



**IUPUI**

INDIANA UNIVERSITY  
Lilly Family School of Philanthropy

# The 2022 Global Philanthropy Environment Index Azerbaijan

**Expert:** Mahammad Guluzade

**Institutional Affiliation:** MG Consulting LLC, Baku, Azerbaijan

Edited by the Indiana University Lilly Family School of Philanthropy

## QUICK FACTS

**Legal forms of philanthropic organizations included in the law:** Association, Foundation, Religious Organization, Union of Legal Entities

**Five main social issues addressed by these organizations:** Human Rights, Youth and Family, Vulnerable Groups, including Women, Children, Disabled People, Refugees, and Internally Displaced Persons (IDPs)

**Average time established by law to register a philanthropic organization:** 0-30 days

**Average cost for registering a philanthropic organization:** USD 7

To register foundations, however, minimum capital of AZN 10,000 (USD 6,060) is needed by law.

**Government levels primarily regulating the incorporation of philanthropic organizations:** Central/Federal Government

### Philanthropic Environment Scores:

| Year      | Ease of Operating a PO | Tax Incentives | Cross-Border Philanthropic Flows | Political Environment | Economic Environment | Socio-Cultural Environment | Overall Score |
|-----------|------------------------|----------------|----------------------------------|-----------------------|----------------------|----------------------------|---------------|
| 2022 GPEI | 3.83                   | 1.50           | 3.50                             | 3.25                  | 4.00                 | 4.00                       | 3.35          |
| 2018 GPEI | 4.07                   | 2.00           | 3.50                             | 3.00                  | N.A.                 | 4.00                       | 3.31          |

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

## Key Findings

### I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

*The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.*

Question One: To what extent can individuals form and incorporate the organizations defined?

|                   |
|-------------------|
| <b>Score: 3.0</b> |
|-------------------|

Freedom of association is guaranteed by the Constitution of Azerbaijan. Non-registered organizations are allowed. The registration fee is rather low, but the registration process is lengthy in practice and is based on a subjective approach. There have been several cases in the European Court against Azerbaijan concerning the problems of registration of non-governmental organizations (NGOs) in which NGOs won. Foreigners can be founders only if they have permanent residency in Azerbaijan. A required minimum number of founders for NGOs is rather low: it is one person for a foundation and two persons for NGOs. Nevertheless, the registration process is not corrupt as such.

For more information, please see the 2018 Azerbaijan report here:

<https://scholarworks.iupui.edu/handle/1805/15986>

Question Two: To what extent are POs free to operate without excessive government interference?

|                   |
|-------------------|
| <b>Score: 3.5</b> |
|-------------------|

Organizations are free to define their purposes in their charters. There are few limitations, such as not to duplicate the powers of a state body and not to finance political parties, among others. Organizations are free to contact and collaborate with colleagues in civil society, business and government sectors, both within and outside the country. However, access to foreign funding is a problem, as foreign donors are required to sign a special agreement with the Ministry of Justice, to register an office in Azerbaijan, and then to issue a grant. Likewise, service contracts from a foreign source must also be registered. Foreign citizens cannot donate to NGOs in Azerbaijan. Reporting requirements for NGOs are much more complicated than those for business.

Question Three: To what extent is there government discretion in shutting down POs?

|                   |
|-------------------|
| <b>Score: 5.0</b> |
|-------------------|

An organization's governing body is able to voluntarily terminate its activities. The voluntary liquidation process takes about 6-12 months in practice. Involuntary termination by a government entity occurs only during a severe violation and failure to correct said violation. Clear and fair legal regulations exist to guide the involuntary dissolution of an organization and are consistently implemented. Involuntary termination is possible only by a court decision. The government body has

no power to shut down an organization with its own decision. The organization has a right to appeal if they are not satisfied with the decision of the lower court on involuntary termination.

## II. Domestic Tax and Fiscal Issues

*The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.*

Question Four: To what extent is the tax system favorable to making charitable donations?

**Score: 1.5**

There are no tax deductions and tax incentives for donors. In practice legal entities are free to make donations and there is no intervention from the government. However, there is a threshold for cash donations in the amount of US \$118 (AZN 200) and only charitable organizations can receive cash donations. All donations shall be registered with the Ministry of Justice. Anonymous donations and donations by foreign citizens are prohibited. Donations are exempt from income tax (for recipients) in case they are duly registered.

