized, and their involvement in the system should be envisaged. Life insurance companies, as reliable and experienced financial institutions, can play a key role in encouraging citizens to participate actively in pension savings systems. Their involvement will increase client trust and support the broader and more transparent development of the market.

2) **State support and tax incentives:** The successful implementation of this process requires active state support. The provision of tax incentives, social insurance contribution relief, and other financial stimuli by the state will encourage citizens to increase their savings in private pension funds. Such incentives will not only attract citizens to pension funds but will also reduce the social burden on the state. With state support, pension funds will grow and reach wider segments of the population. This approach will strengthen the soundness of the financial system, increase transparency, and accelerate market development. Detailed analysis and discussion will be needed to determine the level and parameters of state support and tax incentives.

3) **Mandatory participation in non-state pension funds:** In Türkiye, mandatory participation applies in second pillar pension funds. In general, when preparing draft legislation on non-state pension funds, it is necessary to analyze all pension pillar models. Comprehensive reforms are required in this area. In this context, we consider it possible, at an initial stage, to introduce a second pillar pension system in our country as well, with mandatory redirection of contributions. If participation remains entirely voluntary and there are no material tax or state incentives, citizens' interest in such schemes may remain low. In that case, non-state pension funds may fail to achieve their intended goals, namely to relieve the state of long-term social obligations, to promote a culture of saving that improves

citizens' social welfare, and to contribute to capital market development through the investment of accumulated funds.

Considering the priority of these three issues, as noted above, it remains essential to conduct detailed analysis before the draft law is adopted.

5. Related-party transactions under the Law of the Republic of Azerbaijan “On Insurance Activity”

Under Article 70.1.2 of the Law of the Republic of Azerbaijan “On Insurance Activity”, an insurer may conclude transactions with its related parties only where the aggregate value of such transactions does not exceed 10% of the insurer's own funds.

We note that both local legislation and international practice require disclosure of related-party transactions and approval of such transactions by the relevant decision-making bodies of the company. Related-party transactions may pose various risks for companies. However, a review of several foreign legal systems (e.g. China, India, Germany, France, the USA, Russia, Kazakhstan and others) shows that the regulation of related-party transactions in those countries is not as restrictive as under the Law “On Insurance Activity”. In particular, it is not common to impose limits on the aggregate value of related-party transactions as a percentage of the insurer's funds. This indicates that more flexible approaches to related-party transactions are applied abroad, which may better support the broader development of local markets and the insurance sector.

When we compare the above-mentioned aspects of foreign legislation with the provisions currently in force in Azerbaijan, we see that both reporting requirements and internal governance approval thresholds for related-party transactions are already regulated in our national law:

– Articles 49-1.2 and 49-1.3 of the Civil Code of the Republic of Azerbaijan stipulate that where the value of a related-party transaction equals or exceeds 5% of the legal entity's assets, such a transaction must be concluded subject to an opinion from an independent auditor and a resolution adopted by a simple majority of votes of the participants (shareholders); where the value is below 5%, the decision to conclude such a transaction is made by the body specified in the charter (a general meeting of participants [shareholders], the board of directors [supervisory board] or, in the case of banks, the executive body in accordance with the Law “On Banks”).

Thus, while the Civil Code allows related-party transactions exceeding 5% of assets, Article 70.1.2 of the Law “On Insurance Activity” effectively prohibits this, because 10% of the insurer's own funds is generally much less than 5% of its assets. We understand that the 10% and 5% limits are intended for different purposes; however, setting a reporting-related limit for related parties in the Civil Code, in addition to imposing an additional sector-specific prudential requirement under insurance legislation, may amount to multiple layers of regulation. Considering that international practice does not apply such stringent prudential regulation

based on aggregate capital, we believe that regulating related-party matters solely through reporting requirements (Civil Code, 5%) could be considered appropriate. In addition, according to the “Rules on Insurance Companies’ Investment Operations” approved by the Central Bank of the Republic of Azerbaijan, special diversification standards apply to transactions with related parties. Under the Law “On Insurance Activity”, investments in the charter capital of financial institutions are also limited to 2% of the investing insurer’s total capital. In other cases, insurers (other than in respect of their subsidiaries) may not acquire a significant share in the charter capital of any legal entity engaged in financial activities without the prior consent of the Central Bank.

Recommendation:

Article 70.1.2 of the Law “On Insurance Activity” shall be removed.

Considering the above and a comparative review of foreign legislation, we conclude that removing Article 70.1.2 will not create additional risks. This amendment will allow insurance companies to operate more flexibly, to conduct related-party transactions transparently, and to continue managing risks effectively under the existing diversification and approval mechanisms.

6. Improving the regulation of early termination of insurance contracts

Article 919 of the Civil Code of the Republic of Azerbaijan defines the legal grounds for early termination of insurance contracts. Under this article, several grounds for early termination are set out. One of these is where the policyholder or insurer demands early termination of the contract (Article 919.1.9). Except for this case, other grounds for termination are formulated as imperative requirements independent of the parties’ will.

Article 921 of the Civil Code regulates the consequences of early termination of the insurance contract, but it does not differentiate between the grounds for termination and treats them solely on the basis of which party initiated termination. In other words, it only sets out rules for calculating the unearned portion of the premium where the contract is terminated under Article 919.1.9.

The Code does not specify how the unearned portion of the premium should be calculated where the contract is terminated for reasons beyond the parties’ control. When one of the grounds listed in Article 919.1 arises, the insurer sends a notice to the policyholder in accordance with the law in order to terminate the contractual relationship. Because of the limited content of Article 921, such cases are formally classified as “termination at the insurer’s request,” which raises the question of how much of the premium should be returned. If the full premium is returned in cases where termination occurs for reasons beyond the parties’ control, this may infringe the insurer’s legitimate interests. Since the insurer bears liability for the period during which the contract was in force and the insured was under coverage, returning the entire premium can adversely affect the insurer’s financial position. Therefore, it is important to regulate how the unearned portion

of the premium is returned when the contract is terminated for reasons beyond the parties' control.

Recommendation:

We recommend revising Article 921 as follows:

“Article 921. Consequences of early termination of the insurance contract

“921.1. Where an insurance contract (in group insurance, also in respect of any insured object under the contract) is terminated early ~~at the request of the policyholder~~, the insurer shall refund to the policyholder the portion of the premium paid under that contract (or, in group insurance, the portion of the premium relating to the relevant insured object), calculated for the remaining period of the contract, after deducting from the refundable amount the part of the administrative expenses attributable to the unexpired period. ~~If the policyholder’s request for termination arises from the insurer’s failure to perform its obligations under the insurance contract, the insurer shall refund all premiums paid (or, in group insurance, all premiums paid in respect of the relevant insured object) to the policyholder.~~

*“921.2. Where an insurance contract (in group insurance, also in respect of any insured object under the contract) is terminated early at the insurer’s request **under Article 919.1.9 (as proposed to be added)** of this Code, the insurer shall refund all premiums paid (or, in group insurance, all premiums paid in respect of the relevant insured object) to the policyholder; however, if the request for termination arises from the policyholder’s failure to perform obligations under the insurance contract, the insurer shall refund the premiums (or, in group insurance, the premiums paid in respect of the relevant insured object) for the remaining period of the contract. In this case, the insurer may deduct from the refundable portion of the premium (or, in group insurance, from the portion of the premium relating to the relevant insured object) the part of the administrative expenses attributable to the unexpired period.*

We further propose adding the following:

“921.2-1. Where an insurance contract (in group insurance, also in respect of any insured object under the contract) is terminated early at the request of the policyholder under Article 919.1.9 of this Code, the unearned portion of the premium shall be calculated in accordance with Article 921.1 of this Code. If the policyholder’s request for termination arises from the insurer’s failure to perform its obligations under the insurance contract, the insurer shall refund all premiums paid (or, in group insurance, all premiums paid in respect of the relevant insured object) to the policyholder.”

II

**SUSTAINABLE
DEVELOPMENT AND
CORPORATE IMPACT**

1. Integration of the circular economy concept into the national economy and strategic decision making

Over the past 20 years, our economy has been based on crude oil and natural gas production, and the linear consumption principle. However, while the economy accelerated, the industry's "take-make-dispose" approach has harmed the environment. There is a need for a systematic and urgent change in our economic model to prevent climate change and use natural resources efficiently; the background for this change includes the growing demand for food, water, and energy, with the exponential loss of biodiversity, increasing emissions, and land degradation.

The concept of a circular economy is already used by multiple countries around the globe to meet human needs, ensure economic growth, and minimize environmental impact.

With its predisposition to the environment and natural resources, a circular economy creates opportunities for sustainable development, human health, and decent working conditions. The transition to a closed-loop economy widens the opportunities for major improvements both in economic and health indicators and the fulfillment of several commitments under Azerbaijan's actions to achieve the Sustainable Development Goals.

Best practice:

The European Union's circular economy model demonstrates the best practice in this field. The German Government's Extended Producer Responsibility policy serves as an example of this best practice.

Other experiences for the application of the circular economy include the Netherlands scheme, where an overarching program of measures until 2050 was adopted in 2016, based on a synergy of existing circular enterprises (A Circular Economy in the Netherlands by 2050: Government-wide Program for a Circular Economy, 2016).

Beyond the EU, the United Kingdom focused on drafting a new, practical standard guide. The standard entitled BS 8001:2017 "Framework for implementing the principles of the circular economy in organizations" was developed as a guide to help organizations across industries to ensure resource efficiency and management.

Yet another major stimulus for the transition to a circular economy is jobs and growth. In the EU, the transition to a circular economy is expected to increase the number of jobs from 1.2 million to 3 million and likewise create 170,000 direct jobs by 2030 through the measures on waste management.

Recommendation:

- 1) Develop and adopt a policy applying the concept of a "circular economy" by initially redirecting corporate efforts, as this could be a more efficient step. Consumer behavior will then be shaped by the input from product and service

providers, as the circularity cannot progress without legislative support and economic incentives.

- 2) Accumulate and analyze existing incentive tools and sanctions to be incorporated into legislation, and identify factors that stimulate the circular economy.
- 3) Improve the legal framework for waste management, and create a legislative framework within the Extended Producer Responsibility based on best practice.
- 4) Revisit existing tariffs to encourage more efficient use of natural resources. For example, revision of tariffs and terms for the use of water resources for commercial purposes.
- 5) Incorporate a clause on the circular economy in public procurement tenders to stimulate the transition.
- 6) Revise the regulations of the State Statistics Committee to verify the accuracy and completeness of statistical data on the use of natural resources by businesses and authorize inspection/monitoring to verify and confirm the information provided. This will enable the establishment of a sound nationwide information platform.
- 7) Enable and encourage businesses to apply digitalization, encompassing technologies such as sensors, wireless communication, data analytics, artificial intelligence (AI) and machine learning, to foster growth across various sectors, including sustainable development, technology, and communications. In the context of sustainability, digitalization acts as a key enabler, facilitating the development of new products and services that contribute to environmentally and socially responsible progress.
- 8) Apply tax and customs exemptions to an organization's transactions in the field of the circular economy to integrate this concept into business operations.
- 9) Stimulate local households to actively engage in efficient utility management by empowering them to decrease electricity, natural gas, and water consumption. Create opportunities for private households to integrate renewable energy solutions (e.g., solar panels, windmills, reverse osmosis systems for water treatment) into their daily life.

2. ESG (environmental, social, and governance) principles

Over the past five years, Environmental, Social, and Governance (ESG) reporting has skyrocketed – both across the Azerbaijani economy and globally. Mostly, ESG has been framed as an issue that is relevant for businesses (which disclose their ESG performance) and for investors (who use the information to decide where to put their money). But the Government in Azerbaijan faces questions about how they should respond. It should be understood that companies are expected to demonstrate their commitment to sustainability and responsible business practices by reporting on their ESG performance and implementing policies that address environmental, social, and governance issues.

Sustainable development and corporate impact

ESG policies and regulations are a key part of creating a culture of sustainability within an organization. These policies should be integrated into a company's overall business strategy and should be regularly reviewed and updated to ensure they remain relevant and effective. These policies and regulations should be supported by a robust governance structure that includes board oversight and clear accountability for ESG performance.

There are three main reasons why governments need to pay attention to establishing the environment for the integration of sustainability governance processes in ESG:

I) As it is concerned with the protection of people, society, and the environment, ESG intersects with government's mandate to protect people, social and institutional structures, and the environment. As governments enact or change legislation, regulations and policies that govern emissions, water use, waste management, health and safety, gender equity or corporate governance (as a few examples), there are knock-on effects for companies' ESG performance, and for the ESG "story" for the jurisdiction itself.

II) ESG influences business and investment attraction. A large and growing portion of global investors use ESG factors to direct where they place their money. To the extent that governments support clear ESG disclosure and strong ESG performance, it boosts investment competitiveness – and procurement competitiveness – among businesses in that jurisdiction. While attracting foreign direct investment (FDI) is a benefit, this presents a slightly different picture locally. By adhering to strong standards, it should enhance the competitiveness of local businesses, particularly in terms of export compliance to markets with stricter sustainability requirements.

III) ESG affects the government's credit rating and borrowing costs. It isn't just companies on the receiving end of ESG ratings; increasingly, it is jurisdictions as well. Over the last few years, major credit rating and investment research agencies such as Moody's, S&P, Fitch, and MCSI have begun to apply ESG factors in their risk assessments of governments at municipal, regional, and national levels. Their ESG ratings directly affect the government's credit rating, ability to secure financing, and borrowing costs.

Best practice:

The countries listed below have established best practices for ESG reporting by setting clear guidelines and expectations for companies, as well as providing tools and resources to help them measure and report on their ESG performance. By adopting these best practices, companies can enhance their sustainability efforts and build trust with stakeholders, demonstrating their commitment to responsible business practices.

United Kingdom: The UK has established the Corporate Governance Code, which provides guidelines on board responsibility, shareholder relations, and disclosure of environmental and social impacts. The UK also requires companies to report on their greenhouse gas emissions and has set a goal of achieving net zero emissions by 2050. On a positive note, Azerbaijan has also demonstrated its commitment to climate action by issuing its third nationally determined contribution (NDC) document, which ambitiously updates the country's carbon reduction target as presented at COP 29.

France: Article 173 requires institutional investors to report on their ESG performance and provide details on how they incorporate ESG factors into investment decisions. France also requires companies to report on their greenhouse gas emissions and set targets for reducing emissions.

Japan: Tokyo has established the Corporate Governance Code, which provides guidelines on board responsibility, shareholder relations, and disclosure of ESG information. Japan also requires companies to report on their greenhouse gas emissions and set targets for reducing emissions.

Canada: The Canadian Securities Administrators' Staff Notice 51-358 provides guidance on ESG reporting and recommends that companies disclose their approach to ESG factors, as well as any ESG risks and opportunities they face. The Canadian Government has also set a goal of achieving net-zero emissions by 2050.

Recommendation:

There are several categories of action that the Government can take to maximize the benefits that come with robust ESG performance:

Support strong and consistent ESG reporting in Azerbaijan: there is a role for the Government in building strong and consistent ESG reporting within the jurisdiction – across companies, sectors, industries, and government departments, as well as across multiple levels of government. This provides all parties with a shared language and framework, so that they can more easily talk with one another and tell a common story as they compete globally.

One way in which the Government can support strong and consistent ESG reporting is by introducing legislation or regulations requiring public companies to disclose specific types of data related to their environmental, social, and governance practices. Such measures could include mandatory disclosure requirements around climate-related risks or emissions targets, as well as other areas such as diversity within leadership teams or human rights policies throughout supply chains. Companies would be required to provide detailed reports each year on selected material topics, such as direct and indirect emissions, for example, and occupational health and safety performance indicators like the Lost Time

Injury Frequency Rate (LTIFR). This ensures investors have access to up-to-date information when making investment decisions based upon an organization's commitment towards ethical business practices.

In addition, the Government should also focus on increasing transparency by providing clear guidelines regarding what constitutes "good" versus "bad" performance across different sectors when it comes to ESG criteria so there is no ambiguity surrounding expectations from both investors and corporations alike. This would enable more accurate comparison between firms operating within similar industries while also helping stakeholders understand exactly where progress needs to be made in order for businesses to meet minimum sustainable standards across multiple fronts including environmental protection, economic development, and social justice initiatives. Overall, this will help create a level playing field amongst competitors while simultaneously encouraging greater accountability among those who fail to adhere to the stringent regulatory frameworks set by governing bodies.

Promoting and integrating Environmental, Social, and Governance (ESG) standards requires a country to take a comprehensive and multi-stakeholder approach. Below is a roadmap that can guide the process:

Promoting and integrating Environmental, Social, and Governance (ESG) standards is essential for achieving sustainable development in a country. ESG standards provide a framework for companies, investors, and regulators to consider the impact of their actions on the environment, society, and corporate governance. However, promoting and integrating ESG standards requires a comprehensive and multi-stakeholder approach.

1) Raising awareness about ESG.

Raising awareness on ESG is crucial. While an awareness gap remains on the importance of ESG standards and their role in sustainable development, significant and convincing work has been undertaken to address this, particularly in the lead-up to and during COP 2024. Therefore, it remains necessary to maintain the momentum and further educate the stakeholders on the ESG standards through workshops, seminars, media campaigns, and other outreach activities. This ongoing effort will foster a better understanding of these vital issues and help build broader support for ESG integration into businesses.

2) Developing a national ESG framework.

This framework should outline the principles, goals, and actions required to promote ESG standards. It should involve input from different stakeholders, including government, businesses, civil society, and investors. Involving different stakeholders in the development of the framework ensures that it is comprehensive and inclusive.

3) Creating incentives for companies to adopt ESG standards.

incentives such as tax breaks, grants, and other financial stimuli. This will help companies understand that adopting ESG standards is not only good for the environment and society but can also benefit their bottom line.

4) Capacity building.

Enhancing the capacity of regulators, investors, and businesses to integrate ESG considerations into their operations is critical. This can be done through training, capacity-building programs, and technical assistance. By building capacity, it ensures that ESG considerations are integrated into the day-to-day operations of organizations.

5) Strengthening reporting and disclosure.

Encouraging companies to report on their ESG performance and integrate ESG considerations into their reporting frameworks is essential. This can be achieved through mandatory reporting requirements and standards. Strengthening reporting and disclosure ensures that companies are held accountable for their actions.

6) Monitoring and evaluating the implementation of the national ESG framework is crucial to ensure progress towards achieving the desired goals. This process should involve regular reporting and evaluation mechanisms, and at the early stages, could include mandatory limited assurance for large enterprises. This approach would align with international best practices, such as the IFRS S1 and S2 reporting standards, enhancing the credibility and reliability of the reported information.

In conclusion, promoting and integrating ESG standards for a country requires a comprehensive and multi-stakeholder approach. One of the pillars of worldwide best practice in terms of ESG and transparent reporting are investor relations clauses, which dictate transparency norms and the disclosure of data to investors, the public, and regulators. Thus, further liberalization of the economy and more publicly traded private companies in economic structure alone would be a great support in terms of ESG integration. Building awareness, developing a national ESG framework, creating incentives, engaging with businesses, building capacity, strengthening reporting and disclosure, fostering collaboration, and monitoring and evaluating the implementation of the framework are the key steps in this approach. By following this roadmap, a country can promote and integrate ESG standards, which can lead to a more sustainable and equitable future.

3. Transition to green transportation

Transition to green transportation is a key aspect of ESG's environmental protection and responsibility pillar, which directly aligns with Azerbaijan's Nationally Determined Contributions (NDC) for reducing CO2 emissions.

We do understand that according to statistics one of the main contributors to air pollution, especially urban wise, is transportation, which includes both private and public mobility solutions. Needless to say, by moving from ICE (internal combustion engine) based vehicles to HEV (hybrid electric vehicles), PHEV (plug-in hybrid vehicles), EV (electric vehicles), and hydrogen cars we contribute significantly towards our mutual goal accepted both on the international and national level in various programs and initiatives (Paris Climate Agreement, 2030 National Priorities Program).

Firstly, the Government adopted an amendment that introduced an exemption on VAT for hybrid and electric vehicles during both customs' clearance and sales. Furthermore, electric vehicles were completely exempted from all taxes and duties during the import process. These two actions significantly impacted the import of eco-friendly vehicles and made them more affordable for consumers. With regards to public transportation, the first ever electric bus has been introduced and integrated into the public transportation system in Baku.

New favorable lending terms for eco-friendly vehicles (the down payment reduced from 40% to 20% and the interest rate from 15% on average to 10% on average) significantly contributed to the transition towards green transportation in Azerbaijan. It's also important to highlight the crucial role of banks and financing mechanisms in enabling households to adopt hybrid and electric vehicles, both in 2024 and with continued impact expected in 2025, and possibly until 2030 inclusive. These combined actions have made a tangible difference to the country's progress towards greener transportation.

Nevertheless, Azerbaijan is a latecomer in this field and more action should be taken to catch up with world leaders and best practices globally.

Recommendation:

- 1) Further exemptions from import fees for hybrid vehicles, especially plug-in hybrids.
- 2) The drawing up of a road map for the development of charging infrastructure.
- 3) Amendments to legislation to allow private business to resell electricity to third parties and back to the grid which will boost private investments in charging infrastructure.
- 4) To promote and monitor the implementation of the Central Bank's recommendations on reducing insurance tariffs for eco-friendly transport.
- 5) Mandatory charging stations in newly constructed shopping malls, parking spaces, and residential complexes.
- 6) Light touch benefits for eco-friendly vehicle owners such as differentiated plate number colors, reserved parking spaces, and discounts on paid roads usage.
- 7) A preference for eco-friendly vehicles in state procurement.
- 8) The creation and expansion of net zero zones (public transportation in Shusha city, internal transport in national parks, and strategic sites such as the Alat Free Economic Zone should be eco-friendly).