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

**Score: 1.5**

There is no tax-exempt status, as such. Three types of income are exempt from taxation: donation, membership fee and grant. However, there is a threshold for cash donations in the amount of USD 118 and only charitable organizations can receive cash donations. All donations shall be registered with the Ministry of Justice. Anonymous donations and donations by foreign citizens are prohibited. Donations are exempt from income tax in cases when POs are duly registered. Cash boxes are not regulated but are widely practiced without major problems.

## III. Cross-Border Philanthropic Flows

*The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.*

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

**Score: 3.5**

There is no approval process for sending charitable contributions abroad. Banks have different schemes for sending funds abroad. There are limits to the amount that can be sent abroad as intended for non-family members. Donations from abroad can be received only from citizens of Azerbaijan.

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

**Score: 3.5**

There are no costs/taxes on receiving cross-border philanthropic monetary and/or in-kind donations. However, there is an approval process to receive charitable contributions from abroad, as advance government approval is needed. Only citizens of Azerbaijan can provide donations to organizations operating in Azerbaijan. Only registered donations are exempt from taxation and can be utilized.

#### IV. Political Environment

*The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.*

Question Eight: To what extent is the political environment favorable for philanthropy?

**Score: 3.5**

There is good collaboration between government and the philanthropic sector. The government provides funding to this sector through some 30 public financing mechanisms. At the same time, currently there is a new draft law on charity that the Parliament has prepared. However, this draft has not yet been discussed with the sector. In general, since 2014 there has been a law that provides for various mechanisms of participation of citizens and NGOs in the government's decision-making process. There is a good level of political stability, favorable for the success of philanthropy. Recently the government itself has established two charitable foundations: Yashat and Dirchelish for support of those wounded in Karabakh and for the rebuilding of Karabakh after the war ended in November 2020. During 44 days of war, Azerbaijan returned most of its territories that were occupied by Armenia, and 700,000+ internally displaced individuals had hopes of returning to their homes, despite most of their property being destroyed by Armenia during the occupation.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

**Score: 3.0**

The government promotes a cultural philanthropic tradition; for example, recently it established the Yashat and Dirchelish foundations. The government allows POs equal access to information, services and training, although there are limitations on access to foreign funding. All donations must be registered with the government. Foreign citizens cannot issue donations. Government bodies usually support the government-supported campaigns or charitable projects. There is no separate law governing charities, which creates certain problems (cash boxes are not regulated, crowdfunding legislation does not exist, there is no procedure for obtaining a charitable status, etc.)

## V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

|                   |
|-------------------|
| <b>Score: 4.0</b> |
|-------------------|

There are good economic conditions for the philanthropic sector. The sector can accumulate private property and it has freedom of wealth creation, standard of living, economic inclusiveness, healthy competition, openness to trade, and freedom from corruption. The government implements various laws and programs to prevent corruption. In February 2020 President Aliyev signed a National Action Plan on Open Government Partnership that provides for improving legislation relating to NGOs, such as simplification of NGO registration, registration of grants and donations, reducing the reporting burden of NGOs, increasing public participation, etc. There is general economic stability, despite businesses facing serious issues during the pandemic. The government provided compensation from the state budget for the most affected areas of business due to COVID-19.

## VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

|                   |
|-------------------|
| <b>Score: 4.0</b> |
|-------------------|

There is a cultural and religious heritage on which modern philanthropy is grounded. People are open about giving, particularly to those in need, during religious holidays or special occasions (engagements, weddings, and building a place to live, among others). According to Islamic values, part of savings or income has to be given to those in need. It is less common to give funds to address societal problems (for example, to solve community road problems or water supply issues). There is a general understanding of what philanthropic organizations do (usually called 'charitable organizations'). Some part of society nevertheless lacks trust in POs, due to the organizations' poor transparency and accountability. There are no limitations for women to participate in philanthropic activities. Likewise there are no barriers to participate in philanthropic activities based on ethnicity, sexual orientation, culture, age, nationality or religion. Azerbaijan is a multi-ethnic society with a high level of tolerance among different religions. There are no social factors that impede or hinder the growth of the sector. There is a strong infrastructure to encourage youth involvement in civil society, as there is a special Youth Fund established by the government that provides grants to youth and youth organizations and supports them by other means, as well (training and free venues, among others). Philanthropy advocacy is underdeveloped in Azerbaijan. Legislative barriers that impede development of civil society have been in place since 2015 and despite considerable efforts, there still has been no progress toward improving access to foreign funding. There are very few think tanks or academic centers researching in and advocating for the field.

## VII. Future of Philanthropy

*These questions are used to provide a general picture of the future of philanthropy in this country, as well as recommendations to improve the philanthropic environment.*

### Current state of the philanthropic sector

The philanthropy sector is rather weak in Azerbaijan due to legislative barriers (issues with access to foreign funding, registration of donations, heavy reporting, cash limit for donations, ban on foreign donations, etc.). Nevertheless, POs are well received by society, and they do a great job. The government itself has established several POs that focus on charity. At the same time, there are some 30 state bodies that provide funding to various NGOs in Azerbaijan, including charitable organizations.

Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

1. In 2018, with changes to the Tax Code, income tax for salaries in non-oil sectors was set at zero for seven years.
2. In March 2020, the government approved a VAT refund procedure for individuals.
3. In March 2020, the Cabinet of Ministers approved rules for businesses' support to NGOs.

### Future development trends in the philanthropic landscape

As the Karabakh war ended in 2020, future development trends in the philanthropic landscape will relate to the rebuilding of Karabakh and the return of hundreds of thousands of internally displaced individuals. At the same time, the charitable foundation Yashat, established by the government, will take care of those wounded in the war, as well as their families. Yashat has already introduced text message donation and online donation schemes. In general, there is a growing interest in crowdfunding in Azerbaijan, but the legislative framework is not supportive of it. There are big hopes for the Open Government Partnership National Action Plan, which was signed by President Aliyev in February 2020. Once major provisions of this plan are implemented, the legislative environment will be more favorable for civil society.

### Three key recommendations to improve the environment for philanthropy

- Simplify access to foreign funding;
- Reduce the reporting burden of NGOs; and
- Eliminate barriers for donating, such as cash limit, ban on foreign donations, the requirement to register all donations.

## VIII. Philanthropic Response to COVID-19

*These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.*

Areas where the nonprofit sector and philanthropy are playing a role in responding to COVID-19

NGOs have helped to disseminate food and medication to those in need during the pandemic. Also, they have helped to raise awareness among the population about COVID-19 and countermeasures.

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

NGOs and the population in general became more united against COVID-19. Without this unity and joint efforts, the impact of the pandemic would have been much greater. The government demonstrated flexibility and allowed ongoing projects of NGOs to be switched to humanitarian projects, as it was not possible to implement them during the lockdown.

Impact of COVID-19 on the philanthropic environment

As the country was in lockdown, a lot of NGO activities and projects were cancelled or were put on hold. More and more online events took place. People used online tools to support those in need and to disseminate information. Also, since March 2020, NGO workers were not able to travel abroad to exchange information and learn new tools.

Anticipated impact of COVID-19 on the philanthropic environment in 2021

Currently there is freedom of movement. Civil society organization (CSO) workers are free to travel to regions and to meet with their communities and beneficiaries, with up to 10 people. Vaccination is ongoing. It is hoped that there will be more openings to enable increased CSO activism.

## References

- Guluzade, M. (2020). Decree No. 88 of the Cabinet of Ministers and hopes of CSOs' (in Azerbaijani). Available at: <https://www.qht.az/>
- Guluzade, M. (2021). Report on Consultations of Civil Society Organisations (CSOs) in the Republic of Azerbaijan. *Eastern Partnership Civil Society Facility – Regional Actions Project*.
- MG Consulting LLC, & European Center for Not-for-Profit Law. (2020). *CSO Meter Report: Assessing the Civil Society Environment in the Eastern Partnership Countries. Azerbaijan Country Update*. Available at: <https://csometer.info/sites/default/files/2020-11/CSO-Meter-Country-Update-Azerbaijan-2020-English.pdf>
- USAID. (2020). *2019 Civil Society Organizations Sustainability Index Report: Azerbaijan*. Available at: <https://www.mgc.az/wp-content/uploads/2020/11/Azerbaijan-CSOSI-2019-fv-eng.pdf>