9) Reach a target of 30% electrification of the bus fleet by 2030.

10) On a larger strategic scale, conducting feasibility studies on the supply and demand for alternative fuel sources such as biofuel, sustainable aviation fuel (SAF), methanol, and other mixed fuel options in rail, freight/marine and aviation sectors.

Below is the list of some of the challenges remaining in the industry:

- According to estimates, by 2023 there will be a need for 3,000 charging stations, while currently there are only 35 operating charging stations. Closing the gap of 2,965 charging stations in the next seven years is quite ambitious.
- A sufficient supply of electricity to operate 3,000 fast chargers around the country (approx. $100 \text{ kWh} \times 3,000 = 300,000 \text{ kWh}$ or 300 MWh) and significant pressure on the existing electrical grid.
- The lack of regulations on permission to install and operate charging stations.
- The lack of regulations on the sale of electricity to end consumers.
- The integration of charging stations and dedicated parking areas into the infrastructure of Baku and the regions.

Recommendation:

Provide the technical conditions for the connection of electric charging stations.

III

**FAST-MOVING
CONSUMER
GOODS**

Fast-moving consumer goods

1. Inclusion of an amendment for the destruction of seized illicit cigarettes

Currently, under the rules established in line with Article 23.1.15 of the Tax Code of the Republic of Azerbaijan, seized cigarettes without excise stamps or marked with counterfeit stamps are allowed to be resold upon a court's decision. The procedure for resale, while aimed at utilizing confiscated goods for state benefit, may inadvertently contribute to several public health and enforcement risks, including increased accessibility, especially to vulnerable groups. Moreover, gaps in enforcement, such as weak tracking mechanisms, abuse of official power, or inadequate oversight of storage and resale processes, create opportunities for seized illicit cigarettes to be diverted back into illegal distribution channels. This undermines the intended regulatory control and allows the same products to re-enter the market through unauthorized means, ultimately contributing to loss of state revenue. Adopted as a best practice in countries such as Uzbekistan, Kazakhstan, and the Russian Federation, the destruction of seized goods significantly reduces the risk of their resale or reintroduction into illicit trade networks.

Destruction of illicit cigarettes is the “healthy” model of legislations across the world, as in the case of neighboring countries such as Russia, Georgia, Uzbekistan, Kazakhstan, as well as recognized economies around the world, including the USA, UK, EU countries, New Zealand, Australia, and Canada.

From January to October 2025 alone the State Customs Committee and the State Border Service declared the confiscation of 40 million cigarettes, which represented a loss to government revenue of approximately 2,140,000 AZN in excise taxes and 100,000 AZN in import taxes.

As per best international practice, the destruction of counterfeit products diminishes the appetite for smuggling illicit goods and rebalances internal demand with legal products, which will eventually benefit government interests both in terms of product safety and finances.

Recommendation:

1) We propose the inclusion of a new clause that mandates the destruction of seized illicit cigarettes in all cases, rather than allowing their re-entry into the

Authority	Point of seizure	Type	Qty. (sticks)	Seizured goods
Customs	Car and Domestic storage	No marking/ excise	182 600	Cigarettes
Customs + Border	Georgian Border	Smuggling	24 000	Mixed
Customs + Border	Car storage	Smuggling	27 640	Mixed
Customs	Car storage	No marking/ excise	25 200	Mixed
Customs	Car storage	No marking/ excise	25 200	Cigarettes
Customs	Car storage	No marking/ excise	66 200	Cigarettes
Customs	Retail & Domestic storage	Smuggling	80 000	Mixed
Customs	Domestic storage	No marking/ excise	96 200	Cigarettes
Customs	Retail & Domestic storage	No marking/ excise	469 800	Cigarettes
Customs	Retail & Domestic storage	No marking/ excise	262 520	Cigarettes
Customs	Border	No marking/ excise	80 000	Cigarettes
Customs + Border	Mixed	Mixed	39 766 409	Mixed
			39 948 449	

market, into the “Rules for the organization of the sale of goods without excise stamps or goods marked with fake excise stamps confiscated by a court decision” confirmed by the order of the Ministry of Taxes No. N-A 162 dated August 26, 2003.

2)Additional text: “6.2. In cases where the seized goods are identified as cigarettes or tobacco products that are not marked with valid mandatory marking or bear counterfeit mandatory marking, these goods shall be incinerated, notwithstanding their usability or market value.”

2. The need for regulatory oversight of transit movements of excise goods

Although the State Customs Committee and the State Tax Service have made considerable progress in combating the illicit trade in tobacco products and alcoholic beverages over the past year, the issue remains a serious concern. In 2024 alone, tax and border authorities seized an estimated 6.4 million packs of illicit cigarettes. Based on available data, illegal cigarette trade results in an annual tax revenue loss of approximately 105 million AZN.

The illegal alcohol market has also expanded at an alarming rate. Research conducted by TEC Caucasus in 2023 revealed that illicit beer accounted for approximately 30-31% of the country’s total beer market, signifying further state fiscal losses. Beyond financial implications, the unregulated circulation of tobacco and alcohol increases access to unverified, lower-quality counterfeit products, posing serious public health risks.

As one of the main routes for regional trade and transit, Azerbaijan plays a crucial role in the transshipment of tobacco and alcoholic products. However, without a well-structured regulatory framework, this process remains vulnerable to illicit diversion. Weak controls on transit shipments create loopholes that allow these products to be misdeclared as transshipments or non-taxable goods destined for a third country, enabling them to bypass customs checks and enter the domestic market without proper oversight. This not only results in significant tax evasion, but also distorts fair competition for legitimate businesses.

Recommendation:

1. To enhance oversight and prevent illicit diversion, the existing customs deposit scheme for alcoholic and tobacco products should be formally integrated into dedicated regulations, ensuring a clear and enforceable procedural framework. To effectively combat illicit trade, the specialized transit procedure should apply exclusively to high-risk finished tobacco and alcohol products, including electronic cigarettes and tobacco heating products, while exempting raw materials used in manufacturing to avoid unnecessary administrative burdens.
2. To ensure compliance with transit regulations under the proposed framework, operators shall be required to place a financial guarantee upon entry, which would be refunded only upon verified exit from the country.
3. We propose that the following documents are made mandatory for

submission to authorize the transit of goods:

- Certificate of origin;
- Copy of the delivery agreement;
- Transportation schedule (if goods are transported in separate consignments);
- Confirmation of customs duty payment for the transit of goods, transferred to the deposit account of the customs authorities;
- Confirmation that finished goods are marked with the excise stamps of the receiving state – except for shipments destined for countries where excise stamping is not required, in which case proof of exemption must be provided.

3. Waste management legislation

AmCham Azerbaijan welcomes the Government's initiative to develop a comprehensive waste management framework and emphasizes the importance of aligning it with international best practices. The **AmCham FMCG Committee has established a strong and constructive dialogue with the Ministry of Ecology and Natural Resources of the Republic of Azerbaijan**, actively participating in working group meetings and providing expert input throughout the legislative development process.

We strongly recommend the adoption of an **Extended Producer Responsibility (EPR)** model as the core principle – proven to be effective in promoting circular economy principles, reducing environmental impact, and encouraging private sector accountability in packaging waste management.

Recommendation:

To ensure practical and sustainable implementation, our recommendation is the following:

1. **Continue transparent collaboration** with the private sector through platforms such as AmCham's FMCG Committee.
2. **Avoid overlapping systems**, such as the parallel introduction of Deposit Return Schemes (DRS), which may lead to operational inefficiencies and increased compliance burdens.
3. **Set collection and recycling targets via separate regulatory instruments**, developed in close consultation with industry stakeholders to ensure feasibility and alignment with sector capabilities.

AmCham and its members remain committed to supporting the government in shaping a waste management system that is efficient, **cost-effective, and tailored to the local market context**.

4. Need for enhanced real-time functionality in AFSA's approval system

Under Article 20.8 of the Law of the Republic of Azerbaijan "On Food Safety," an importer wishing to bring food and feed products, as well as materials and articles intended to come into contact with food, into the customs territory of

Azerbaijan must submit an electronic notification to the Azerbaijan Food Safety Agency (AFSA) through the Automated Food Safety Information System prior to the arrival of such products in the customs territory.

According to the relevant regulations, the deadlines for submitting this notification, depending on the mode of transport, are as follows: for products transported by road, sea, or rail, at least 24 hours before the vehicle reaches the customs territory of the Republic of Azerbaijan; and for products transported by air, at least 12 hours before the aircraft takes off from the exporter country.

However, when submitting notifications electronically, delays are observed in obtaining the necessary conformity documents from the Agency through the Automated Food Safety Information System. The main reason for this is that the system's approval mechanism does not operate continuously; in other words, it is not active on a 24/7 basis.

Thus, the system does not operate on non-working days (it shuts down every Friday at 18:00 and is reactivated only on Monday at 09:00), nor does it function on public holidays. This creates significant difficulties in the import and documentation process, resulting in additional time loss for importers and delays in operations. Additionally, the list of documents required prior to formalization is considerably broader than the documentation requested by customs authorities, which further increases time loss and prolongs the procedure.

The failure to ensure uninterrupted, real-time operation of the approval mechanism also leads to administrative liability. Under Article 220.10 of the Code of Administrative Offenses of the Republic of Azerbaijan, each such delay results in a fine of 1,500 AZN imposed on legal entities.

Recommendation:

Based on the above, we recommend ensuring that the Automated Food Safety Information System's approval mechanism operate continuously on a 24/7 basis, similar to the system used by customs authorities.

5. Provision of permit and clearance approvals by AFSA on days off and non-working days

Almost all products imported on Fridays incur at least USD 100 in demurrage costs. For comparison, it should be noted that due to the high workload and in order to support entrepreneurs, the Baku Main Customs Department operates on weekdays until 19:00 (and sometimes until 20:00 on public holidays), and on Saturdays until 16:00.

Recommendation:

The working schedule applied by the Baku Main Customs Department is a positive practice in terms of supporting entrepreneurship. Introducing a similar schedule at the AFSA would be appropriate. This would accelerate product certification and inspection processes, reduce demurrage costs, and enable more efficient and flexible organization of business operations and import procedures.

6. Reducing the laboratory analysis period to 3-4 working days for products with a short shelf life

Currently, the laboratory analysis process takes 7-10 working days, which results in significant losses for products with a short shelf life.

Recommendation:

The timeframe for issuing laboratory analysis results for products with a short shelf life should be reduced to 3-4 working days.

7. Reducing the number of documents required to obtain a food safety permit

Currently, the number of documents required by AFSA to issue a food safety (FS) permit is excessively high. This leads to delays during both the collection of documents and the inspection process by AFSA officers. Under current conditions, issuing a certificate within one day is not feasible.

The required documents include: a certificate of origin, weight list, documents indicating production and expiry dates, quality and analysis certificates, a contract, label, product photo, CMR, veterinary and phytosanitary certificates. Since these documents are already required and verified by the customs authority, their repeated verification by AFSA is unnecessary.

Additionally, the requirement to submit an extract from the State Register of Real Estate causes problems for many entrepreneurs, as some facilities do not have such extracts, which prevents their activities from being officially registered.

Furthermore, despite the list of required documents being defined by Resolution No. 302 of the Cabinet of Ministers dated July 16, 2018, AFSA additionally requires a “document issued by the competent state authority of the exporting country confirming the quality of the food product,” which further delays the import and certification process.

Recommendation:

1. AFSA should limit its review solely to documents related to product quality (quality, analysis, phytosanitary, veterinary, and origin documents).
2. The requirement to submit an extract from the State Register of Real Estate should be removed, and the list of documents should be limited strictly to those defined by Cabinet of Ministers Resolution No. 302.

8. Issues related to food safety legislation

8.1. Absence of allergen requirements and labeling rules

Although the Law “On Food Safety” has been in force since January 1, 2023, the allergen list required under Article 17.2.1 has not yet been developed, and there are no established rules for declaring allergens on labels. Despite this, administrative fines are imposed on entrepreneurs who fail to declare allergens on labels.

Recommendation:

To ensure the implementation of Article 17.2.1 of the Law, the allergen list and the rules for declaring allergens on labels should be developed and approved. No administrative sanctions should be applied to entrepreneurs until these rules are officially established.

8.2. Absence of requirements for hygiene training and trainers

According to Article 22 of the Law “On Food Safety,” employees of food business operators must undergo hygiene training. However, although the law has been in force since January 1, 2023, no requirements or standards have been established for trainers or training institutions. Despite this, AFSA does not accept training conducted by other competent authorities or internationally certified quality managers and recognizes only certificates issued by AFSI (Azerbaijan Food Safety Institute); otherwise, enterprises are fined.

Recommendation:

Standard requirements should be established for trainers and training institutions, and internationally certified training programs and certificates issued by authorized institutions should also be recognized.

8.3. Lack of transparency in the payment mechanism for the approval of foreign food establishments

According to Article 24.8 of the Law “On Food Safety” the assessment costs for approving food establishments operating in foreign countries shall be borne by those establishments. However, the criteria, principles, and formulas used to calculate these costs are not clear to business operators. If the foreign establishment is not registered with AFSA, the import of the product becomes impossible, and the calculated fees are extremely high.

Recommendation:

A clear and transparent set of criteria and formulas for calculating fees related to the assessment of foreign establishments should be established and publicly disclosed for entrepreneurs.

8.4. Lack of defined periodicity for pest control measures

Clause 8.8 of the “Rules on Hygiene Requirements for Food Products” requires food business operators to carry out disinfection, disinsection, deratization, and fumigation on their premises. However, since no periodicity has been defined for these measures, during inspections AFSA inspectors demand monthly submission of records of these procedures, and fines are imposed if they are not provided.

Recommendation:

A risk-based periodicity for pest control measures should be established through normative regulation, and inspections should be conducted within this framework.

8.5. General and non-specific requirements regarding the layout of food facilities

According to Clause 2.0 of Decision No. 19 of the AFSA Board dated November 3, 2020, the layout and placement of food facilities must prevent cross-contamination. However, these requirements are overly general, leading to differing interpretations across various sectors of the food industry. As a result, alternative solutions applied by businesses are often not accepted during inspections, and restrictive measures may be imposed.

Recommendation:

Practical and specific guidelines reflecting the characteristics of different sectors within the food industry should be developed to clarify the application of this requirement.

8.6. Omission of some hazardous substances from current food safety standards

The two main documents currently in force – “Sanitary norms and rules for microbiological indicators of food products” and “Sanitary norms and rules for permissible maximum levels of contaminants in food products” – do not cover a range of substances that may pose health risks in many food products. For example, nitrite levels in sausages and smoked meat products, and fusel oils or methanol concentrations in alcoholic beverages, are not included in existing standards.

Recommendation:

Existing normative documents should be expanded to include a comprehensive list of hazardous substances and updated in accordance with international standards.

8.7. Lack of requirements for the cleaning and disinfection of water reservoirs and reserve water tanks in food facilities

Decision No. 19 of the AFSA Board dated November 3, 2020 does not establish any requirements regarding the cleaning, disinfection, or frequency of maintenance of water reservoirs, reserve water tanks, and other water storage systems in food facilities.

Recommendation:

Specific requirements for the cleaning, disinfection, and maintenance frequency of water reservoirs and reserve water tanks should be incorporated into normative documents.

IV **LEGAL
AND
COMPLIANCE**

A. Corporate law matters

1. Legal regulation of the shareholders' agreement

In practice, it is common for participants and/or shareholders to conclude a shareholders' agreement governing aspects of their cooperation within a company that are not reflected in the company's Charter. The execution of such agreements is a widely accepted practice in many jurisdictions. Typically, participants resort to these agreements to address issues such as confidentiality, matters not customarily included in the Charter (for example, non-compete obligations among participants), and other arrangements regulating internal relations. Legal scholars also note that such agreements may serve as an effective mechanism for protecting the rights of minority shareholders.

In the Republic of Azerbaijan, however, the Civil Code does not expressly recognize the right to conclude a shareholders' agreement. Although the conclusion of such an agreement may be justified under the principle of contractual freedom, questions remain regarding its legal validity, the permissible scope of issues to be included, and its correlation with the company's Charter as a founding document. It should also be emphasized that the founding agreement referred to in the Civil Code does not fully capture the essence of a shareholders' agreement. The founding agreement is executed only at the time of incorporation, and the legislation does not provide for the accession to this agreement of new participants who later join the company.

Therefore, the Civil Code does not clearly define the legal status or content of shareholders' agreements. This legislative gap leads to a lack of legal certainty between the parties, increases the risk of contractual breaches, and creates potential ambiguities in corporate governance.

Recommendation:

We recommend the introduction of a new article into the Civil Code to explicitly regulate the possibility of concluding a shareholders' agreement, as well as to define its scope, legal force, and interrelation with the company's Charter.

2. Inclusion of a provision to allow for the issue of redeemable shares in the Civil Code

Although Article 105-1 of the Civil Code regulates the redemption of issued shares by a joint-stock company, the Code does not explicitly provide for the possibility of issuing redeemable shares.

When such shares are issued, the redemption period and price are clearly specified in advance. The introduction of this mechanism would allow companies to raise short-term capital, manage dividend distribution more flexibly, and repurchase shares at a pre-agreed price. At the same time, it would create opportunities for investors to make short-term investments and to exit such investments on predefined terms.

Recommendation:

We recommend an explicit provision in the Civil Code to allow for the issue of redeemable shares. This would expand the opportunities for companies to raise short-term capital, manage dividend policies, and repurchase shares at predetermined prices, while also enabling investors to undertake short-term investments with clear exit mechanisms.

3. Amendment to the procedure for the adoption of decisions by a supervisory board

Under the current legislation, decisions of the supervisory body (board of directors) of both limited liability companies and joint-stock companies are adopted by a simple majority of votes. Specifically, pursuant to Article 91.1.5 of the Civil Code, *“At meetings of the company’s board of directors (supervisory board), each member shall have one vote, and decisions shall be adopted by a simple majority of votes. In the event of a tie, the vote of the chairperson of the board shall be decisive.”* Similarly, **Article 107-9.2 of the Civil Code** provides that: *“At meetings of the board of directors (supervisory board) of a joint-stock company, each member shall have one vote, and decisions shall be adopted by a simple majority of votes. In the event of a tie, the vote of the chairperson shall be decisive in determining whether a decision is adopted or rejected.”* We think that the existence of such an imperative rule limits the freedom of participants (shareholders) in determining the company’s internal governance and decision-making procedures. As a result, the company’s charter cannot establish alternative decision-making mechanisms for the supervisory body (board of directors), such as unanimity or qualified majority voting. This restriction reduces the scope of contractual freedom for participants. Granting participants a right of choice under the legislation would enable companies to determine their own decision-making procedures more flexibly in the charter. For example, strategic decisions could be adopted by a two-thirds majority, while ordinary matters could continue to be decided by a simple majority.

Recommendation:

It is recommended that the requirement for supervisory boards to adopt decisions by a simple majority of votes, as provided in Articles 91-1.5 and 107-9.2 of the Civil Code, be changed from an imperative to a dispositive norm, thereby granting participants (shareholders) the discretion to determine the decision-making procedures in the company’s charter.

4. Adoption of decisions in open joint-stock companies with a single shareholder

In practice, situations may arise where an open joint-stock company (OJSC) has only one shareholder, and consequently, all decisions are made solely based on the will of that shareholder. However, Azerbaijani legislation does not clearly or explicitly regulate this situation, thereby creating a legal gap.

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The existing legal framework treats the general meeting of shareholders as an essential element of corporate governance. Nevertheless, when a company has only one shareholder, holding an actual general meeting becomes purely formal in nature. The mandatory requirement for this formality gives rise to legal uncertainty, as questions may emerge concerning the legitimacy and legal validity of the adopted decisions. Furthermore, practical and procedural difficulties may occur during the registration of such decisions and the documentation process, increasing the likelihood of disputes with state authorities and other stakeholders, as well as potentially undermining management stability within the company.

Recommendation:

To address this issue, it is recommended that legislation explicitly regulate the case of an OJSC having a single shareholder through specific provisions. In particular:

- The law should clearly provide for the written decision of the sole shareholder as a substitute for the general meeting;
- The legal force, form, and registration mechanism of such decisions should be defined in a clear and uniform manner;
- Such decisions should be legally equated to resolutions adopted by a general meeting of shareholders.

This approach would enhance legal certainty and transparency, reduce risks associated with the legitimacy of decisions, simplify procedural and administrative requirements, and help prevent potential disputes between the company, state authorities, and other interested parties.

B. Recommendations relating to judicial proceedings

1. Time limits and the establishment of specialized courts for administrative disputes (including tax disputes)

At present, the time limits for the consideration of administrative disputes, including tax-related disputes, are not clearly defined in judicial practice or legislation. This lack of specificity leads to prolonged court proceedings, resulting in legal uncertainty for the parties and a decline in the overall efficiency of judicial processes. Furthermore, the absence of specialized courts complicates the resolution of complex cases, particularly tax disputes where professional expertise and prompt adjudication are essential to ensure fairness and consistency in judicial decisions.

Recommendation:

It is essential to establish clear procedural time limits for the consideration of administrative disputes (including tax disputes) by the courts. In parallel, it is necessary to increase the number of qualified personnel in the relevant fields and to create specialized courts, particularly courts specializing in tax matters.

2. Challenges in obtaining expert opinions

At present, significant difficulties are observed in the process of obtaining expert opinions by courts in the Republic of Azerbaijan. These challenges are particularly evident in cases related to construction, real estate, customs, and tax matters.

The main problems can be summarized as follows:

Shortage of qualified personnel – The number of specialized experts is insufficient to meet the needs of the judicial system;

Low level of specialization – Among the existing experts, there is a lack of professionals with in-depth knowledge in specific areas such as taxation, customs, accounting, and construction;

Weak infrastructure for expert examination – In many cases, expert institutions lack adequate material and technical resources, modern equipment, and laboratory facilities;

Risk of dependency – The objectivity of expert opinions is sometimes questioned due to organizational and institutional dependencies.

These problems ultimately hinder the objective and comprehensive examination of court cases.

Recommendation:

To improve the expert examination system, the following measures are considered appropriate:

a) Strengthening human capacity

- Establish specialized forensic expertise programs at higher education

Legal and compliance

institutions, particularly within faculties of law, economics, engineering, and finance;

- Introduce continuous training and professional development programs to ensure that experts operate in line with international standards.

b) Establishing independent expert institutions

- Promote the establishment and operation of independent expert organizations and laboratories not subordinated to state bodies;
- Ensure that independent expert institutions are equipped with modern technical tools, including measuring devices, software, and access to relevant databases.

C. Proposals on intellectual property law

1. Non-publication of decisions by the Appeals Council

At present, the decisions of the Appeals Council of the Intellectual Property Agency are not publicly available (with the exception of a few older decisions dating back to 2018). These decisions are neither published on the agency's official website nor accessible through any open data platforms. Such a situation gives rise to several problems. The lack of public access to these decisions prevents the formation of a consistent and transparent practice regarding the approach of the Appeals Council. Consequently, individuals and rights holders are unable to familiarize themselves with decisions adopted in similar cases. Since intellectual property holders cannot see the criteria applied by the council, they face difficulties in planning effective legal protection strategies for their rights.

Recommendation:

It is recommended that all decisions of the Appeals Council be published in an open and publicly accessible manner. This measure would enhance transparency, provide valuable reference materials for stakeholders, and contribute to aligning national practice with international standards.

2. Delay in conducting certification of patent attorneys

At present, the number of patent attorneys in the country remains limited, which negatively affects the efficiency and accessibility of intellectual property services. As a result, rights holders are often unable to obtain the necessary services in a timely and high-quality manner, particularly with respect to the registration of intellectual property and other related procedures involving foreign legal and natural persons.

Recommendation:

It is recommended that the Azerbaijan Patent and Trademark Office (AZPTO) prioritize the certification and accreditation of new patent attorneys. Increasing the number of qualified professionals will significantly enhance the efficiency, quality, and accessibility of intellectual property services in the country.



**INNOVATION
AND THE DIGITAL
ECONOMY**

1. Digital infrastructure

1.1. Standardized datacenter development framework

Azerbaijan does not yet have a unified national framework to guide the development, certification, and operation of data centers. Establishing clear standards and legal provisions would provide greater predictability for investors and create a stronger foundation for attracting global cloud service providers. Advancing such a framework would help unlock opportunities for digital economic growth, enhance competitiveness, and strengthen the country's position as a regional digital hub.

Recommendation:

Introduce a national framework that outlines operational standards, certification procedures, and a preferential taxation system for data centers. This should include criteria aligned with international benchmarks (e.g., Uptime Institute tiers) and incentives for green energy use, ensuring both competitiveness and sustainability.

1.2. Energy supply and green regulations

Data centers and digital infrastructure require a high level of uninterrupted power supply. In Azerbaijan, inconsistent energy supply and a lack of specific green energy regulation for digital infrastructure limit the country's ability to attract and scale such investments. This affects reliability, increases operational costs, and undermines sustainability goals.

Recommendation:

Implement a digital infrastructure energy policy that guarantees access to uninterrupted energy and incentivizes the use of renewable sources. Introduce green certification for data centers and regulatory support for integrating solar, wind, or hydropower into the energy mix.

1.3. Rural connectivity and regional integration

Despite national initiatives, digital inequality persists in rural areas, where broadband coverage remains limited. This hampers economic inclusion, restricts access to online services, and exacerbates regional disparities. The lack of seamless regional digital integration further isolates Azerbaijan from digital value chains.

Recommendation:

Create the Universal Service Fund to prioritize broadband roll-out in underserved regions and create promotion/subsidization mechanisms for the operators and customers in underserved regions. Coordinate with neighboring countries on regional connectivity initiatives, including fiber backbones and Internet Exchange Points (IXPs), to enhance digital access and regional competitiveness.

1.4. Cross-border data transit framework

Azerbaijan's potential as a regional data transit hub is hindered by outdated legal frameworks, regulatory ambiguity, and double taxation concerns. Without an efficient cross-border data policy, investors face high risk, and the country fails to capitalize on its strategic geographic position.

Recommendation:

Adopt legal and fiscal reforms to facilitate unhindered and secure cross-border data flow, including tax exemptions on transit traffic and regional data-sharing agreements. Create a dedicated agency or unit to manage Azerbaijan's data transit strategy and international coordination.

1.5. Administrative support for infrastructure deployment

Deploying digital infrastructure in Azerbaijan remains time-consuming due to fragmented permitting processes and overlapping regulations. This delays project implementation, increases costs, and discourages investment.

Recommendation:

Simplify and digitize permitting and registration procedures for telecom and IT infrastructure. Establish a one-stop-shop model for approvals, harmonized across agencies, with defined timelines and accountability mechanisms.

1.6. "Call Before You Dig" regulations

Azerbaijan does not yet have a national requirement for coordination among entities undertaking excavation works, such as construction companies, utility providers, and telecom operators. Establishing such a mechanism would help safeguard underground digital infrastructure (fiber optic cables, ducts), support service continuity, lower repair costs, and enhance investor confidence in the resilience of critical infrastructure.

Recommendation:

Introduce a mandatory "Call Before You Dig" system that requires all entities to notify a centralized platform before any excavation. Establish legal obligations for coordination, penalties for non-compliance, and a digital GIS-based registry of underground infrastructure to support informed planning and damage prevention.

2. Open Data and Open API framework

2.1. API framework for government digital products

Businesses currently face uncertainty about the integration of government digital products into their services in order to unlock added value, automation, and other benefits. Providing clearer guidance and support for such integration would enable companies to innovate more effectively, enhance efficiency, and deliver improved services to customers.

Recommendation:

A robust legal and regulatory framework is to be established to govern access to public APIs. This framework will define eligibility criteria for private sector entities, outline licensing arrangements, and set transparent financial terms. Where integration involves costs, documentation will provide a clear financial breakdown to ensure accountability. The framework will also embed requirements for data protection, and mandate compliance with recognized security standards and protocols, ensuring both innovation and the secure use of public resources.

2.2. Public-private collaboration via API integration

Startups and private sector players do not yet have structured opportunities to integrate with government platforms through APIs. Creating such channels would encourage innovation, enable new digital services, and strengthen collaboration between the public and private sectors.

Recommendation:

Introduce partnership programs that enable private sector access to selected government APIs. Launch initiatives such as innovation challenges, pilot projects, and preferred API partner programs that incentivize startups and SMEs to build new digital services using public APIs, especially in sectors like health, education, logistics, and fintech.

2.3. A digital platform to integrate government digital products and a feedback mechanism

Most government digital products are developed using internal data on the basis of stakeholder engagement and legal frameworks. However, it would be expedient for stakeholders who will use the platforms to participate in the development of these digital products. Expanding the process to include input from stakeholders who will use the platforms could strengthen product design, improve usability, and ensure greater alignment with the needs of end users.

Recommendation:

Implement a comprehensive policy on Open API development and access to digital public services, requiring each public body to adopt the necessary measures to establish frameworks that facilitate private sector integration with their digital products. This coordinated approach will ensure consistency, transparency, and

clarity across all public entities.

As part of this policy, the creation of a centralized API gateway and developer portal under the authority of the Ministry of Digital Development and Transport is recommended. This platform would serve as a secure and unified access point to government APIs, providing tiered user access (at public, partner, and internal levels). It would also ensure the availability of detailed API documentation, support for sandbox testing environments, proper version control to maintain stability and compatibility, and integrated analytics and monitoring functions to track usage, performance, and compliance.

Using this framework, the government will strengthen innovation, safeguard public data, and enhance the efficiency and accessibility of digital public services. Examples are the Canada API Store (<https://ised-isde.canada.ca/site/corporations-canada/en/director-information-now-available-api-store>) and Singapore Government Developer Portal (<https://docs.developer.tech.gov.sg/docs/sgts-product-updates/apex>).

2.4. Amendment to the Law of the Republic of Azerbaijan “On Access to Information”

Current legislation (the Law “On Access to Information and the Law “On Information, Informatization, and Protection of Information”) guarantees free access to information but does not explicitly require datasets to be published in machine-readable, reusable formats or define open-data licensing. Introducing such provisions would promote wider use of open data, encourage innovation, and support the development of data-driven services.

Recommendation:

Introduce an amendment to Article 2 and Article 6 of the Law “On Access to Information” to mandate that all “public information” (Article 3.0.3) identified as having business value or public interest must be:

- Published “open by default” in non-proprietary, machine-readable formats (CSV, JSON, XML).
- Accompanied by a clear, standardized open-data license.
- Offered without fees and “without restriction on reuse.” This will embed open-data principles directly into the legal framework.

2.5. API-enabled opendata.az portal

The current portal (opendata.az) provides downloads of static files but lacks programmatic access, limiting real-time integrations and mashups.

Recommendation:

Upgrade opendata.az to include a full RESTful API layer alongside bulk downloads.

- Endpoints for dataset listing, metadata, and query filters
- OAuth 2.0 or API key authentication for rate-limiting and usage tracking
- Sandbox/test environment and versioned endpoints

- Built-in data quality indicators (last-update timestamp, completeness score)

This will empower developers and businesses to build automated workflows and live dashboards.

2.6. Mandatory annual open data release plan

Data releases are currently published on an ad-hoc basis. Developing a systematic process for prioritization and scheduling would create greater predictability, improve transparency, and increase the usefulness of published data for a wide range of stakeholders.

Recommendation:

To require each public body to publish an Annual Open Data Release Plan on opendata.az, specifying:

- A catalogue of prioritized datasets
- Publication timelines and responsible units
- Chosen formats and access methods (API vs. bulk download)
- Expected update frequency (real-time, daily, monthly)

2.7. Standardized metadata and licensing

Datasets on opendata.az currently have heterogeneous metadata and unclear reuse terms, causing confusion for end users.

Recommendation:

Adopt the Data Catalogue Vocabulary Application Profile for Azerbaijan's metadata standard to ensure uniform fields (title, description, keywords, format, update frequency). Mandate a single national Open Data License (e.g., "Azerbaijan Open Government Data License") and require its inclusion in each dataset's metadata. Provide plain-language summaries of rights and obligations to increase uptake.

3. AI and machine learning

3.1. Pilot AI use cases

Azerbaijan faces ongoing challenges in optimizing healthcare delivery, ensuring equitable access to quality education, (especially in rural areas), and improving the efficiency and accessibility of legal services.

Recommendation:

We recommend launching targeted pilot AI projects through government-led or public-private partnerships in key sectors such as healthcare, education, and legal services. These pilots will serve as controlled environments to evaluate the real-world impact of AI on service delivery, operational efficiency, and public accessibility. By starting with focused, small-scale implementations, Azerbaijan can better understand the benefits, challenges, and ethical considerations of AI deployment. This approach will lay a strong foundation for scaling responsible AI solutions nationwide, aligned with the country's digital transformation goals.

Examples:

- Healthcare: Launch AI tools for early disease diagnosis (e.g., AI-driven radiology, patient triage), health record digitization, and predictive analytics for resource allocation.
- Education: AI-based personalized learning platforms, plagiarism detection, and student performance analytics.
- Legal services: Automate document review, predict case outcomes, and enable easier access to justice with AI chatbots.

3.2. AI in education

AI literacy is critical to building a future-ready workforce. Starting from schools to universities, the curriculum needs to be updated to cover all current mechanisms and tools to foster both technical and ethical literacy in AI.

Recommendation:

- Curriculum updates:
 - Introduce modules on AI fundamentals and machine learning at secondary and higher education levels.
 - Encourage cross-disciplinary AI literacy (e.g., AI + law, AI + medicine).
- Capacity building:
 - Teacher training programs on digital tools and AI concepts.
 - Government support for coding and robotics clubs in schools.
- Public-private partnerships:
 - Collaborate with tech firms on school-level AI bootcamps.
 - Sponsor AI competitions to foster innovation and awareness.

3.3. International collaboration on AI governance

Azerbaijan currently faces the challenge of developing a comprehensive regulatory and ethical framework for AI that keeps pace with rapid technological advancements while ensuring data privacy, transparency, and public trust. Without alignment to international standards, there is a risk of regulatory fragmentation, limited global interoperability, and reduced investor confidence in AI-driven innovation.

Recommendation:

We recommend the active participation of Azerbaijan in international AI governance initiatives such as the OECD's Global Partnership on AI (GPAI), UNESCO's AI ethics programs, and ITU working groups. This will enable Azerbaijan to align its future AI regulations with global best practices, access technical expertise, and contribute to the shaping of ethical, transparent, and human-centered AI standards.

Additionally, Azerbaijan should establish a national AI ethics advisory board with cross-sector representation to adapt global frameworks to local values and legal structures, while building public trust and supporting responsible innovation.

4. Digital trust and cybersecurity

4.1. Improvement of cybersecurity governance and response capacity

Azerbaijan's cybersecurity governance is currently decentralized, with overlapping mandates and limited coordination among government entities, critical infrastructure operators, and private companies. There is no central authority responsible for setting baseline cybersecurity standards, managing national threat intelligence, or overseeing incident response at scale. As a result, threat detection, response times, and preparedness remain inconsistent, posing significant risk to national security, economic stability, and citizen trust – especially amid growing geopolitical tensions and digital dependency.

Recommendation:

Establish a national cybersecurity coordination center operating under a legal mandate to oversee cybersecurity governance across the country. This body should define minimum security baselines for both public and private sectors, enable real-time threat intelligence sharing, and coordinate national-level incident response. Include representation from defense, finance, telecom, and energy sectors to ensure cross-sector collaboration. Promote the adoption of cyber insurance through regulatory incentives and awareness programs. Build capacity through partnerships with universities and international cyber institutions. Introduce minimum cybersecurity baselines aligned with international frameworks (NIST CSF, ISO 27001) for both public and private entities. Establish a national cyber insurance roadmap by working with insurers and regulators to define policies and incentives. Support capacity-building through partnerships with academia and the private sector for skills development and threat research.

4.2. Private sector trust in digital public infrastructure

Despite the existence of digital platforms and services initiated by the Azerbaijani government, private sector stakeholders often hesitate to fully adopt or integrate with these systems due to concerns about interoperability, data privacy, and lack of demonstrated public sector use cases. The absence of strong government-led examples of seamless digital processes reduces private companies' confidence in digital transformation, limiting innovation and slowing economic diversification.

Recommendation:

Lead by example through flagship public sector projects that demonstrate secure and efficient use of digital identity, e-documents, and digital workflows. Establish government interoperability frameworks and publish APIs for private-sector use. Create public-private pilot programs in industries such as logistics, healthcare, and real estate to showcase tangible benefits. Incentivize private adoption through digital service accreditation, tax breaks, or regulatory sandboxes for digital innovation. Enforce acceptance of MyGov's digital ID and documents by all public agencies in Azerbaijan.

4.3. Development of cyber hygiene and public awareness of digital risk

Digital service users in Azerbaijan often lack fundamental knowledge of safe digital behavior, such as recognizing phishing attacks, securing passwords, or managing personal information online. This lack of awareness contributes to a high rate of user-related incidents and weakens the overall cybersecurity posture of the nation. Schools and public campaigns do not systematically address digital hygiene, leading to generational gaps in preparedness.

Recommendation:

Launch a national digital literacy and cybersecurity awareness initiative covering schools, universities, and the general public. Integrate cybersecurity and digital hygiene modules into national education curricula. Partner with media outlets and influencers to disseminate content on safe digital practices. Use gamification, mobile apps, and public challenges to engage youth and vulnerable communities. Monitor progress with nationwide cyber hygiene metrics and incorporate findings into policy updates.

4.4. Quantum computing era readiness

In the mid and long term, quantum computing poses several significant cybersecurity challenges for Azerbaijan's security and economy. Quantum computers could break widely used encryption methods like RSA and ECC, threatening the security of government, financial, and critical infrastructure systems, including banking and e-government platforms. As a consequence it might lead to loss of trust in digital systems including digital signatures and e-government services, and could hinder digital transformation efforts and damage public confidence. Adversaries could

intercept and store encrypted Azerbaijani data today to decode it once quantum capabilities mature, compromising sensitive national and commercial information. Industries vital to Azerbaijan's economy, such as oil, gas, and transport, could face intellectual property theft or sabotage from quantum-enabled attackers. As a region of strategic importance, Azerbaijan could become a testing ground for quantum-empowered cyber operations by advanced foreign actors.

Recommendation:

To mitigate quantum era threats and ensure Azerbaijan's readiness the following actions should be taken:

- Develop a National Post-Quantum Cryptography Strategy aligned with the existing Strategy of the Republic of Azerbaijan on Information Security and Cybersecurity for 2023–2027, the Concept of Digital Development in the Republic of Azerbaijan, and National Security Concept of the Republic of Azerbaijan.
- Establish a national Post-Quantum Cryptography Monitoring Task Force to track global developments and update the strategy.
- Engage with global bodies like NIST, ETSI, and ITU on quantum readiness. Raise awareness across government, industry, and academia about quantum threats. Develop education and training programs on quantum-safe technologies for the public sector and private enterprise.
- Conduct a quantum risk assessment across critical sectors (government, finance, energy, telecom, defense). Identify systems and data with long-term confidentiality needs, including classified documents and diplomatic communications. Establish a national cryptographic asset inventory. Clarify where and how cryptography (TLS, VPNs, PKI, e-signatures, etc.) is used. Prioritize systems based on exposure and importance.
- Update national cybersecurity standards and regulations to include post-quantum requirements. Define minimum cryptographic resilience levels for public institutions and critical infrastructure. Mandate the ability to quickly switch cryptographic algorithms.
- Launch pilot projects in critical areas (government e-services, central bank, military communication) to test Post-Quantum Cryptography implementation. Begin gradual migration to post-quantum algorithms once finalized.
- Collaborate with universities and private sector research and development teams. Support local cryptography research and incentivize innovation in secure digital infrastructure. Cooperate with allies and regional partners on quantum cybersecurity preparedness. Participate in global quantum resilience programs, certifications, and information-sharing platforms.

5. Digital human capital

5.1. Early digital education

Integrating digital literacy, logical thinking, and coding into early education faces serious challenges due to disparities in access to technology, particularly in rural areas, and the absence of a comprehensive national digital competency framework for students and teachers. Additionally, many educators lack sufficient training in digital instruction, limiting the effective incorporation of these essential skills into the curriculum.

Recommendation:

- 1) Develop a National Digital Competency Framework
Establish clear, age-appropriate digital literacy standards for students and educators, aligning with international benchmarks to ensure consistency and effectiveness across the education system.
- 2) Enhance teacher training in digital skills
Expand and intensify professional development programs for educators, focusing on digital pedagogy, coding instruction, and the integration of technology into classroom practices.
- 3) Invest in technological infrastructure for schools
Ensure all schools, especially in rural and underserved areas, have access to reliable internet connectivity and modern digital tools to facilitate effective digital learning environments.
- 4) Foster public-private partnerships (PPPs)
Collaborate with technology companies and educational organizations to develop and implement coding and digital literacy programs, leveraging external expertise and resources.
- 5) Monitor and evaluate program effectiveness
Establish mechanisms to regularly assess the impact of digital education initiatives, allowing for data-driven adjustments and continuous improvement of programs.

5.2. Advanced training and bootcamps

Azerbaijan faces a significant challenge in bridging the gap between its rapidly evolving digital economy and the current skill set of its workforce. Despite commendable initiatives like the 4IR Academy and partnerships with platforms such as Coursera, there remains a shortage of practical, hands-on training programs in high-demand fields like artificial intelligence (AI), data science, cybersecurity, and robotics. This gap is particularly evident among youth and professionals seeking to upskill or transition into tech roles, hindering the nation's ability to fully capitalize on digital transformation opportunities.

Recommendation:

We recommend the establishment of publicly funded or supported tech bootcamps focused on AI, data science, cybersecurity, and robotics. These bootcamps should offer intensive, short-term training programs designed in collaboration with industry experts and educational institutions to ensure relevance and effectiveness. By providing accessible and practical training opportunities, these bootcamps can fast-track workforce readiness, reduce skill shortages, and support the country's broader digital transformation goals.

5.3. Certification and lifelong learning frameworks

Azerbaijan faces a growing digital skills gap across both public and private sectors. While some segments of the workforce are adapting to new digital tools, others –particularly in traditional industries and government institutions – lack even baseline digital literacy. Moreover, there is no standardized national certification framework to benchmark digital competencies, nor accessible continuous education platforms to support upskilling. This hinders productivity, slows adoption of digital services, and leaves sectors vulnerable to cyber risks and operational inefficiencies.

Recommendation:

Introduce a national digital skills certification system aligned with international frameworks such as DigComp, ICDL, Microsoft and Cisco certifications, covering beginner to advanced levels. Accompany this with a national platform for continuous digital education, offering micro-credentials and modular online courses tailored to different professions (civil servants, educators, SMEs, engineers). Integrate digital certification into hiring and promotion systems in the public sector.

5.4. Improvement of cybersecurity literacy among software developers

The rapid digitalization of public services and business operations in Azerbaijan has increased reliance on locally developed software. However, university curricula and private coding schools often neglect secure software development principles, resulting in applications that are vulnerable to common cyberattacks (e.g., injection attacks, misconfigurations, weak encryption). This creates systemic risks for both public infrastructure and private platforms, eroding trust in digital solutions.

Recommendation:

Update national curricula for computer science and software development to include mandatory modules on secure coding practices, application threat modeling, DevSecOps principles, and secure lifecycle development (SSDLC). Introduce practical cybersecurity labs and hands-on secure code review exercises at both undergraduate and vocational education levels. Mandate inclusion of secure coding courses in accreditation criteria for computer science programs. Incentivize public and private employers to fund secure coding certifications

(OWASP, CSSLP) for developers. Develop open-source courseware and training materials in the Azerbaijani language, possibly hosted on the national digital learning portal.

6. Cross-cutting taxation and regulatory frameworks

6.1. Expanded tax relief eligibility for start-ups

The current income tax exemption for companies with a start-up certificate is tied to the “micro or small enterprise” classification, which disqualifies companies with turnover exceeding 3,000,000 AZN. This policy fails to account for modern, innovative business models such as aggregators, platforms or resellers. Start-ups operating as aggregators, platforms, or intermediaries (e.g., reselling multiple suppliers’ services) report high total turnover, thus getting penalized for their unconventional operational model.

In these models, the high turnover (gross sales) generated by the start-up are immediately “passed on” to suppliers. The start-up’s actual income is only the small commission or fee it retains. Moreover, even with a high turnover, most start-ups starting from scratch do not report any profits, as profits are reinvested in growth, scaling up, and human capital. Essentially, the incentive of income tax exemption under start-up certification does not necessarily provide any benefits to the unprofitable, high-growth start-ups that the policy was intended to support. High-growth start-ups are intentionally unprofitable for 5-10 years as they invest in technology and market acquisition. This means the tax exemption expires long before the company has sufficient income to benefit from the exemption. This makes the certification ineffective, leading to start-ups and founders playing a waiting game to benefit from the tax exemption.

Recommendation:

We suggest the following reforms to the current start-up certification model:

- a) Limit eligibility for start-up certification to companies applying within their first 2 years of incorporation. This ensures the policy is precisely targeted at newly formed start-ups.
- b) Replace the current turnover-based model with one based on gross profit (total turnover minus cost of goods/services sold) or net revenue (commission/fee earned). This metric accurately reflects start-ups’ operational scale, rather than turnover.

The duration for the income tax exemption under the start-up certificate should be redefined. We propose amending the tax exemption period from 3 years to “the first 3 cumulative fiscal years in which the company reports a net profit during a 10-year eligibility window.”

6.2. New company structure to enable private investments

Current corporate law in Azerbaijan lacks the necessary mechanisms to support private investment (from venture capital, private equity, or angel investors) into local start-ups.

The legal entity forms recognized by the Civil Code, primarily the Limited Liability Company (LLC) and the Closed Joint-Stock Company (CJSC), were designed for traditional, static businesses. They are fundamentally incompatible with the high-growth, multi-round financing model that start-ups require. This structural problem forces local start-ups to register in foreign jurisdictions to formalize investments, thereby preventing a domestic venture capital market from forming.

The vast majority of companies formed in Azerbaijan are either LLCs or CJSCs. Both are unusable for venture investment for the following specific reasons:

a. Limited liability company framework

The LLC framework is unusable for venture investment because it lacks any legal concept of “valuation” or “share premium.” The regulations require all external capital to be added directly to the company’s “charter capital.” An investor’s ownership is then allocated based on their pro-rata contribution to this new total. This model results in massive, direct dilution of the founders rather than allowing a priced equity round (e.g., selling 10% for \$1,000,000).

As a workaround, LLCs currently use the “shareholder loan” method which poses several taxation and operational risks.

- I)The company looks financially weak. It appears to be heavily in debt, which can scare away future, more sophisticated investors, lenders, and partners. The loan must have an interest rate.
- II)The interest the company pays is an expense, but for the investor, it is taxable as “income.”
- III)As a lender, the investor legally has the right to demand their money back according to the loan terms (e.g., after 24 months), even if the company is not profitable. This can bankrupt the start-up.

b. CJSC framework

The CJSC framework, while conceptually closer, fails due to a combination of structural and regulatory barriers. First of all, the Civil Code of the Republic of Azerbaijan requires that 100% of a CJSC’s authorized shares be issued and fully paid at incorporation. Unlike the “authorized but not-issued” model used globally, a CJSC cannot hold its own shares in reserve. Without this “authorized but not-issued” share reserve, it is operationally impossible for a company to implement essential, globally standard financing and incentive mechanisms.

ESOP: The mechanism for granting employees the right to acquire shares over time at a predetermined price. This is critical for attracting and retaining talent.

The agreement that requires founders to earn their equity over a set schedule (e.g., a 4-year period with a 1-year “cliff”). This protects all stakeholders if a founder departs prematurely.

The ability to efficiently allocate and sell new tranches of shares from the reserve to investors in successive, priced-equity financing rounds (e.g., Series A, B, C). Moreover, current regulations require a CJSC to have a maximum of 50

shareholders which is not suitable for high-growth start-ups that require multiple rounds from a diverse group of investors.

The excessive regulatory burden of operating a CJSC also limits the formation of a venture capital market in Azerbaijan. Requirements such as information disclosure identical to OJSC companies trading on the open market put unnecessary, expensive regulatory burdens on private start-ups.

Recommendation:

We recommend the introduction of a new specialized legal entity structure (or a fundamental reform of regulations regarding joint-stock companies) to serve as a viable, investment-ready vehicle for high-growth companies. The new corporate structure must be benchmarked against successful international models that have enabled thriving venture ecosystems, such as the U.S. C Corporation or the UK/Singapore Private Limited Company.

To be effective, this entity must be legally distinct from existing frameworks and must include the following core features:

- The legal right to authorize a large pool of shares in the corporate charter.
- The explicit right to create and issue different classes of shares with distinct economic, voting, and protective rights.
- The removal of mandatory reporting requirements such as those on CJSCs or OJSCs and the introduction of contract-based governance for investor rights.

7. Additional subjects

7.1. Unified digital architecture across the public sector

Public agencies and state-owned enterprises in Azerbaijan operate on heterogeneous and often incompatible digital infrastructures. This fragmentation leads to inefficiencies, redundant IT investments, and obstacles to data exchange and service integration. Without a national enterprise architecture (EA) framework, digital transformation initiatives remain siloed and inconsistent.

Recommendation:

Develop and implement a national EA framework based on globally recognized standards such as TOGAF. Mandate adoption across all public agencies and state-owned entities. Provide central guidance, training, and architecture repositories to ensure consistency and reuse of digital components. Establish an EA governance council to oversee adherence, modernization priorities, and architecture audits.

7.2. Improvement of a benchmarking mechanism for digital progress

Azerbaijan currently lacks a unified framework to measure and compare digital transformation progress across public sector institutions. This gap limits the ability to identify best practices, track achievements, and allocate resources effectively. Without performance-based comparisons, digital strategies risk becoming

isolated efforts with unclear impact.

Recommendation:

Introduce a national Digital Government Maturity Assessment Framework tailored to Azerbaijan's digital ecosystem. Evaluate all public agencies and state-owned companies annually across key areas such as digital service delivery, IT infrastructure, user experience, cybersecurity, and interoperability. Publish performance results and highlight success stories to foster competition and accountability. Link maturity scores to incentives, technical assistance, and digital funding allocations.

7.3. Preparedness for quantum technological disruption

Quantum computing is poised to revolutionize industries such as cryptography, materials science, pharmaceuticals, finance, and logistics. Countries leading in quantum technologies will have unprecedented advantages in cybersecurity, economic innovation, and defense. However, Azerbaijan currently lacks a national roadmap, research institutions with dedicated quantum programs, or a skilled workforce in this domain. This unpreparedness risks technological dependency, weakened national security (especially with quantum threats to current encryption), and missed economic opportunities.

Recommendation:

Draft and adopt a National Quantum Technology Roadmap with clearly defined milestones for research, education, and industrial applications over the next 10–15 years. Create a research and development institute focused on quantum computing, communication, and post-quantum cryptography. Integrate quantum physics, quantum algorithms, and quantum-safe cryptography into university curriculums (Baku State University, ADA University, etc.). Begin early adoption of post-quantum cryptography (PQC) standards in critical government and banking infrastructure (in line with NIST standards). Fund a regulatory and innovation sandbox to enable experimentation with quantum algorithms, simulations, and applications in areas like oil and gas optimization, traffic modeling, and AI. Join or observe regional and global quantum cooperation platforms and forums.

7.4. Fragmented trust and lack of transparency in digital transactions

Azerbaijan's public and private sectors rely heavily on siloed and manual verification processes for critical records such as land registries, customs clearance, educational credentials, and supply chain documents. These systems lack interoperability, auditability, and resistance to fraud. Moreover, while blockchain offers transparency, immutability, and decentralization, its adoption remains experimental, with no coherent national policy or regulatory clarity. The absence of standardized blockchain infrastructure risks delays in building public trust and international alignment in digital trade, legal records, and e-government services.

Recommendation:

Develop and implement a National Blockchain Strategy for Trust Infrastructure, prioritizing transparent and verifiable government services. Initial focus areas might include the land and property register, digital diplomas and licenses, customs and cross-border trade certification (TRACECA), and digital identity support for decentralized verification. Establish a regulatory sandbox under the Ministry of Digital Development and Transport. Build a national permissioned blockchain platform using open standards. Ensure interoperability with external digital trade systems (EU/TRACECA). Develop capacity in smart contract development and governance mechanisms.

7.5. Low predictive capability in key sectors

Azerbaijan's oil and gas, transportation, utilities, and urban infrastructure sectors still largely depend on physical inspections, reactive maintenance, and static planning models. This results in costly downtime, safety risks, and limited situational awareness. Globally, digital twins and metaverse-based industrial simulations are transforming asset management and workforce training. However, there is a lack of digital modeling skills, 3D data infrastructure, and strategic pilots to showcase ROI in Azerbaijan.

Recommendation:

Launch a National Industrial Twin and Simulation Program, beginning with high-impact industrial sectors such as oil and gas production fields, port and pipeline infrastructure, the water grid, electricity and smart utility grid, and smart urban planning. Partner with technology leaders for early pilots. Develop national standards for industrial data modeling and 3D simulation. Fund a Digital Twin Lab at a technical university to train engineers and planners. Integrate digital twin concepts into state tenders for infrastructure projects.

7.6. Amendment to the Law of the Republic of Azerbaijan “On Personal Information”

Azerbaijan's Law “On Personal Information,” which came into force in 2011, incorporates several principles aligned with GDPR, including the right to erasure (deletion), the right to information, and the requirement for informed consent. However, despite these similarities, the Azerbaijani framework has significant shortcomings, particularly in terms of practical implementation.

For local companies, the requirements for lawful collection, storage, and processing of personal data remain unclear. In many instances, businesses fail to even recognize that the information they store qualifies as personal data. This uncertainty is further compounded by the practices of data centers and cloud service providers, which generally refrain from disclosing their accreditation standards or compliance documentation. As a result, companies are left without reliable guidance to assess whether their service providers meet the necessary legal and technical standards.

The absence of clear guidelines and practical compliance mechanisms has created an ambiguity across the digital sector, leaving companies exposed to legal and reputational risks. The situation becomes even more complex in the context of cross-border transfers of personal data, where regulatory gaps and the lack of structured processes undermine both compliance and trust.

Recommendation:

To bring Azerbaijan's standards for data protection into line with global standards, we propose the following urgent reforms:

- 1) The establishment of an independent data protection authority to take impartial, independent and credible data protection measures within the ecosystem.
- 2) The creation of a cross-border data transfer framework to make sure that transferred data, whether it is transferred on the basis of consent or other rights, is sent to a country and company with adequate protection and compliance standards in place.
- 3) The establishment of compliance guidelines for low, medium, and high-risk companies in line with the data they store, collect, and process. Introducing a clear enforcement mechanism will result in higher compliance among entities. Additionally, specific measures need to be taken on data centers in response to their security levels, data processing equipment, and access management.
- 4) The introduction of mandatory individual data breach notifications to affected individuals for high-risk breaches. This will ensure individuals are informed and able to take necessary measures to ensure personal protection.

VI HUMAN
RESOURCES
AND LABOR

1. Monthly working time norms for employees on a 6-day workweek

According to the Decision of the Board of the Ministry of Labor and Social Protection of Population of the Republic of Azerbaijan (dated December 16, 2024, No. 3-17/3-5-31/2024), the annual production calendar provides the list of non-working days and public holidays. However, the current calendar only reflects monthly working hours for a 5-day workweek and does not specify separate norms for a 6-day workweek. Under this decision, workplaces with a 6-day workweek must apply the same annual working time norm of 1,903 hours (for 2025) established for a 5-day, 40-hour workweek.

As a result, both 5-day and 6-day workweeks are subject to the same annual hour norm under the production calendar. However, the designation of public holidays creates difficulties in adjusting the annual norms. For instance, if a public holiday falls on a Saturday in a 5-day workweek and a compensatory day off is granted, Monday becomes a non-working day. In contrast, for employees on a 6-day schedule, both Saturday and Sunday are rest days, but they return to work on Monday. To align such employees' monthly hours with the 5-day schedule, they would need to take an additional rest day within the same week to ensure parity at the end of the month.

Consequently, employers and employees are unable to clearly determine which working time norm applies to a 6-day workweek. If the production calendar only accounts for non-working days in a 5-day schedule, it complicates the calculation of weekly and monthly working hours for employees working 6 days a week. This, in turn, hinders the correct determination of wages and overtime pay. The issue is particularly evident in industries such as oil and gas, catering, and retail, where aligning daily working hours with monthly norms becomes problematic.

It should also be noted that the application of an aggregated working time accounting system does not provide an effective solution to this issue. Even when the annual norm is applied, the total of 1,903 hours in the production calendar is based on monthly norms that already account for public holidays within the 5-day workweek.

Furthermore, according to Article 90, paragraph 3 of the Labor Code, when the weekly norm in a 6-day workweek is 40 hours, the daily working time cannot exceed 7 hours. Although a 6-day workweek employee does not exceed the 40-hour weekly limit, their total working hours may surpass the monthly norms set for a 5-day schedule. Regardless of whether an aggregated working time system is applied, this leads to an artificial formation of excess working hours compared to the official limits prescribed by the production calendar.

Example:

March 2025 – 5-day workweek						
M	T	W	T	F	S	S
X	X	x	x	x		
8	8	8	8	7		
8	8	8	8	8		
8	8	7				
	X	x	x	x	x	X
13 working days, total monthly working hours: 102 hours						

March 2025 – 6-day workweek						
M	T	W	T	F	S	S
x	x	x	x	x	5	
7	7	7	7	6		
7	7	7	7	7	5	
7	7	6				
		7	7		4	
	x	x	x	x	x	x
18 working days, total monthly working hours (actual): 117 hours						

Recommendation:

Monthly working time norms for 5-day and 6-day workweeks should be calculated separately. The annual working time norm established for a 5-day schedule should not be applied to employees working 6 days a week. These calculations should take into account the effect of non-working and public holidays for both systems. Accordingly, for employees working on a 6-day schedule, while maintaining the weekly limit of 40 hours, monthly working hours should be adjusted to reflect non-working and public holidays. This change would ensure the accurate calculation of weekly and monthly working hours for employees on a 6-day schedule, leading to the correct determination of salaries and overtime pay.

2. Definition of assignment (secondment) and rest days during business trips or assignments (secondments)

The current legislation of the Republic of Azerbaijan provides limited regulation regarding the relocation of employees for work-related purposes. The existing legal framework only regulates one of the most common types of such relocation – the “business trip.”

According to these rules, a business trip is defined as an employee’s travel from their permanent workplace to another location for a specific period (not exceeding 40 days) to perform an official assignment, based on the order or decree of the head of a state body, enterprise, or organization. This definition is general, does not meet the requirements and needs of the business environment, and does not distinguish between the concepts of “assignment (secondment)” and “business trip.”

In practice, along with business trips, it is also common for employees to be assigned or seconded to other locations on conditions different from those of business trips. Based on this practice, employees are sent to other locations not only to perform specific work-related tasks, but also for various purposes such as participation in training, seminars, other business meetings, and different projects.

At the same time, while an employee’s consent is not required for business trips (except for cases indicated in Article 242 of the Labor Code), and the process

is formalized through relevant HR documentation, the conditions of assignment (secondment) are generally agreed with the employee and formalized through an assignment letter issued for the country where the employee is assigned (seconded). The terms of employment (working and rest hours, salary and allowances, duration of annual leave, labor protection, mandatory state social insurance, and other compulsory insurances) and other important arrangements are indicated in the assignment letter.

However, since there is no relevant legal regulation in the legislation of the Republic of Azerbaijan, employers formalize employees' relocation for work-related purposes as a business trip in all cases. This, in practice, causes uncertainty over the protection of employees' labor and social rights, the proper documentation, duration of the relocation, additional payments (allowances for business trips and assignments), taxation of salaries, and the elimination of double taxation.

Additionally, according to the latest amendments to the business trip regulations (Decision No. 3-23/3-9-12/2024 of the Ministry of Finance of the Republic of Azerbaijan dated September 27, 2024), if an employee works during a non-working or public holiday defined under the legislation of the Republic of Azerbaijan (for example, attending training, courses, conferences, or similar events), the employee is entitled to either compensation pay or a rest day(s) in accordance with Article 164 of the Labor Code of the Republic of Azerbaijan (paragraph 9, subparagraph 2).

With respect to employees on assignment (secondment), the application of non-working days, election days, public holidays, and national mourning days as defined by Azerbaijani legislation is not considered appropriate. At the same time, according to paragraph 9, subparagraph 3 of the Employee Business Trip Regulations, employees on business trips are subject to the working and rest time regime of the organization to which they are sent. Based on this approach, it is deemed more appropriate that the same principle be applied to employees on assignment (secondment), meaning they should follow the non-working and public holiday regime of the country where the host organization is located.

Recommendation:

Based on the above, to ensure the protection of employees' rights, proper documentation, and to eliminate ambiguity regarding duration, additional payments (allowances during business trips or assignments), and other related matters, we propose separately defining the concepts of "business trip" and "assignment (secondment)," first in the Labor Code and then in the Employee Business Trip Regulations.

The nature of the employee's assignment (secondment) process can be described as follows:

- The assignment (secondment) of an employee for a defined period (short-term or long-term) to a location other than the one specified in the

employment contract, based on mutual agreement between the employer and employee.

By defining the concept of assignment (secondment) in the Labor Code, we think it advisable for the following aspects to be regulated in detail through internal company documents (employment contracts, internal policies, etc.) based on mutual agreement between the employer and the employee:

- Type of assignment (secondment) (domestic, international, short/long-term);
- Purpose of the assignment (secondment);
- General conditions of the assignment (secondment);
- Annual leave;
- Occupational accidents and diseases;
- Validity of the employment contract during the assignment (secondment);
- Applicable rewards and incentive measures;
- HSE (Health, Safety, Environment) rules during the assignment (secondment);
- The rights and obligations of the employer and employee.

Considering the above, we recommend that non-working and public holidays applicable to employees on assignment (secondment) be determined in accordance with the regime of the country where the host organization is located.

3. Entry into legal force of an employment contract concluded for the first time with the director (legal representative) of a limited liability company

According to Article 49, paragraph 2 of the Labor Code of the Republic of Azerbaijan (hereinafter referred to as the “Labor Code”), an employment contract concluded for the first time with the individual specified in the application for the electronic state registration of a limited liability company (LLC) enters into legal force after the completion of the electronic state registration of the company; that is, from the moment the certificate of state registration, the extract from the state register, and the charter are sent to the company’s electronic cabinet. It is stipulated that the employment contract shall be generated automatically in the relevant electronic information system in the form of an electronic document and must be signed by the parties using a qualified electronic signature within no later than 3 (three) working days from the date of its formation.

In practice, this requirement primarily arises with respect to individuals acting as the legal representative of the company. However, foreign citizens or stateless persons can obtain a qualified electronic signature (ASAN Imza) only after receiving a temporary residence permit within the territory of the Republic of Azerbaijan, in accordance with the Migration Code of the Republic of Azerbaijan (hereinafter referred to as the “Migration Code”). Furthermore, in the “Labor and Employment” subsystem (hereinafter referred to as “EMAS”), when registering the employment contract of a foreign citizen or a stateless person, the FIN code from their temporary residence permit is required.

As a result, when the person (legal representative) specified in the application for the electronic state registration of the LLC is a foreign citizen or a stateless person, it is impossible to sign the employment contract for the first time within the 3 (three) working days prescribed by Article 49.2 of the Labor Code using a qualified electronic signature.

It should also be noted that, according to Article 45.1.6-1 of the Migration Code of the Republic of Azerbaijan, a foreign citizen or stateless person may apply for a temporary residence permit on the basis that they hold the position of director (legal representative) of a legal entity established in the Republic of Azerbaijan, provided that the company's paid-up charter capital is not less than the amount approved by the relevant executive authority and that at least one of the founders is a foreign legal entity or individual. However, such an application may only be submitted after the registration of the appointment of the director (legal representative) has been completed in the state register. Additionally, under Article 14.8.1.1 of the Law of the Republic of Azerbaijan "On State Fees," the minimum period for review of an application for a temporary residence permit by a state authority is 15 (fifteen) working days. Therefore, the requirement set out in Article 49.2 of the Labor Code effectively prevents a foreign citizen or stateless person who does not yet possess a residence permit in Azerbaijan from signing the employment contract as a director (legal representative) within the prescribed 3 (three) working days.

Recommendation:

In this case, we recommend that the requirement for an employment contract concluded for the first time with the director (legal representative) of a limited liability company be signed within 3 (three) working days of the date of its automated generation in electronic form using a qualified electronic signature be applied only to citizens of the Republic of Azerbaijan and to foreign or stateless directors (legal representatives) who possess a permanent residence permit in the territory of the Republic of Azerbaijan. In the case of foreign citizens or stateless directors (legal representatives) who do not have a permanent residence permit, the signing requirement should take effect within 3 (three) working days after a temporary residence permit has been obtained.

4. Employment rights of the parties in relation to outstaffing

"Outstaffing" is used to reduce the workload of company HR departments and create a more flexible management environment. Under this concept, intermediary companies engaged in providing workforce services conclude direct employment contracts with employees and then assign them to other client companies (hereinafter referred to as the "Client"). Thus, although the employment relationship formally exists between the employee and the intermediary company, the employee in fact performs their work duties under the supervision, and for the benefit, of the Client.

During the implementation of this concept, the protection of the employee's labor rights remains ambiguous. Since the employee performs actual work for the Client, but the Client has no direct legal obligations toward the employee, this creates a risk of violations of the employee's labor rights.

There are various approaches in international practice to address these challenges. In many countries, the concept of workforce supply is regulated by legislation. For example, under the laws of England and Wales, workforce supply issues are governed by the Agency Workers Regulations 2010. According to these regulations, an "agency worker" is defined as: (a) an individual supplied by a temporary work agency to work temporarily for and under the supervision of a hirer; and (b) an individual who has either (i) a contract of employment with the agency; or (ii) any other contract to perform work or services personally for the agency. Under these regulations, agency workers are entitled to the same basic working conditions and key employment rights as permanent employees performing the same work after 12 continuous weeks of employment.

Recommendation:

We recommend that legal mechanisms and regulatory acts defining the rights and obligations of the parties involved in workforce supply (outstaffing) be adopted.

It is also important to strengthen monitoring and mechanisms to oversee the activities of intermediary companies providing workforce services and the Client companies. Regular supervision by relevant state authorities can ensure compliance with employees' rights and prevent potential discrimination.

Such legal mechanisms would help prevent violations of labor rights and ensure the effective and transparent resolution of labor disputes that may arise between the parties.

5. Amendments to the Unified Tariff and Qualification Reference Book

Although the Unified Tariff and Qualification Reference Book for Worker Occupations and Jobs in the Oil Industry of the Republic of Azerbaijan, approved by Decision of the Board of the Ministry of Labor and Social Protection of the Population of the Republic of Azerbaijan dated June 19, 1998, serves as a framework for defining many occupational titles, discrepancies remain between this act and the following related legislative instruments with regard to certain job descriptions:

- a) The Unified Tariff and Qualification Reference Books for Worker Occupations and Jobs in the Oil Industry, proposed by the State Oil Company of the Republic of Azerbaijan and approved by Decision of the Board of the Ministry of Labor and Social Protection of the Population of the Republic of Azerbaijan dated January 31, 2012;
- b) The Unified Tariff and Qualification Reference Book for Worker Occupations and Jobs Common to All Industries, approved by Decision No. 10-2 of the

- Board of the Ministry of Labor and Social Protection of the Population of the Republic of Azerbaijan dated August 9, 2006;
- c) The List of Industries, Occupations, Positions, and Indicators Granting the Right to an Old-Age Labor Pension on Preferential Terms, approved by Resolution No. 12 of the Cabinet of Ministers of the Republic of Azerbaijan dated January 23, 2007;
 - d) The List of Hazardous and Heavy Industries, Occupations, and Positions Granting the Right to Additional Leave Based on Working Conditions and the Nature of Job Functions, approved by Resolution No. 92 of the Cabinet of Ministers of the Republic of Azerbaijan dated July 5, 2004.

Recommendation:

It is necessary to harmonize the positions listed in the approved Unified Tariff and Qualification Reference Books, the List of Industries, Occupations, Positions, and Indicators Granting the Right to an Old-Age Labor Pension on Preferential Terms, and the List of Hazardous and Heavy Industries, Occupations, and Positions Granting the Right to Additional Leave Based on Working Conditions and the Nature of Job Functions, as stipulated by the relevant Cabinet of Ministers' resolutions. Alternatively, the Unified Tariff and Qualification Reference Book should be revised and updated to incorporate positions corresponding to the industrial sectors covered by these resolutions, ensuring full alignment and consistency among all regulatory instruments.

6. Performance of work duties from home and remote working

During the COVID-19 pandemic, employers in many sectors were compelled to engage employees to perform their work duties from home or outside their designated workplace under employment contracts. Even after the pandemic, this practice has continued across many organizations and has been widely welcomed by employees. However, the current text of the Labor Code does not provide detailed regulation of situations in which employees perform their job functions from home or remotely, outside the employer's premises. As a result, uncertainties arise concerning the mutual rights and obligations of the parties, potentially leading to labor disputes. The proposed amendments and additions to the Labor Code aim to eliminate these ambiguities and provide clear legal regulation of remote working arrangements.

Recommendation:

- 1) The words "Section XIII" in the Labor Code should be replaced with "Section XIV," and the words "Chapter Forty-Seven" and "Chapter Forty-Eight" should be replaced with "Chapter Forty-Eight" and "Chapter Forty-Nine," respectively.
- 2) The following new "Section XIII" should be added:

Section XIII

Performance of Work Duties and Employment Obligations from Home and Remote Working

Chapter Forty-Seven

Article 307-1. General Provisions

“1. A person performing work duties and employment obligations from home shall be understood as an individual who, under an employment contract, performs work duties and obligations at their home using raw materials (materials), production tools, equipment, or software provided by their employer or acquired at their own expense.

“2. When concluding, amending, or terminating an employment contract with a person performing work duties and obligations from home, including the issuance of relevant orders (decisions), notices, or any other documents related to employment relations, electronic signatures or other analogues of handwritten signatures may be used. When an electronic signature or another analogue of a handwritten signature is used, affixing the enterprise’s (employer’s) seal to the document shall not be required. The exchange of documents between the parties may also be carried out electronically, by postal courier, or by registered mail.

“3. The employment contract concluded with a person performing work duties and obligations from home shall also specify the following:

“3.1. the telephone numbers, email addresses, and postal addresses for communication between the parties;

“3.2. where the employee uses their own raw materials (materials), production tools, equipment, or software, the amount, conditions, and procedure of compensation to be paid by the employer for their normal wear and tear;

“3.3. the terms and procedure for reimbursing the employee’s expenses related to performing work duties and obligations from home;

“3.4. the employee’s obligation to promptly respond to the employer’s telephone calls, emails, and other inquiries;

“3.5. the procedure and conditions for summoning the employee to the employer’s office (administration), including the temporary performance of duties and obligations at the office; and

“3.6. any other matters agreed upon by the parties.

“4. In the event of any circumstance that prevents the performance of work duties and obligations from home (for example, the illness of the employee, the interruption of the internet connection, etc.), the employee must immediately notify the employer.

“5. The employer may, during working hours, familiarize themselves with the working conditions of the employee performing work duties and obligations from home and may, at their discretion, require the employee to take necessary measures to ensure that the working conditions meet the standards required for performing the work.”6.

“6. Except for the obligations listed below, other occupational health and safety requirements provided for in the Labor Code shall not apply to employees performing work duties and obligations from home:

“6.1. compliance with normal working and rest regimes;

“6.2. undergoing initial instruction on occupational health and safety rules and standards;

“6.3. participation in the investigation of industrial accidents; and

“6.4. compulsory insurance of employees against loss of professional working capacity resulting from industrial accidents and occupational diseases.

Article 307-2. Performance of Work Duties and Employment Obligations from Home in Exceptional Cases

“1. In exceptional cases (that is, in the event of natural disasters, epidemics, pandemics, industrial accidents, situations posing a threat to the life or health of employees, or other circumstances that disrupt normal operations and cannot be promptly prevented), the employer may unilaterally require an employee who has an employment contract and normally performs their work duties and obligations at the employer’s premises to temporarily perform such duties and obligations from home, by issuing a formal notice to the employee.

“2. The notice must include the following information:

“2.1. the employee’s working and rest hours and days;

“2.2. the procedure for communication between the parties;

“2.3. any other matters the employer deems relevant regarding the temporary performance of work duties and obligations from home.

“3. In exceptional cases, the employee’s salary shall remain unchanged during the period in which work duties and obligations are temporarily performed from home.

Article 307-3. Remote Working

“1. Remote working refers to the performance by an employee of their work duties and obligations outside the employer’s premises, branches, representative offices, or any other structural units, or in an area not directly or indirectly controlled by the employer (excluding the employee’s home), provided that communication tools (including the internet) are used to perform work duties and obligations and to maintain interaction with the employer.

“2. Unless otherwise stipulated in the employment contract on remote working, the employee shall independently determine their working and rest time regime.

“3. The provisions of this Code regulating the performance of work duties and obligations from home shall also apply to remote working.

Article 307-4. Application of the Provisions of the Labor Code

“The provisions of other Sections of this Code shall apply to the performance of work duties and employment obligations from home and to remote working, taking into account the specific features established in this Section XIII.”

7. Conclusion of employment contracts for secondary workplaces

Currently, Article 58 of the Labor Code defines the concept of a secondary workplace through the notion of *“substitution-based employment.”* In addition, Article 43, paragraph “h” of the Labor Code stipulates that an employment contract must indicate whether the employee’s workplace is primary or secondary. Consequently, linking the conclusion of an employment contract with another employer for a secondary workplace to the concept of *“substitution”* creates ambiguity.

Recommendation:

We propose that, in order to eliminate the above-mentioned ambiguity, the term *“substitution”* in Article 58 of the Labor Code be replaced with *“conclusion and regulation of employment contracts for secondary workplaces.”*

8. Termination of an employment contract in the case of suspension from work

Currently, Article 62 of the Labor Code lists the circumstances under which an employee may be suspended from work. Paragraph 3 of the same article states that the employee is not paid during the suspension period. However, the occurrence of the grounds for suspension is not recognized as a basis for termination of the employment contract by the employer. For example, if an employee refuses to undergo a mandatory medical examination as required by law, or fails to comply with the recommendations issued by a medical commission based on examination results, or if an employee engaged in positions prohibited for persons living with HIV refuses to undergo mandatory periodic medical testing, these circumstances do not constitute legal grounds for termination of the employment contract. Similar complications may arise in relation to other contagious diseases such as tuberculosis.

Recommendation:

We propose that the occurrence of any of the circumstances outlined in Article 62 of the Labor Code be added to Article 70 as a legitimate ground for termination of the employment contract by the employer.

9. Termination of an employment contract by the employee

According to Article 69.1 of the Labor Code, an employee may terminate the employment contract at their own request (without providing a reason) by giving at least one calendar month’s prior written notice. Article 69.3 of the Code

provides for exceptional cases such as retirement, relocation, experiencing sexual harassment, acceptance for another job, etc. in which the employee may terminate the contract on the date indicated in their application.

In practice, serious disputes arise in cases where an employee terminates the contract due to acceptance for another job. Employees often interpret the phrase “on the date indicated in the application” unilaterally, assuming they have the right to leave immediately or, for example, having given 5 days’ notice. As a result, when the employee moves to a new workplace, the current employer is deprived of sufficient time to find a replacement and ensure a proper handover process.

In an environment where qualified personnel are limited, even a one-month notice period is often insufficient to find, train, and onboard a replacement employee. When employees shorten this period unilaterally, the balance in the termination process is disrupted, and employers may suffer significant operational losses. If cases such as retirement due to disability or sexual harassment justify immediate termination, the situation of an employee transferring to another job should not be considered an exceptional case. This is a voluntary and planned decision by the employee, and the employer should not bear the consequences of this process.

Recommendation:

It is recommended that the phrase “*with the written (on paper or through an electronic information system) consent of the new employer*” be removed from Article 69.3 of the Labor Code. In this case, the employee will still retain the right to terminate the employment contract under Article 69.1 by providing at least one calendar month’s prior notice.

VII **MARKETING,
COMMUNICATIONS,
AND BUSINESS
DEVELOPMENT**

A. Marketing

1. Changes in comparative advertising requirements

The current Law of the Republic of Azerbaijan “On Advertising” touches upon unfair advertising practices but does not specify under what circumstances comparisons between products can be considered lawful, accurate, and ethical.

International practice, particularly under EU Directive 2006/114/EC and the UK Advertising Standards Authority (ASA) Code allows comparative advertising based on objective, verifiable facts, while at the same time prohibiting misleading information, confusion, or unfair competitive advantage.

At present, Article 6 (Unfair Advertising) of the Law “On Advertising” only indirectly refers to comparative advertising. According to this article, advertising is deemed unfair when:

- Comparisons are made between the advertised product and other manufacturers’ or sellers’ products performing the same functions, mentioning their name and/or showing their product;
- A competitor’s honor, dignity, or business reputation is disparaged by various means or methods;
- Knowingly false information about a product is provided;
- Persons using a competitor’s product, or not using the advertised product, are mocked or portrayed negatively;
- Copyright or related rights are violated through plagiarism of other advertising materials;
- The advertised product is made so similar to another manufacturer’s product that it may cause confusion;
- information about the product’s negative impact on health or the environment is concealed;
- The advertisement is broadcast using prohibited means or methods, or outside the permitted time and place;
- A prohibited product, its trademark, or a similar mark is advertised.

However, the current Law does not define how comparisons should be substantiated, what constitutes objectivity and proof, or how to distinguish between an acceptable humorous comparison and an offensive or derogatory approach.

Recommendation:

To establish a clear and detailed framework for the regulation of comparative advertising in Azerbaijan, we recommend the following measures aimed at protecting fair competition, consumer confidence, and brand reputation:

- 1) Allow comparative advertising only when it is based on truthful, objective, and verifiable criteria;
- 2) Require advertisers to possess documentation substantiating their claims

before an advertisement is published or broadcast;

- 3) Establish specific rules for claims related to environmental impact, health benefits, or awards;
- 4) Define protection mechanisms to prevent misuse of comparative advertising in sensitive sectors or for prohibited products;
- 5) Permit advantage claims based on evidence, strictly prohibiting insults or defamation. In particular, comparisons grounded in objective, measurable, and verifiable characteristics should not be considered unfair, provided they do not unjustifiably denigrate a competitor's product, trademark, or reputation;
- 6) Impose an obligation on advertisers to maintain documentary evidence for all comparative claims and to submit it, upon request, to the State Service for Antimonopoly and Consumer Market Control under the Ministry of Economy.

The implementation of these changes is expected to lead to the following outcomes:

- Promotion of healthy competition among brands and improvement of product quality;
- Ensuring that consumers receive accurate and reliable information;
- Strengthening credibility and transparency in Azerbaijan's advertising market;
- Alignment of national legislation with the European Union and international standards;
- Enhancement of Azerbaijan's legal framework in line with EU Directive 2006/114/EC and the UK CAP Code (Rule 3.42).

2. Re-applying accessible advertisement standards in Azerbaijan

The current Law of the Republic of Azerbaijan "On Advertising" does not contain any provisions addressing accessibility obligations or incentives in advertising. As a result, people with disabilities – particularly those with visual and hearing impairments – often face barriers in accessing or understanding advertising content across television, cinema, and digital platforms.

This gap limits the equal participation of persons with disabilities in public and economic life and restricts their access to consumer information and social messages.

According to international standards, including the United Nations Convention on the Rights of Persons with Disabilities (UN CRPD) and the EU Audiovisual Media Services Directive (2018/1808), states are encouraged to ensure that information and communication – including commercial communications – are accessible to all citizens without discrimination.

Recommendation:

A new article should be introduced in the Law of the Republic of Azerbaijan “On Advertising” to ensure that reasonable measures are taken to make the content of audiovisual and printed advertisements accessible to persons with disabilities. The following text is proposed:

“Accessible Advertising

“Advertisers disseminating advertising through audiovisual media (television, cinema, digital platforms) must take reasonable measures to make content accessible to persons with disabilities, including but not limited to individuals with visual and hearing impairments.”

Reasonable accessibility measures may include:

- Subtitles or closed captioning for hearing-impaired audiences;
- Audio description for visually impaired audiences, where technically feasible;
- Sign language interpretation for essential public service or social advertisements;
- Clear, simple, and readable formatting for printed and digital advertising intended for general audiences.

Incorporating accessibility measures into national advertising legislation would promote social inclusion and ensure equal access to information. It would also align Azerbaijan’s laws with European best practices and the United Nations guidelines, while enhancing brand reputation, strengthening corporate social responsibility, and increasing consumer trust in advertisers and media platforms.

3. Incentive options for promoting accessible and localized advertising in Azerbaijan

Azerbaijan’s advertising market is evolving, yet the ecosystem offers few practical reasons for advertisers or media platforms to invest in accessibility features or locally produced, culturally resonant content. There are no recognition-based incentives that would nudge companies to add subtitles, sign language interpretation, or audio description, which keeps accessibility levels low and limits equal access to commercial communications.

At the same time, although many multinational brands are active in the country, most campaigns remain adapted translations of global creative material with minimal local production or cultural integration. This weakens the representation of Azerbaijani identity in the media and slows the growth of domestic creative capacity.

Introducing voluntary, incentive-driven measures – rather than mandatory rules – can close this gap by encouraging accessible practices and stimulating locally produced content, while aligning sector development with international soft-incentive models.

Recommendation:

1) Tax incentives or reductions

- Offer small tax credits or fee discounts to media platforms implementing accessibility measures such as subtitling, sign language windows, or audio descriptions.
- Provide advertising discounts or bonus airtime through public broadcasters (e.g., İctimai TV, AzTV) for accessible advertisements.
- Introduce tax deduction schemes for advertisers who produce commercials in Azerbaijan using local production teams, actors, and locations.

2) Preferential treatment in public campaigns

- Allow government agencies and state-owned enterprises (SOEs) to prioritize accessible advertisers and media platforms when awarding public communication contracts (e.g., social campaigns, tourism promotion).
- Make accessibility and local content development a competitive advantage for companies seeking government communication tenders.

3) Voluntary “accessibility pledge”

- Create a voluntary code where companies and media platforms can sign an “Accessibility Pledge” committing to gradual accessibility improvements.
- Signatories can display a logo — “We Support Accessible Advertising” — on their websites and campaigns.
- This soft, non-binding commitment encourages positive social pressure and promotes inclusive branding without legal enforcement.

4) Incentives to promote localized advertising production

Incentive	Description
Annual awards for Best Localized Ad	Organized by the competent state authority, recognizing excellence in culturally relevant Azerbaijani advertising.
Media platform discounts	Encourage Azerbaijani TV, OOH and digital media owners to offer small bonus airtime (e.g., 5–10%) for airing fully localized ad content.
Fast-track production permits	Offer expedited access to public filming locations for ads emphasizing Azerbaijani culture, landmarks, or featuring Azerbaijani talent.
Tax deduction on production costs	Introduce a limited tax deduction scheme for advertisers who produce commercials in Azerbaijan using local production teams, actors, and settings.

5) Implementation phases for accessible and localized advertising initiatives

To ensure a gradual and effective transition toward accessible and locally produced advertising, the following three implementation phases are proposed:

- Phase 1 (Voluntary, Immediate): Launch award programs and public

Marketing, communications, and business development

recognition campaigns through AmCham and partner media organizations to highlight and promote best practices in accessibility and local content creation.

- Phase 2 (Strategic, Medium-term): Integrate preferential treatment clauses for accessible and localized advertisements within public sector communication and awareness campaigns.
- Phase 3 (Financial, Long-term): Once measurable social and economic benefits are observed, advocate for the introduction of limited tax incentives or fiscal benefits to sustain progress and motivate further industry participation.

Collectively, these steps are expected to generate significant positive outcomes: (i) fostering the growth of Azerbaijan's creative economy; (ii) enhancing accessibility and inclusivity across the advertising sector; (iii) strengthening consumer trust and engagement with brands; and (iv) amplifying the international visibility of Azerbaijani culture. Ultimately, the proposed approach would align the national advertising framework with global best practices that promote both accessible communication and locally relevant content.

B. Communications

Introducing formal education programs in public relations and communications

Despite the growing importance of strategic communication in today's interconnected world, Azerbaijan currently lacks formally recognized undergraduate programs in public relations and communications. This gap in the education system has led to a shortage of qualified professionals who are equipped to represent institutions and the country effectively across social, economic, and political platforms. As a result, unregulated training centers have attempted to fill the void with short-term, non-standardized courses, many of which rely on poorly translated or outdated online materials. This contributes to misinformation, inconsistent competencies, and a weakened professional landscape.

Recommendation:

To ensure the development of a well-prepared and professionally trained workforce in public relations and communications, we recommend the following actions:

1) Development of Nationally Accredited Degree Programs

- Introduce undergraduate and graduate degree programs in public relations and communications within state universities and encourage private universities to follow suit.
- Design a standardized national curriculum based on international best practices, incorporating theoretical knowledge, practical skills, and ethical standards.
- Include interdisciplinary elements such as media literacy, crisis communication, digital strategy, corporate communication, and public diplomacy.

2) Integration of International Expertise and Dual Programs

- Establish academic partnerships with internationally recognized universities to offer dual-degree or exchange programs, bringing global knowledge and modern pedagogies to local institutions.
- Invite foreign experts and industry leaders to contribute to curriculum development, faculty training, and guest lectures.

3) Institutional Support and Accreditation Mechanisms

- Form a national academic board or working group under the Ministry of Science and Education to oversee curriculum quality, accreditation standards, and continuous improvement.
- Encourage internships, capstone projects, and industry collaborations to bridge the gap between academic learning and real-world application.

Marketing, communications, and business development

As a result of implementing the above recommendations: (i) Professionalism and credibility will be ensured – a formal education path will build a generation of communication professionals who operate with consistency, ethics, and strategic insight; (ii) The national image will be strengthened – trained experts are vital for promoting Azerbaijan’s interests, culture, and achievements on international platforms; (iii) Sustainable workforce development will be achieved – by creating attractive academic pathways, the country can reduce reliance on imported know-how and boost local capacity; (iv) Misinformation will be reduced – educated professionals will help raise media literacy and reduce the impact of low-quality or misleading content in the public sphere.

VIII **RISK
MANAGEMENT**

1. Mandatory business continuity plans (BCPs) for key state-owned enterprises (SOEs)

Azerbaijan's economic stability and societal well-being rely heavily on the uninterrupted functioning of its key SOEs – notably Azerishiq, Azersu, and Azerenerji. These organizations form the backbone of the nation's critical infrastructure, delivering electricity, water, and energy that sustain every aspect of daily life and industrial activity. Yet, despite their strategic importance, these SOEs currently operate without a standardized and legally mandated BCP framework. Considering the increasing cyber threats, extreme weather events, and complex interdependencies among essential utilities, the absence of structured continuity mechanisms represents a systemic vulnerability. Even a single operational failure in one of these entities can trigger cascading disruptions across multiple sectors affecting hospitals, transportation, manufacturing, and public safety.

While Azerbaijan has made remarkable progress in strengthening its governance and risk management systems, past incidents within these organizations – though not publicly detailed – have exposed the fragility of existing resilience structures. These lessons underline an urgent need to institutionalize business continuity as a core pillar of national risk governance.

The introduction of mandatory BCP requirements across key SOEs is therefore not merely a procedural improvement, but a strategic safeguard to ensure that essential services remain reliable, citizens remain protected, and the national economy remains resilient in the face of disruption.

Recommendation:

We recommend that the Government of Azerbaijan, in cooperation with relevant ministries and regulatory agencies, introduce a mandatory requirement for key SOEs (e.g., Azerishiq, Azersu, Azerenerji) to design, implement, and maintain comprehensive Business Continuity Plans (BCPs).

Key steps include:

- Develop and publish a BCP framework for essential services aligned with international standards (e.g., ISO 22301);
- Mandate risk assessments and scenario-based continuity planning for critical functions;
- Establish a national oversight body or inter-ministerial coordination platform for monitoring BCP readiness across SOEs;
- Conduct periodic BCP testing and simulation exercises, with reporting obligations to sector regulators or the Cabinet of Ministers;
- Encourage private-public partnerships for knowledge transfer and technical capacity building;
- Introduce incentives for SOEs with demonstrably strong BCPs (e.g., procurement advantages, tax benefits);
- Ensure board-level ownership of business continuity and integrate BCP metrics into performance reviews of senior executives;

2. A phased approach to internal capital adequacy (ICAAP) implementation

It is proposed that the Internal Capital Adequacy Assessment Process (ICAAP) be implemented in the banking sector through a phased and risk-sensitive approach. Such an approach may facilitate a more balanced application of regulatory requirements by taking into account the size, systemic importance, and risk profile of banks, while also contributing to the optimization of the overall compliance burden across the sector.

Recommendation:

Within this framework, the following measures may be considered appropriate for implementation:

- a) At the initial stage, the application of the ICAAP requirement may be considered on a mandatory basis for large and systemically important banks classified under Tier 1, while its application to other banks may be envisaged at subsequent stages.
- b) The ICAAP process may be progressively and, where appropriate, on a voluntary basis integrated into the ARAS risk-based assessment system, thereby allowing banks to benefit from a sufficient transition period to develop internal capacity and practical experience in internal capital planning and risk assessment.

IX TRAVEL,
HOSPITALITY, AND
TOURISM

1. Green Key certification as part of the hotel classification process

The current hotel classification process does not include environmental sustainability criteria, which limits the industry's ability to align with global best practices. The Green Key certification is an internationally recognized eco-label, and its absence from classification standards restricts the incentives for hotels to adopt sustainable practices. This omission negatively impacts the country's reputation for sustainable tourism and its appeal to eco-conscious travelers.

Recommendation:

It is recommended to integrate Green Key certification into the national hotel classification system. This will encourage sustainability initiatives across the industry and position the country as an eco-friendly tourism destination. Implementation can be phased in over a transition period, with hotels receiving support to meet certification criteria.

2. Exemption of OS&E and FF&E items from customs duties

Currently, OS&E (Operating Supplies & Equipment) and FF&E (Furniture, Fixtures & Equipment) used in hotel operations are subject to customs duties, increasing the financial burden on hoteliers. These costs reduce investment in quality infrastructure and guest experience. The added expenses also make hotel development and refurbishment less competitive compared to regional markets.

Recommendation:

It is proposed that OS&E and FF&E items be exempt from customs duties to reduce hotel operational costs and enhance investment in high-quality hospitality infrastructure. This measure will support the industry's growth and attract international investment in tourism.

3. Establishing a National Tourism Promotion Fund

One of the key challenges in the tourism sector is the lack of adequate promotion for various destinations within the country. While major cities or well-known tourist hotspots often receive significant attention, many other regions remain underrepresented in international marketing efforts. This imbalance limits the potential of the country's overall tourism industry and prevents lesser-known destinations from attracting visitors.

Recommendation:

To address this issue, a **National Tourism Promotion Fund** should be created. This fund would be financed by a small percentage-based contribution from all hotels and restaurants across the country. The funds raised would then be dedicated exclusively to international tourism promotion campaigns in key foreign markets.

Benefits of the Fund:

Fair contribution model – Since all hospitality businesses benefit from increased tourism, a small percentage-based contribution ensures collective responsibility.

Targeted international promotion – The funds would be strategically invested in marketing campaigns, digital advertisements, international tourism fairs, and influencer partnerships to attract visitors from new markets.

Balanced destination development – Instead of focusing solely on major cities, the fund would support a diverse range of destinations, ensuring that lesser-known regions also gain visibility.

Sustainable growth – With continuous funding, the country's tourism sector can evolve in a structured way, making it more competitive on a global scale.

By implementing this model, the country can significantly enhance its tourism promotion strategy and ensure that all destinations receive the visibility they deserve.

4. Reduction in property taxes for hotels, with potential waivers

High property taxes increase the financial burden on hotel owners, reducing their ability to invest in infrastructure, staff training, and guest services. Compared to competing destinations, these costs make hotel operations less sustainable.

Recommendation:

A reduction in property taxes for hotels, with the possibility of complete waivers for newly built or renovated properties, is recommended. This will encourage further investment in the hospitality sector, leading to improved service quality and increased competitiveness in the international market.

5. Introduction of a minimum threshold for hotel rates (ADR)

Price dumping in the hotel industry negatively affects service standards and profitability. Without a minimum ADR (average daily rate), hotels may engage in unsustainable pricing strategies that undermine industry growth and service quality.

Recommendation:

A minimum ADR should be introduced to ensure sustainable pricing strategies. This measure will protect service standards, maintain fair market competition, and enhance the overall guest experience at the destination.

6. Visa facilitation waivers for key source markets

Complex visa procedures and high visa costs discourage international travelers from visiting the country. Competitor destinations with more relaxed visa policies attract a larger share of tourists.

Recommendation:

It is recommended to introduce visa waivers or simplified visa procedures for key source markets. This will increase tourist arrivals, boost hotel occupancy rates, and strengthen the country's position as a leading destination.

7. Reduction of landing fees at GYD to decrease costs and increase flight frequency

Currently, high landing fees at Heydar Aliyev International Airport (GYD) increase operational costs for airlines, limiting the number of flights and reducing connectivity. This impacts on inbound tourism and hotel occupancy.

Recommendation:

A reduction in GYD landing fees is proposed to make flights more affordable and increase the number of direct connections. This will enhance the country's accessibility and attract more tourists.

8. Hosting international sporting events, concerts, and large conventions to boost tourism

A lack of large-scale international events limits year-round tourism demand. Competitor destinations attract visitors through global exhibitions, sports tournaments, and concerts, while the country is yet to fully leverage such opportunities.

Recommendation:

It is recommended to prioritize the hosting of international sporting events, concerts, and large conventions. A dedicated event calendar and strategic bidding for global exhibitions will enhance tourism inflows and benefit hotels.

9. Extension of Formula 1 and similar major events

The Formula 1 event has proven to be a major source of tourism and international visibility. However, the current contract is time-limited, and its potential discontinuation poses a risk to the tourism sector.

Recommendation:

It is proposed to extend the Formula 1 contract and actively seek similar large-scale events to maintain the country's status as a premier event destination. This will ensure long-term benefits for the hospitality sector.

X SUPPLY
CHAIN

A. Amendments to procedures required for trade facilitation

1. Article 74 – Allowing businesses to benefit from the customs warehousing procedure and permitting the placement of stored goods under the re-export customs regime without releasing them for free circulation

Through large-scale investments in infrastructure projects, Azerbaijan is positioning itself as a logistics hub for trade between East and West. The completion of the Baku-Tbilisi-Kars railway and the Alat Port has created the potential for a major transit corridor linking Eastern, Central, and South Asia with Europe. Azerbaijan has the capacity to become a regional distribution center serving both European and Asian markets. To achieve this goal, it is essential to establish an efficient customs regime that enables the opening and operation of regional distribution centers in Azerbaijan.

Currently, however, the Customs Warehousing Procedure under Article 74 does not allow businesses to fully utilize distribution opportunities. Goods imported by a distributor and stored under this regime cannot be cleared by the domestic purchaser after being sold.

In addition, due to the global sanctions imposed on the Russian Federation and the Republic of Belarus, exports of certain goods, even those not directly subject to sanctions are restricted. Meanwhile, identical goods are exported from neighboring countries, thereby reducing Azerbaijan's potential trade turnover.

Recommendation:

- 1) Introduce a mechanism allowing goods stored under the Customs Warehousing Procedure (Article 74) to be cleared directly by the domestic purchaser in their own name after acquisition.
- 2) For re-export operations to the Russian Federation and the Republic of Belarus, define and approve specific commodity nomenclature codes and classifications for goods not subject to sanctions, and remove existing restrictions on their re-export.

2. Establishment of alternative customs laboratories

The need for efficient and timely customs clearance procedures within the customs authorities of the Republic of Azerbaijan and the high workload of the centralized customs examination department are currently resulting in delays. Considering the increasing potential of the Republic of Azerbaijan to become a logistics hub, the workload of the centralized customs examination department is likely to increase further, leading to additional delays. In order to optimize import and export processes, enhance efficiency and responsiveness, and ensure transparency for all stakeholders, we recommend the following measures.

Recommendation:

Separate customs examination departments are established within selected customs offices, determined according to modes of transport, geographical location, and import/export volumes, in order to address specific issues related to the import or export of goods.

These separate customs examination departments operate independently, while maintaining coordination with the centralized customs examination department to ensure consistency and compliance with customs regulations.

The participation of accredited private-sector specialized laboratories, certified by the customs authorities, should be enabled in the customs examination process.

3. Simplification of the reconciliation process for defective/damaged export goods

The need to align the legislation of Azerbaijan on compensation for damaged or defective exported goods with internationally accepted practices has become a pertinent issue. Considering the difficulties faced by exporters in meeting full payment requirements within the prescribed time frames, it would be appropriate to establish a simplified procedure that ensures reasonable compensation without subjecting enterprises to excessive penalties.

Recommendation:

1) The establishment of the legal framework

- The Customs Code should be amended to allow post-export adjustments in documented cases of spoilage or damage.
- Eligible products (perishable goods) and an acceptable loss threshold (for example, up to 5%) should be determined.

2) Documentation and evidence

Exporters shall submit the following documents within 90 days of the goods' arrival at the destination:

- Buyer's acceptance report (indicating the net quantity of saleable goods);
- Issued credit note;
- Bank transfer document confirming the actual payment

3) Customs adjustment

- Based on the evidence provided, the customs authority shall adjust the values indicated in the export declaration.
- The initial declaration shall remain in trade statistics.
- The adjusted value shall be taken into account for tax, currency control, and AML purposes.

4) Digital integration

- A simple customs-tax-bank digital interface should be developed to allow

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exporters to upload supporting documents.

- Automatic reconciliation should be established between customs declarations and bank transfers.
- Transactions exceeding tolerance thresholds should be flagged for manual audit.

5) Risk management and AML

- Businesses with consistent and documented loss indicators should be allowed to operate without interruption.
- Exporters exhibiting unusual or excessive discrepancies should be subject to risk-based investigation to prevent abuse, false valuation, trade-based money laundering, and capital flight.

Comparative Table: Adjustment of records for the export of perishable goods in European practice

Country	Mechanism	Required documents	Anti-money laundering and compliance measures
Netherlands	A loss tolerance of 2–3% is accepted for perishable goods. Larger discrepancies require an independent inspection report.	Independent inspection report (SGS, Bureau Veritas, etc.) Credit note Proof of payment	The customs–tax system automatically reconciles declarations with payments. Suspicious discrepancies are flagged for audit.
Germany	Post-clearance amendment of the customs declaration (<i>Nachträgliche Berichtigung</i>) is possible through the ATLAS e-customs system.	Buyer's acceptance report Credit note Bank transfer records	The ATLAS system integrates customs, tax, and banking data. Adjustments are recorded electronically to prevent misuse.
Spain	Credit notes for spoiled goods are accepted if supported by a certificate from the Chamber of Commerce	Credit note Chamber of Commerce loss certificate Buyer's final invoice	Involvement of the Chamber provides independent verification. Under the Common Agricultural Policy (CAP), only market-quality products are recorded.

Poland	Official loss/percentage tables are established by product categories (e.g., fruit, dairy products)	If within the normative loss threshold - no documentation required. If exceeding the threshold - buyer's confirmation and inspection report.	Repeated cases of excessive losses are subject to risk-based audit. Preventive measures are applied against inflated or abusive credit notes.
Italy	A provisional invoice is issued at the time of shipment, followed by a final adjusted invoice after delivery	Provisional invoice Final adjusted invoice Credit note (if applicable)	The tax authority, together with customs, accepts adjusted invoices. Exporters with frequent discrepancies are subject to risk-based inspections.

4. Simplification of customs clearance for groupage truck shipments and promotion of competition in warehouse logistics

Issues arising from challenges and inefficiencies in the current customs release process for groupage consignments delivered by freight trucks in the Republic of Azerbaijan remain pertinent. Considering the potential damage to goods, as well as delays and increased transportation costs faced by participants in foreign economic activity, it is essential to improve the process by directing groupage consignments to customs warehouses for unloading and storage prior to customs clearance. Taking into account the operational inefficiencies and the high official and unofficial payments associated with existing private operators serving customs freight terminals, we propose the following measures.

Recommendation:

Importers of groupage shipments delivered by road transport should be granted the right to freely choose their destination customs authority.

The operator serving the customs authority shall be responsible for unloading goods from vehicles and for their safe storage until the completion of customs clearance.

5. Establishment of an API exchange system between the taxpayer and the State Tax Service

Digital transformation in tax administration is a fundamental prerequisite for enhancing efficiency, ensuring transparency, and facilitating the business environment. One of the primary obstacles for businesses in Azerbaijan is the need to enter tax-related information manually twice – both into corporate ERP systems and into the ERP platform of the State Tax Service.

To eliminate this, we propose the introduction of API-based integration. Such

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integration will enable companies to transmit financial, invoicing, and tax information directly from their internal ERP systems to the ERP system of the State Tax Service. Consequently, the need for manual data entry will be removed, errors will be reduced, and real-time tax compliance will be ensured.

This initiative is consistent with global best practices and has already been successfully introduced in Kazakhstan, Estonia, and other digitally advanced jurisdictions.

The current challenges concerning the management of tax information in Azerbaijan are as follows:

- **Double data entry burden** – Companies are required to manually enter tax information both into their internal ERP systems and into the State Tax System, resulting in inefficiency and loss of time.
- **Increased risk of error** – Manual data entry gives rise to inaccurate reporting, discrepancies, and compliance risks.
- **Delayed tax reporting** – The absence of real-time data exchange results in delays in reporting and an increase in administrative burdens.
- **Limited digitalization** – Although electronic invoicing and digital tax submissions are available, the absence of API-based automated data transmission prevents the digital transformation process from achieving full effectiveness.

Recommendation:

We propose the implementation of an Application Programming Interface (API) framework that would provide the following:

- 1) Automated data transmission – Seamless transfer of tax invoices, VAT records, and financial statements from corporate ERP systems to the ERP system of the State Tax Service.
- 2) Real-time verification – Immediate feedback on errors and compliance issues.
- 3) Secure authorization – Protection of data through encrypted and blockchain-based API protocols.
- 4) Two-way communication – Businesses will be able to directly access tax records, audit logs, and compliance reports from the State Tax ERP system.

B. Recommendations on the Law “On Public Procurement”

In recent years, significant progress has been observed in the area of public procurement and its oversight in the Republic of Azerbaijan. Since 2019, the process of digitalizing public procurement has been launched with the aim of ensuring greater transparency in the sector. These reforms have been positively received by the private sector.

To further strengthen digitalization, improve oversight efficiency, ensure transparency in public procurement, and enhance the effectiveness of procedures, a new Law of the Republic of Azerbaijan “On Public Procurement” was adopted on August 19, 2023 and came into force in 2024.

Although the new Law addresses many issues of interest to the private sector, we would like to present our position and recommendations on certain provisions and aspects of the new legislation.

1. Non-application of the Law to certain state entities

Under the new law, procurement of goods, works, and services by commercial legal entities whose supervisory composition (board of directors) is approved by the President of the Republic of Azerbaijan or in agreement with him does not fall within the scope of the Law. As a result, large state-owned companies are effectively excluded from the public procurement framework, and due to the absence of standardized procurement procedures, the participation of private sector players in their tenders is limited and potentially non-transparent.

Despite the passage of two years since the adoption of the new Law, almost none of the exempted state-owned enterprises have established systems ensuring electronic procurement or transparency in their operations.

Given that these privileged state entities play a significant role in the national economy and manage substantial procurement budgets, it is essential to ensure that public funds are used efficiently, transparently, and inclusively.

Recommendation:

A new legislative framework should be developed to regulate the procurement of goods, works, and services by commercial legal entities whose supervisory composition (board of directors) is approved by or coordinated with the President of the Republic of Azerbaijan. This new legislation should include the following provisions to ensure the effective participation of the private sector:

- Implementation of corporate governance standards across all state-owned enterprises excluded from the Law “On Public Procurement,” ensuring principles of transparency, fairness, and inclusiveness in procurement.
- Introduction of open electronic platforms for managing all procurement processes (including tender announcements, submission of proposals, evaluation, and contract awards) by state-owned enterprises not covered by the Law “On Public Procurement.”

2. Preparation of objective and inclusive technical specifications in procurement

2.1. Restrictive requirements

In certain tenders, technical requirements are deliberately formulated to ensure the victory of a specific company or product. The parameters used in drafting technical specifications such as dimensions, energy consumption, materials, connection mechanisms, or design, often correspond exclusively to a single manufacturer's product. In some cases, the item to be procured is defined so narrowly that it fits only one specific product or supplier.

As a result, tender outcomes may be pre-determined, distorting the competitive environment. Consequently, the procuring entity is often forced to purchase more expensive products, while local producers and other eligible suppliers are excluded from participation.

Recommendation:

A tender oversight mechanism should be established to identify cases where technical specifications correspond exclusively to a single brand or product. In such instances, a complaint procedure must be automatically activated, and these cases should be formally recognized as violations of procurement law. Measures should be taken from the outset before the completion of the tender, rather than cancelling the process afterwards.

2.2. Combination of goods and services with different characteristics in a single procurement

In many public procurement processes, unrelated goods and services are combined within a single procurement lot. Frequently, goods, works, or services belonging to different categories are grouped together, making it impossible for suppliers to provide all items jointly.

As a result, entrepreneurs are often forced to participate in tenders that include goods, works, or services outside their area of expertise, or are excluded from participation altogether. Combining such diverse categories within one lot also complicates the objective pricing of tenders.

Moreover, micro and small enterprises are discouraged from participating, which undermines the principle of free competition. In addition, the aggregation of goods and services leads to the generalization of procurement titles and classifications, making it more difficult to identify relevant tenders in search systems.

Recommendation:

1) Ensure that only goods belonging to the same class (or family) are grouped within a single procurement to create more homogeneous tenders. The combination of goods and services within one tender should be prohibited. During the publication of tender announcements, the system should automatically verify classification codes and impose technical restrictions on the inclusion of incompatible product groups (segments).

2) The system should block tenders that attempt to include different classification codes within the same competition. In exceptional cases, apply the “multi-awarding” principle, whereby if a single tender covers different categories of goods or services, separate winners are determined for each category.

3) Introduce technical solutions to verify categorization before the announcement of a tender and to apply preventive measures. For example, artificial intelligence tools may be used to screen and validate category consistency and to recommend appropriate lot structuring prior to tender publication.

2.3. Enhancing transparency and preventing misuse in the determination of estimated value

The estimated value mechanism grants procuring entities the right to set an “approximate price,” but in practice, this often leads to the following issues:

- Artificial inflation of prices above actual market levels;
- Exclusion of micro and small enterprises due to the lack of prior opportunities to participate in market surveys;
- Artificially increased tender participation fees and document security costs, calculated based on the inflated estimated value.
- These factors create additional expenses for entrepreneurs, while also increasing the administrative burden and liability risk for procuring entities. As a result:
 - Budgetary and documentation burdens rise;
 - Market access is restricted, keeping micro and small businesses out of tenders;
 - Fair competition among suppliers is undermined, leading to increased misuse;
 - Estimated value protocols often become speculative and unjustified.

Recommendation:

- 1) Replace the concept of “estimated value” with “budget limit.” Procuring entities should disclose a transparent financial ceiling for each tender in the announcement, instead of setting an estimated price.
- 2) Evaluation should be based solely on the actual bids submitted by participants.
- 3) Tender documents should indicate only the maximum financial threshold, without calculating or referencing an estimated value.

2.4. Lack of oversight of the implementation of procurement contracts

In public procurement, there is currently no effective oversight mechanism for monitoring the execution of contracts after the tender winner has been selected. In some cases, procuring entities do not perform the acceptance of goods and services in accordance with the tender specifications, which creates opportunities for collusion and misuse between representatives of the procuring organization

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and supplier companies. Delivery and handover deadlines are often not aligned with the planned work schedules, resulting in unjustified penalties imposed on suppliers for delays beyond their control.

Additionally, some tender specifications include unrealistically short implementation periods, allowing the procuring entity to favor a particular company by helping it technically qualify and later granting leniency in contract performance.

As a result, entrepreneurs face serious challenges such as:

- Discrepancies between the supplier's contractual obligations and the actual implementation;
- Subjective acceptance processes, leading to unfair exclusion of other qualified suppliers from the market;
- Unrealistic delivery terms and contract conditions, creating unwarranted penalty risks;
- Lack of public information on contract performance, which reduces private sector trust in public procurement.

Recommendation:

- 1) Establish specialized processes for monitoring the performance of procurement contracts.
- 2) Ensure that oversight of contract implementation is carried out in coordination with relevant supervisory authorities.
- 3) Introduce a supplier performance evaluation system to assess whether contractors fulfill their obligations in compliance with the agreed technical specifications.

XI TAX AND
CUSTOMS

A. Tax matters

1. Allowing payments other than taxes from a VAT deposit account

Since the introduction of the VAT deposit account system, this mechanism has made a significant contribution to enhancing transparency, strengthening discipline, and reducing tax evasion in tax administration. In particular, during the initial years, the system served as an effective tool for improving tax compliance. However, under current conditions, the system restricts business liquidity, weakens working capital, creates an additional financial burden, and has a disproportionately negative impact on small and medium-sized enterprises. As a result, the financial resources of compliant taxpayers are artificially withdrawn from circulation. Substantial amounts of funds that are vital for non-oil sector economic activity remain effectively “frozen” in deposit accounts, with their use limited by legislation. In addition, the current mechanism sometimes creates conditions for non-genuine transactions aimed at the so-called “cash-out of VAT.” At the present stage, the environment for VAT administration has become sufficiently transparent through the use of electronic invoices and the deposit account mechanism. Therefore, it is considered that allowing the funds held in deposit accounts to be used not only for tax payments but also for other mandatory state and budget payments, and eventually for commercial transactions, would not contradict the objectives of tax administration. On the contrary, it would increase liquidity in the national economy and stimulate commercial activity.

Recommendation:

To enhance business financial flexibility and inject additional liquidity into the national economy, the following measures are recommended:

- **Amendments to the Tax Code:** Allow the funds accumulated in deposit accounts to be used, in the first stage, for other state-related mandatory payments, such as social insurance contributions, compulsory health insurance fees, and customs duties, in addition to tax payments;
- **Expansion for commercial settlements:** At the next stage, enable the use of these funds for commercial transactions between taxpayers;
- **Transitional mechanisms:** Introduce clear administrative procedures and efficient reporting mechanisms to ensure transparency and control during the transition process.

2. Carryforward of tax losses

According to the current Tax Code, the portion of a taxpayer’s deductible expenses that exceeds their income may be carried forward and deducted from profits for up to 5 subsequent years.

However, in several industries that require large-scale capital investment, such as mining, manufacturing, and construction, newly established enterprises typically require more than 5 years to reach profitability. Consequently, taxpayers operating in these sectors are often unable to offset accumulated losses within

the 5-year period, resulting in the forfeiture of those losses.

As a result, such business entities are deprived of the opportunity to recover prior-year losses, which negatively affects their long-term financial sustainability and investment capacity. A brief comparative analysis of international practice shows that countries with economic indicators similar to Azerbaijan generally allow for longer carryforward periods. This trend is also widely observed among OECD member states.

Country	Limitations
Georgia	Generally, 5 years; may be extended up to 10 years at the taxpayer's request.
Russian Federation	No limitation.
Ukraine	No limitation.
Kazakhstan	10 years.
Lithuania	No limitation.

It should also be noted that, in the practice of several countries, there are mechanisms allowing loss carryback, enabling losses to be applied to previous years.

Recommendation:

It is recommended that the Tax Code be amended to allow the portion of a taxpayer's deductible expenses exceeding their income to be carried forward for a longer period (at least 10 years) and offset against future profits.

3. Differential approach to tax violations (“reasonable cause” exceptions)

Under the current Tax Code, when field tax audits result in the reduction of tax liabilities, a financial sanction equal to 50% of the additionally assessed tax is applied. Compared with international practice, this approach is considered excessively strict and does not provide differentiated treatment for bona fide taxpayers, effectively placing them on the same level as intentional tax evaders.

In most cases, disputes between the tax authorities and bona fide taxpayers do not arise from deliberate tax evasion, but rather from the following factors:

- Ambiguities and multiple possible interpretations within the legislation;
- Differences in accounting approaches regarding the timing of recognition of income, expenses, and losses;
- Methodological inconsistencies between accounting and tax reporting;
- Divergent views on the attribution of a tax liability to a specific period, rather than on its existence.

In such circumstances, even where the tax has in fact been paid (albeit in a different period), the application of a 50% financial penalty is neither reasonable

nor proportionate.

Pursuant to Article 3.11 of the Tax Code, all ambiguities and inconsistencies in tax legislation must be interpreted in favor of the taxpayer. Furthermore, Articles 54 and 55 of the Tax Code identify cases excluding liability and fault. In line with this logic, it is proposed to introduce the concept of “reasonable cause” as a separate legal norm in the legislation.

Recommendation:

To ensure fairness, protect bona fide taxpayers, and align national practice with international standards, the following measures are proposed:

- 1) Introduce a new legal norm (“Reasonable Cause”):
 - a. Cases of legislative ambiguity or multiple interpretations;
 - b. Actions taken based on legal or professional advice that is deemed reasonable;
 - c. Situations where the tax has been actually paid, even if in a different reporting period, in cases of dispute regarding the recognition of income, expenses, or losses – all to be recognized as “reasonable cause.”
- 2) The obligation to prove the existence of a reasonable cause shall rest with the taxpayer.
- 3) Where reasonable cause is established, interest shall remain applicable, but financial sanctions shall not be imposed.

4. Criminal liability for violation of tax legislation and exemption from criminal liability

Under the legislation of the Republic of Azerbaijan, violations of tax law may, in certain circumstances, result in criminal liability. Such liability is defined under Article 213 of the Criminal Code (CC) of the Republic of Azerbaijan. According to this provision, intentional evasion of taxes (and other mandatory payments) to a significant extent (exceeding 50,000 AZN) constitutes a criminal offense.

Under Article 99-4.5 of the Criminal Code, an offense under Article 213 is not deemed to have been committed by a legal entity. In its Decision of September 9, 2013, titled “On the Interpretation of Article 213.1 of the Criminal Code of the Republic of Azerbaijan and Articles 78.3 and 78.4 of the Tax Code of the Republic of Azerbaijan,” the Plenum of the Constitutional Court (“the CC Decision”) clarified that the subjects of the offense under Article 213 include individual taxpayers and responsible officers of legal entities, such as the head (director), chief accountant, or other persons legally or contractually entrusted with accounting, financial reporting, and tax documentation duties.

According to the CC Decision, “In cases of deliberate tax evasion, the taxpayer may be held administratively liable for the non-payment of taxes, while the authorized person may be held criminally liable under Article 213 of the Criminal Code.” The Constitutional Court explicitly stated that, to establish a criminal act under Article 213.1, there must be direct intent by the accused person to evade

tax obligations. The Court's official interpretation provides that: "The corpus delicti of the offense arises only when the act is committed intentionally and involves the deliberate violation of tax legislation aimed at evading the payment of taxes."

The CC Decision further illustrates instances that constitute intentional tax evasion, such as:

- Deliberate omission of income or taxable items from tax returns;
- Understatement of actual income used for tax calculation purposes;
- Inflation of deductible expenses to reduce taxable income.

At the same time, under Article 73-2 of the Criminal Code, a person who has committed an act (or acts) of tax evasion is exempted from criminal liability if the damage caused by the offense is fully compensated. Simultaneously, according to Article 40.4 of the Criminal Procedure Code (CPC), when the circumstances provided for in Article 73-2 of the Criminal Code are present, the investigator or inquiry officer shall decide not to initiate or to terminate criminal prosecution for crimes committed in the field of economic activity.

An analysis of the Constitutional Court Decision and the relevant provisions of the CPC shows that, in such cases, since the corpus delicti (the elements of the crime) specifically, the presence of intentional guilt is not established, the criminal proceedings may, in fact, be terminated under CPC Article 39.1.2 (absence of elements of a crime) or Article 39.2 (when the person has no connection with the offense or their guilt is not proven). However, termination of prosecution under Article 40.4 of the CPC implies that criminal liability has already arisen, which also presupposes that intent (*mens rea*) has been established. This approach and practice are inconsistent with the interpretation provided in the Constitutional Court Decision, as well as with international practice concerning the qualification and investigation of tax-related offenses.

Under the current legislation, even when the taxpayer fully pays the tax liabilities assessed as a result of a tax audit, the responsible person of the taxpayer (e.g., director, chief accountant, financial manager, etc.) is still deemed to have committed a tax evasion offense and is merely exempted from criminal liability due to repayment of the tax debt. In other words, criminal proceedings are terminated on accusatory grounds, without establishing the degree of culpability or intent.

A review of the practices of the OECD and other countries regarding the fight against tax crimes provides several relevant examples. In the OECD report "Fighting Tax Crime: The Ten Global Principles," the first principle is defined as "Ensuring that tax offenses are criminalized." The report further emphasizes that while the specific methods of criminalization differ among jurisdictions, tax offenses constituting crimes must be clearly defined by law, regardless of the detailed legal framework in each country. The report lists the following examples of intentional tax offenses:

- Destruction of accounting records;
- Deliberate non-compliance with tax obligations to obtain financial advantage;

Tax and customs

- Tax evasion through fraud or illegal practices;
- Intentional understatement of tax liabilities by using forged or fictitious invoices;
- Fraudulent refund or credit claims, and similar acts.

Based on these examples, it becomes clear that not every tax violation constitutes an intentional act and therefore cannot automatically amount to a criminal offense. Each jurisdiction has its own legal system, reflecting its cultural context, policy priorities, and institutional structure. The OECD report also reiterates that countries are free to determine their own approaches to addressing such matters. For instance, under U.S. law, a criminal charge for a tax offense requires proof of intent (willfulness); negligence, even gross negligence, is not sufficient for criminal prosecution.

Another example is the Russian Federation, where, since January 1, 2023, a criminal case for a tax offense may be initiated only based on materials submitted by the tax authorities and only if the taxpayer fails to pay the assessed tax debt in full within 75 days of the date the decision on liability for the tax offense becomes final.

Recommendation:

It is considered more appropriate to clearly define the offense of tax evasion and to establish detailed procedures for the initiation and termination of criminal proceedings related to tax violations. In particular, in cases where intent to evade taxes cannot be established, criminal prosecution should be terminated not under Article 40.4 of the Criminal Procedure Code, but rather on exculpatory grounds provided by (i) Article 39.1.2 – when there is no corpus delicti (no elements of a crime) in the act; or (ii) Article 39.2 – when the person subject to prosecution has no connection with the offense or their guilt has not been proven.

5. Tax barriers in the second-hand market

Regarding VAT

Under the current tax legislation, when goods are purchased from individuals who are not registered as taxpayers, and subsequently resold on the second-hand market, VAT-registered entities are required to apply value-added tax (VAT) on the full sale price.

This practice artificially inflates prices for goods sold on the second-hand market by VAT-registered companies and creates unfair competition in certain sectors (e.g., sales of automobiles and mobile phones). It also hinders or renders unviable business models that rely on purchasing goods from individuals and reselling them to consumers.

The margin scheme, a special VAT regime applied in the European Union to second-hand goods, provides a more equitable solution. Under this mechanism, VAT is calculated only on the margin – that is, the difference between the

selling price and the purchase price. It should also be noted that the OECD has recommended a similar approach in its guidance on VAT policy for the second-hand goods sector.

Limitation on deductible expenses for corporate income tax purposes

Under Article 109.8 of the Tax Code, expenses related to goods purchased, based on a purchase act, from individuals not registered as taxpayers, are deductible only up to 2% of the taxpayer's annual income or expenses.

According to the current version of the Tax Code, an electronic purchase act is a document issued when goods are purchased from non-registered individuals. As a result of this limitation, companies operating in the second-hand market, which acquire goods in large quantities from individuals not registered with the tax authorities are unable to treat the majority of their incurred costs as deductible expenses for profit tax purposes.

Recommendation:

Taking the above into account, it is proposed to amend the Tax Code as follows:

- 1) Apply VAT only to the sales margin (the margin scheme) for second-hand goods.
- 2) Abolish the 2% limitation on deductible expenses for goods purchased from individuals based on a purchase act.

6. Workforce provision

Entities providing workforce supply services (“outstaffing” services) generally enter into contracts with both the employees and the client or host company. These contracts define the terms of employment, including the duration, remuneration, benefits, working hours, and other relevant conditions. While such entities are considered the formal employers of the seconded staff, the client (the host company) may also bear certain legal rights and obligations toward the assigned employees. For example, the client is typically responsible for ensuring a safe working environment, compliance with labor and migration laws and treating workers fairly and respectfully.

At the same time, the supervision, direction, and control of the employees' daily work are generally carried out by the host company, and the employees are accountable to the host company for their performance. Within this legal framework, the concepts of “formal employer,” “economic employer,” and “real (or actual) employer” have emerged for taxation purposes. These concepts are reflected in the OECD Model Tax Convention, its commentaries, and related publications governing international taxation.

According to the interpretations of Article 15 of the OECD Model Tax Convention, in determining the right of taxation and preventing double taxation of employment income, the principle of substance over form applies. Consequently, the right to tax employment income is attributed not to the country where the formal employer

(the contractual employer) is resident, but to the country in which the individual who actually utilizes the employee's labor (the host company) conducts its activities. In this context, the following factors are used to determine the economic employer:

- The authority to instruct the employee on how the work should be performed;
- Control and responsibility over the place of work;
- Provision of tools and materials necessary for the work;
- Authority to set the employee's work schedule, among others.

Subsidiaries or branches of multinational or foreign companies operating in Azerbaijan often obtain workforce supply ("outstaffing") services from non-resident entities. This gives rise to a number of inconsistencies that are not aligned with current international taxation practices.

From an economic perspective, the non-resident entity supplying the personnel is not the real employer of the seconded employees. Likewise, the activities performed by such employees in Azerbaijan reflect the business operations of the host company, not those of the non-resident supplier. However, because the concepts of "real employer" or "economic employer" are not defined in Azerbaijan's tax legislation, such transactions are not assessed based on their economic substance.

As a result, the activities of seconded employees in Azerbaijan are incorrectly attributed to the non-resident entity, causing such activities to be treated as the non-resident's business activity in Azerbaijan. Consequently, under Article 19 of the Tax Code, this often leads to the unwarranted creation of a permanent establishment (PE) for the non-resident. Furthermore, in these workforce supply arrangements, the remuneration of the seconded employees is typically paid indirectly by the host company. In practice, the non-resident entity (supplier) pays the employees' salaries on behalf of the host company. Thereafter the host company subsequently reimburses the non-resident for these salary payments. Therefore, the non-resident acts merely as an agent in administering payroll, while the actual economic cost is borne by the host company. Under these contracts, the non-resident supplier is also paid a service or commission fee for sourcing and providing staff and for handling payroll on behalf of the host company. However, in practice, the tax authorities often fail to distinguish between salary reimbursements and service fees, treating the entire amount as the taxable service income of the non-resident. As outlined above, the concepts of "formal (legal) employer" and "actual (economic) employer," which are widely used in international taxation and elaborated upon in the OECD Model Tax Convention Commentary, should also be reflected and codified in Azerbaijan's tax legislation.

Recommendation:

It is commendable that recent amendments to the Labor Code already allow certain relationships to be classified as employment relations based on their actual substance rather than formal documentation. Building on this positive development, and to ensure alignment between economic reality and tax regulation, it is recommended that the current tax legislation be amended as follows:

- 1) Introduce the concepts of “real employer” and “economic employer” into the Tax Code, define their criteria, and ensure that taxation is applied according to the economic substance of such relationships.
- 2) Specify that these relationships should not constitute a permanent establishment (PE) of the non-resident in Azerbaijan.
- 3) Stipulate that payments made to the non-resident as reimbursements of employee salaries shall not be considered Azerbaijani-source income and shall not be subject to withholding tax, nor treated as income derived from services rendered in connection with hydrocarbon activities under production sharing agreements (PSAs).

Treat these relationships as employment relations within the host company, and apply the relevant income tax, mandatory social insurance, unemployment insurance, and mandatory health insurance contributions under the applicable legislation to the remuneration paid to the employees.

7. Taxation of non-residents

Under Article 13.2.16 of the Tax Code of the Republic of Azerbaijan, the income of non-residents that is not attributable to a permanent establishment in Azerbaijan is subject to withholding tax at source. Based on this article, the taxation of non-residents generally depends on three key factors:

- The place where the service is actually performed (Articles 13.2.16.3, 13.2.16.17-1, 13.2.16.18);
- The type of income (Articles 13.2.16.4–13.2.16.14, 13.2.16.15–13.2.16.17);
- The location or registration of the non-resident or the non-resident’s bank (Article 13.2.16.14-1).

However, in practice, these provisions are not always applied as intended by the tax authorities. The main source of disputes typically arises from the interpretation and application of Article 13.2.16.18. In some instances, the broad (all-inclusive) interpretation adopted by the tax authorities leads to positions inconsistent with international tax practice, domestic legislative intent, and the provisions of double taxation avoidance agreements concluded between Azerbaijan and foreign states. Such inconsistencies result in the unwarranted taxation of certain types of income earned by non-residents in Azerbaijan and, in some cases, lead to double taxation.

Recommendation:

To address these issues, it is proposed to amend Article 13.2.16 of the Tax Code and implement the following measures:

- 1) Abolish Article 13.2.16.18, which has led to multiple interpretations despite being of limited substantive significance.
- 2) Introduce the concept of “Other Income” into the Tax Code
- 3) Exclude income not connected with activities carried out in Azerbaijan from the scope of taxation under this article.

8. Improvement of the State Tax Service’s information system on tax obligation determination practices

Currently, taxpayers have access to several tools to obtain clarifications regarding the application of tax norms. According to Article 15.1.2 of the Tax Code, taxpayers have the right to receive written explanations from the tax authorities concerning the application of tax legislation. Additionally, Article 77-1 of the Tax Code provides for an advance tax ruling mechanism, and an open Q&A section is available on the official website of the State Tax Service (STS).

While these tools have positive aspects, there are also practical challenges in their implementation. Written responses, though sometimes serving as protection against financial sanctions, may vary across similar cases, leading to inconsistency in application. The open Q&A section promotes transparency, yet lacks legal standing as a protection mechanism, and taxpayers cannot always rely on such responses for legal defense. The advance tax ruling procedure, while legally binding, involves complex administrative processes and applies only to large-scale transactions (minimum of 10 million AZN), rendering it inaccessible to small and medium-sized enterprises.

As a result, a large segment of taxpayers, especially SMEs, remain without access to flexible and reliable mechanisms that ensure legal certainty and consistency in the application of tax legislation.

Recommendation:

In order to reduce administrative burdens for both tax authorities and taxpayers, ensure consistency in law enforcement, and strengthen legal protection during tax audits, the following measures are recommended:

- Introduce a “Private Letter Ruling” (PLR) mechanism into the Tax Code;
- Allow taxpayers to submit official requests regarding planned or completed transactions;
- Publish anonymized versions of issued rulings on the official website of the State Tax Service, thereby creating a unified public database of interpretative guidance.

9. Taxation of share premium (emission income)

When a legal entity issues its shares at a price above their nominal value, the excess amount is recorded as “share premium” (emission income) and constitutes part of the company’s equity capital. It is common practice for shares to be issued at a premium, particularly when their market value exceeds their nominal value, a frequent occurrence in Initial Public Offerings (IPOs) and merger and acquisition (M&A) transactions. In recent years, with the growth of Azerbaijan’s M&A market, this issue has become increasingly relevant.

For legal entities with only one shareholder, the issuance of shares at nominal value does not result in any change in the shareholding structure, making this process more flexible. However, in cases involving two or more shareholders, the issuance of shares solely at nominal value fails to reflect the actual market value of existing shares during capital distribution. Therefore, when new shareholders are admitted, shares are typically issued at a premium.

Under the current Tax Code, the definition of “income” does not provide a clear approach as to whether share premium constitutes a taxable object. According to the International Financial Reporting Standards (IFRS), income is defined as an increase in assets or a decrease in liabilities, except when related to owner contributions or changes in equity capital. Thus, share premium is treated as an additional capital contribution by shareholders and forms part of equity, not taxable income. The lack of explicit regulation in the tax legislation leads to divergent interpretations, inconsistent practices, and disputes between taxpayers and tax authorities.

Recommendation:

To ensure clarity, support investment activity, and promote legal certainty, the following measures are recommended:

- 1) Introduce a clear provision in the Tax Code stating that share premium (emission income) is not subject to corporate profit tax.
- 2) Explicitly stipulate that share premium constitutes an additional capital contribution by shareholders and is not included in the definition of income.

10. Reflecting income and loss from the disposal of equity interests in tax returns

According to Articles 96.5 and 104.6 of the Tax Code, when equity interests or shares are disposed of at a price higher or lower than their proportionate share of net assets, the income subject to profit (corporate income) tax must be determined. Furthermore, Articles 142 and 143 of the Tax Code provide that the disposal of assets may result not only in income but also in a loss.

In practice, the disposal of equity interests or shares does not always result in profit; in certain cases, it leads to a loss, particularly when the net asset value of a legal entity has decreased. However, under the current form of the corporate income tax return, there is no mechanism to record such losses. The existing declaration

structure only allows for the recognition of income, preventing taxpayers from accurately reflecting their actual financial results, including losses. This limitation reduces the transparency of reporting and hinders the full protection of taxpayers' rights.

Recommendation:

To resolve this issue, enhance transparency, and safeguard taxpayers' rights, the following measures are recommended:

- 1) Amend the corporate income tax return to allow the inclusion of losses incurred from the disposal of equity interests and shares;
- 2) Reflect this change in line 207.1 of the corporate profit tax return;
- 3) Reflect the same change in line 1206.1 of the individual income tax return.

11. Tax implications arising from the provision of promotional products, free samples, discounts, and sales campaigns

In today's competitive business environment, offering promotional products, free samples, discounts, and conducting various sales campaigns are key marketing tools used to stimulate sales. By effectively implementing these tactics, businesses strengthen customer relations and market positions, which ultimately lead to higher sales and revenues. In turn, the growth in sales and revenue expands the tax base across various tax categories. Moreover, such sales promotion activities indirectly contribute to the development of entrepreneurship and investment activity in the country.

According to the Tax Code, one of the guiding principles of tax administration is that the tax system should promote entrepreneurial and investment activity. However, in practice, certain provisions of the current tax legislation do not sufficiently encourage these promotional and marketing activities. Under Article 142 of the Tax Code, when promo products or goods are provided free of charge or at discounted prices, the taxpayer is required to calculate income or profit tax based on the difference between the market value of the goods and their tax base value. Additionally, for VAT purposes, according to Article 159.4, such transactions are considered taxable supplies, and VAT is charged on their value. As a result, marketing activities that economically represent advertising or promotional expenses, which do not generate any real income element, are treated as if they create artificial taxable income, leading to unjustified additional tax liabilities.

To illustrate the inconsistency, consider the following example: If a taxpayer distributes promotional products or samples directly to customers, they incur both income and VAT liabilities. However, if the taxpayer instead contracts a third-party marketing company to purchase and distribute the same goods to customers, the third party's service fee is fully deductible as a marketing (advertising) expense, and no income is recognized on the goods themselves. In essence, both cases are economically equivalent, yet they result in different tax treatments, which contradicts the principle of substance over form.

Recommendation:

Therefore, the distribution of promotional goods to customers free of charge should be regarded as a material expense incurred in connection with sales activities and should not, in any form, create a taxable income element for the purposes of profit tax or VAT. At the same time, it should be taken into account that such sales promotion activities are aimed at increasing revenue, and the resulting growth in income ultimately expands the taxable base for both profit tax and VAT. Considering all these factors, a number of jurisdictions including Kazakhstan, Poland, the United Kingdom, and Russia have introduced full or partial exemptions from profit tax and VAT for such free promotional distributions carried out within the framework of sales promotion activities.

Taking into account the economic substance of sales promotion activities, we recommend that taxes be calculated based on actual figures in respect of the above-mentioned promotional distributions and discounts. Specifically:

- For profit tax purposes, no additional income element should be created based on market value for goods provided free of charge or at discounted prices. The value of such goods should be deducted from taxable income as marketing expenses or cost of goods supplied, in accordance with Article 143 of the Tax Code.
- For VAT purposes, the free provision of such goods should not be treated as a taxable transaction. In the case of discounted sales, VAT should be applied only to the actual sales price.
- Based on the experience of foreign jurisdictions, specific tax provisions should be introduced into the Tax Code to regulate the determination of the taxable base, as well as the documentation forms and procedures applicable to different types of discounts.

12. Volume-based trade bonuses

In many companies, it is common practice to provide bonuses or discounts to customers who reach a pre-agreed purchase volume within a certain period. This approach is considered a form of “wholesale discount” and serves to both increase sales volumes and strengthen long-term customer relationships.

Currently, the documentation of such bonuses and discounts is carried out through two main methods:

- By adjusting previous sales; or
- Through direct bonus payments pre-agreed in the contract.

The first method (sales adjustments) creates significant administrative challenges for both the seller and the buyer when multiple invoices and electronic invoices are involved. The second method (direct bonus payments) poses tax difficulties for the seller, since such payments are often not recognized as either deductible expenses or income reductions for tax purposes. At the same time, these bonuses

are treated as taxable income for the customer. As a result, the same economic amount is effectively subject to double taxation.

Thus, applying different tax treatments to economically identical bonus payments, one for the payer and another for the recipient, leads to discrepancies between accounting reality and tax rules, creating uncertainty and additional administrative burden for businesses.

Recommendation:

To resolve this issue, ensure a consistent tax approach, and promote fair taxation, we recommend the following measures:

- 1) Recognize bonuses paid by the supplier as deductible expenses;
- 2) Treat these bonuses as taxable income for the customer;
- 3) Since these payments do not create a VAT taxable base, the issuance of electronic tax invoices for such payments should not be required.

13. Tax base for corporate income tax

Due to the significant differences between tax accounting and financial accounting, companies are required to calculate their income and expenses separately and under different rules for each purpose. This considerably increases compliance costs and administrative burden, creates additional complexities, and hinders the efficient use of resources.

To address this issue, it would be appropriate to use financial accounting data, particularly those prepared in accordance with International Financial Reporting Standards (IFRS) as the basis for calculating corporate income tax. Such an approach would align tax and financial accounting, eliminate the need for duplicate calculations, and significantly simplify compliance procedures.

At the same time, it is understandable that certain differences between tax and financial accounting are inevitable for objective reasons. Therefore, it is recommended that the taxable base be determined using financial statement figures, with only the necessary tax adjustments applied. For example:

- Income recognized in financial statements but not subject to taxation;
- Differences between tax and accounting depreciation rules;
- Expenses reflected in financial statements but not deductible for tax purposes;
- Timing differences in the recognition of income and expenses, etc.

This approach has been widely and successfully implemented in many countries. The experience of European Union member states shows that this model not only reduces compliance costs and administrative burden but also increases transparency and strengthens corporate accountability.


Recommendation:

To reduce compliance costs and administrative burden, increase transparency, enhance the strategic value of financial reporting, and create a more attractive environment for international investors, it is proposed that in Azerbaijan, the corporate income tax base be determined based on financial statement income and losses, with only essential tax adjustments applied.

B. Customs issues

1. Matters related to import-export operations

According to Article 1.0.12 of the Customs Code of the Republic of Azerbaijan, the customs value of goods is determined in accordance with the Law of the Republic of Azerbaijan “On the Customs Tariff.” Under Article 7.1 of that Law, the system for determining the customs value of goods (customs valuation) is based on the generally accepted international principles reflected in Article VII of the General Agreement on Tariffs and Trade (GATT, 1994), the Agreement on the Implementation of Article VII of GATT, and its annexes, and applies to goods imported into the customs territory. By the amendment dated December 27, 2022 (Law No. 775-VIQD), a new paragraph 7.4 was added to the Law.

According to this new paragraph, the determination of customs value must be based on simple and fair criteria, and the procedures for customs valuation should not vary depending on the source of supply. Additionally, under the newly added paragraph 12.4, the rules for applying customs valuation methods are determined by the relevant executive authority.

At present, according to Article 13 of the Law, the customs value of goods must be calculated using the transaction value method, that is, based on the purchase price of the goods, with necessary additions or deductions. Only when this method cannot be applied may other alternative methods be used. However, in practice, companies operating in Azerbaijan both in the oil and non-oil sectors often face situations where the customs representatives artificially increase the declared value of imported goods even when the importer submits all the relevant sale and purchase documentation. In such cases, despite providing official documentation, importers are often forced to accept inflated customs values proposed by customs officers in order to avoid vehicle detention or additional storage costs.

It should be taken into account that carrying out customs operations in this manner has a detrimental effect on other sectors of the economy. Businesses that import items from abroad raise their pricing and create artificial price increases due to the high customs value and associated duties. Such an increase in customs value leads to disputes between the taxpayer and the customs authority, which reduces business flexibility and leads to additional storage costs for the importer. Customs authorities frequently cite the fact that similar goods have already been cleared at that price and would never be cleared at a lower price as justification for the customs value applied during importation. Such a request should not add to additional expenses for the business because it is obviously outside the scope of legal requirements. We also believe that it is essential to emphasize how the inconsistency between the amount of duties and taxes that are estimated prior to a shipment entering the country and the amount that must be paid once it has arrived presents a significant challenge to the predictability of the business environment.

At the same time, it should be mentioned that there is no economic interest in

underreporting import prices for businesses operating in a transparent manner. Because, first of all, the amount of VAT paid on import is refundable VAT according to the tax legislation, and this means only a temporary decrease and then recovery of cash for the business. As for import duties, it should be mentioned that the applied rate of duties (0%, 5%, 10%, and 15%) is much lower than the rate of profit tax paid on the final price difference, and of course, for a transparent business it would not be logical to underreport import prices.

We believe that such practices contradict the economic interests of the Republic of Azerbaijan. Firstly, imposing high taxes and duties on imported goods leads to artificial price increases within the domestic market, thereby significantly weakening the competitiveness of businesses operating in the production sector. Secondly, it is evident that the soundness of the investment environment is closely linked to the predictability of business conditions. Additional payments arising during import processes represent unforeseen expenses, which, in our view, undermine the attractiveness of the investment climate.

Recommendation:

To create a transparent and predictable environment for companies engaged in import and export operations, and to ensure the competitiveness of domestic production, the following measures are recommended:

- 1) Strengthen control mechanisms to ensure strict compliance with the Law “On the Customs Tariff,” particularly the requirement that methods other than the transaction value method may only be used in cases explicitly provided for by law;
- 2) In the newly developed rules on the application of methods for determining the customs value of goods (customs valuation), particularly in cases where the buyer and seller are related parties, the generally accepted international principles (Article VII of the 1994 General Agreement on Tariffs and Trade [GATT], the Agreement on Implementation of Article VII of GATT, and its annexes), as well as the existing practices, recommendations, and interpretations of the World Trade Organization related to the application of Article VII of GATT, should be reflected and widely applied by the customs authorities.
- 3) In addition, when determining the customs value of goods, especially in cases where the buyer and seller are related parties, if the existing practices and recommendations of the World Trade Organization do not regulate the relevant matters, it should be possible to apply the existing practices of the European Union and the United States in the field of customs legislation.

We believe that the implementation of the above-mentioned proposals could be beneficial for improving customs control and protecting the interests of importers. We are confident that further enhancement of customs administration will not only stimulate business development but also make a positive overall contribution to the national economy.

2. Proposed amendments to the Customs Code and other regulations governing the customs sphere

To minimize negative impacts on the business environment and strengthen the investment climate, it is essential to incorporate the following principles and directions into the Customs Code:

2.1. Issuance of import and export tax exemption certificates

The import and export tax exemption certificates provided for in the Protocols on Import and Export Duties and Taxes under the Production Sharing Agreements (PSAs) are among the key privileges granted to the participants in such agreements and to companies operating in the oil and gas sector as a whole. In practice, however, the lack of clear written rules and procedures for issuing these certificates results in delays, inconsistencies, uncertainty, and subjective interpretation during the process.

Recommendation:

Written and detailed procedures for issuing certificates should be developed, clearly specifying the required documents and their forms; the procedure for compiling the list of goods; the rules for adding new goods to existing certificates and the procedure for including additional agreements (“call-offs”).

2.2. Transfer and disposal rights under production sharing agreements

Protocols define the rules for granting transfer and disposal rights over goods. At the same time, temporary import and end-use customs procedures also envisage the possibility of changing the owner of the procedure. In practice, however, the transfer of such goods, either from one agreement to another or between contractors within the same agreement, is not permitted.

Recommendation:

The transfer of goods imported under the temporary import or end-use procedures should be allowed in compliance with the applicable rules, and customs authorities should not impose artificial restrictions on such transfers.

2.3. Issues related to temporary import

Recent practice shows changes in the application of time limits and extensions for temporary import. Although the law refers to “exceptional cases,” no clear list of such cases currently exists. For example, equipment installed offshore in the oil and gas industry, or nuclear chemistry-related equipment, should be explicitly listed in legislation as exceptional cases.

Furthermore, the interpretation by customs authorities of certain provisions of the Rules approved by the Cabinet of Ministers’ Resolution of September 2, 2013 has led to the incorrect application of partial exemption during the first year of temporary import. According to paragraph 7.4 of the Rules, partial exemption should only apply after the first year or upon extension of the term.

Recommendation:

Full exemption during temporary import should be applied in accordance with paragraphs 7.3 and 7.4 of the Rules “On the Placement of Goods under the Temporary Import Special Customs Procedure”, while partial exemption should be calculated only after the first year or upon extension of the period.

2.4. Amendments to customs declarations after release of goods

Under the current legislation, amendments to customs declarations after the release of goods are permitted only in specific cases, for example, when conditionally released goods are used for other purposes or remain within the customs zone. In practice, however, the need arises to make corrections in other cases as well, such as subsequent clarification of royalty amounts or technical errors that occur during declaration.

Recommendation:

- 1) Amendments affecting customs value (e.g., royalty payments) should be allowed without penalties or sanctions;
- 2) Other details (e.g., customs post information) should be corrected without cancelling the original declaration;
- 3) A simplified procedure should be introduced, whereby:
 - The correction request is submitted to the customs authority that accepted the initial declaration;
 - The request clearly specifies the nature of the correction;
 - Upon approval, the customs authority updates the declaration;
 - The process is completed within a shorter timeframe compared to full cancellation and re-submission of a new declaration.

XII **CONSTRUCTION**
WORKING
GROUP

In recent years, Azerbaijan's construction sector has seen notable and commendable progress. For instance, in the Karabakh Economic Zone, the digital platform for obtaining work permits for employees entering the liberated territories has been enhanced, significantly improving HR management efficiency for construction companies operating in the region.

At the same time, several persistent challenges continue to affect the sector, as outlined below.

1. Project delay risks

When carrying out construction activities across different cities and regions of the country, construction companies sometimes face the risk of project delays or actual delays caused by non-technical reasons. Companies implement various projects with different purposes, and in some cases, the completion deadlines for state-significant projects are very short. During project planning and execution, potential delay risks are assessed, and necessary measures are taken accordingly. However, as mentioned above, in some cases, unexpected delays occur due to non-technical reasons.

The efficient organization of construction permits, land designation changes, and registration procedures helps ensure the proper functioning of the real estate market. One of the reasons for extending the delivery period of construction projects is the delay in documentation processes by state authorities. The list of relevant documentation processes is presented below:

1. Technical specifications (Azersu, Azerishig, Azerigaz)
2. Approval of urban planning justification
3. Opinion on architectural conformity
4. Construction permit (provided by authorities responsible for ecology, environmental health, the Ministry of Emergency Situations, urban planning, technical specifications, and fire safety)
5. Operational process expertise (provided by authorities responsible for ecology, environmental health, the Ministry of Emergency Situations, urban planning, technical specifications, and fire safety)

The above list is not exhaustive, and documentation procedures with relevant state authorities continue throughout the construction process. The time required to carry out these documentation procedures is often exceeded, causing project delays. For example, reviewing documents to obtain technical specification from Azersu takes 3 working days, and approval takes 10 working days, whereas for Azerishig this period is determined as no later than 7 (seven) days pursuant to Resolution No. 315 of the Cabinet of Ministers. The location of state authorities in different areas, the high number of applications, and the varying regulatory timeframes lead to project delays.

This situation causes legal entities to allocate more time and resources to applying to state authorities, resulting in unexpected delays in construction projects.

Recommendation:

To address the issues mentioned above, it is proposed to apply the ASAN Service model to simplify the documentation process during construction works carried out by the private sector. We believe that the existing “one-stop-shop” system should be placed under the supervision of the ASAN Service authority and organized according to the current ASAN model.

The proposed procedure is as follows:

Before starting construction works, all required documents are submitted by the representative of the private company to the relevant state authority in a single folder (preferably in electronic format). The employee working within the “one-stop-shop” system checks the completeness of all documents on the spot based on a pre-determined list, confirms receipt, and registers the folder with a serial number.

After the documents have been accepted, the state authority reviews them within the shortest possible time and makes the relevant decision; it either approves the documents or officially notifies the applicant of the reasons for refusal. This system will not only improve the efficiency of the documentation process but will also ensure transparency in interactions with state authorities and facilitate the timely completion of construction projects.

2.Initial registration and issuance of mortgages

During the implementation of construction projects, the private sector often faces circumstances that result in financial losses. The absence of initial registration and ownership certificates prior to the completion of a property makes it impossible to sell such a property with a mortgage. Existing legislation and administrative practice still have gaps in protecting the rights of buyers when purchasing real estate in multi-apartment buildings that are under construction or not yet commissioned. These gaps can, in some cases, lead to serious violations of property rights, abuse by construction companies, such as selling the same apartment to multiple buyers, and facilitate tax evasion.

In recent years, Azerbaijan has made significant progress in the digitalization of public services. The information systems of state authorities have been modernized and integrated, public satisfaction has increased, and instances of corruption and misuse have sharply declined. As a continuation of this process, the concept of the “Encumbrance Record” was introduced in 2017 to address the issue of selling one apartment to multiple buyers. However, an effective practical mechanism for its implementation has yet to be established. Currently, this remains one of the main concerns for citizens in the real estate sector. On April 4, 2022, the President of the Republic of Azerbaijan signed the Decree approving the National Action Plan to Strengthen the Fight Against Corruption (2022–2026). According to Clause 1.8 of the Decree, the Ministry of Economy was tasked with establishing a unified information database for documents determining rights to apartments in multi-apartment buildings under construction

or not yet commissioned, as well as improving the mechanisms for maintaining the real estate “Encumbrance Record.”

Recommendation:

Construction companies must submit to the relevant state registry all information regarding the construction permit, master plan, floor and apartment layouts before initiating sales. Each apartment must be registered in the name of the construction company in the state register to confirm ownership rights.

To ensure the future fulfillment of obligations by the construction company, a financial guarantee should be issued by banks based on a preliminary valuation of the planned construction works. This mechanism provides a basis for the registration of the encumbrance record in the name of the construction company and ensures that newly built apartments intended for sale are transferred to their future owners without abuse or violation. When providing such financial guarantees, factors such as the company’s reputation, experience in the field, and previously implemented projects should be taken into account.

During the sale, the real estate purchase agreement must be concluded in the presence of a notary. The agreement should include a special note on the financial guarantee provided by the bank, confirming that the buyer’s future ownership rights are secured.

After notarization, the agreement is sent to the State Register of Real Estate (both in paper and electronic format) for verification of property data, rights, and obligations (including encumbrances, if any) and for registration of the encumbrance record. Once the property data have been verified, the state register completes the encumbrance registration. The buyer must submit documents confirming full payment of the property’s value and fulfillment of tax obligations to the notary.

The seller or construction company must also present a document confirming that the payment has been credited to its account. A legal timeframe for this step should be defined; international practice sets a reasonable period of 14 days, though this may be otherwise agreed in the contract. If no specific term is stipulated, the seller must submit proof of payment or other settlement information to the notary within 14 days.

The notary then applies to the State Register of Real Estate to cancel the initial registration and record the new owner. From this moment, all ownership, use, disposal rights, and related obligations are transferred to the buyer.

It should be noted that in international practice, the registration of a real estate encumbrance record during sale transactions is mandatory. This procedure ensures the protection of both parties’ rights, prevents abuse, and guarantees the proper transfer of ownership. It is not merely a discretionary option but a legal obligation imposed to safeguard transaction integrity.

