

## **Azerbaijan: Taxing Time for NGOs**

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Local non-governmental organisations are lobbying the authorities to overturn a damaging amendment to the grants law.

Azerbaijan's non-governmental organisations, NGOs, are falling on hard times after the authorities amended the country's grants legislation to repeal tax breaks.

The changes mean that organisations which receive grants now have to pay more than a quarter of their payroll fund and two per cent of every salary into the Public Social Security Fund.

Yashar Gajiev, manager of Global Internet Policy Initiative, GIPI, is one of many who now fears that his operation's days are numbered. "The costs of running an NGO in Azerbaijan have shot up," he told IWPR. "Western donors are already rethinking their policies and warning that us some of their programmes here will have to be discontinued.

"Anyway, grants are a form of support, not profit-making, and it's downright unethical to slap tax on them."

The authorities, however, deny this. Arastun Mekhtiev of the presidential public policy department asked, "Why should NGO employees get special treatment? As far as we know, they make much more money than public servants, who do pay their social security charges."

Now the National NGO Forum is preparing to lobby the government to reinstate the tax breaks. "The new amendment puts non-profit operations on an equal footing with business companies. This is a severe blow to civil society," said forum president Azai Guliev.

Last month, the forum - which comprises around 400 operations in Azerbaijan - submitted a package of new initiatives for review to government economics adviser Vakhid Akhundov, but he is currently ruling out a return to the tax break system.

The proposals include deferring the social security charges for three years, to give NGOs some leeway to negotiate with the donors and prepare the groundwork to factor those new charges into future grant budgets. They also want the rate to be reduced from 27 per cent to around a tenth of the payroll fund.

So far, the government has given the non-governmental sector only one concession. Ongoing grants approved before January 1, 2003 - when the amendments came into force - have been exempted from social security charges.

"Whatever the authorities decide on the social security charges, the issues of the non-governmental sector have to be addressed somehow," said Guliev.

Tired of the authorities dragging their feet, the forum is already working on a draft governmental programme for NGOs, addressing all the problem areas such as registration, legislative gaps and access to government tenders. The draft is due for submission in two months.

Of nearly 2,000 NGOs in Azerbaijan, less than a quarter are actively involved in various projects. Guliev believes this is down to the government's lack of a coherent policy for the sector, which has created a difficult environment for such operations.

The justice ministry routinely turns applications for official registration on the grounds that paperwork is not in order, or that the proposed projects unconstitutional or against the interests of the state.

"The government does not help NGOs in any way whatsoever, leaving them at the mercy of international donors. If they make NGOs pay social security, the donors may turn away and many operations will go bankrupt," Guliev warned.

Some Baku analysts believe the best solution would be to keep the social fund amendments, but to ask the government to pay it for NGOs. This, they argue, would be a good way for the government to prove that it cares for civil institutions.

Rovshan Bagirov, director of public relations at the Azerbaijani office of the Soros Foundation, said, "We believe 'social' charges are a good thing, but the rate seems too high."

The Soros Foundation paid out more than 260,000 US dollars in grants in the first quarter of 2003, but all the money went into previously approved projects. Project budgets now under consideration have to provide for social security charges. "As a result, our grants will be smaller, and there will be fewer of them," said Bagirov.

International NGOs should not be hit hard by the changes, as they are exempt from the payroll charge under previous agreements. However, the two per cent salary contribution will still be enforced.

For Azerbaijani organisations, there may be some benefit in the future. Under local law, while employment at an NGO counted as part of a worker's overall track record, it was ignored when retirement benefit was calculated.

The authorities argue that as NGO employees are now being forced to contribute to social security, their future retirement benefits will increase. "It is faulty reasoning to say our pensions will be higher after these payments are introduced," said Sevinj Musaeva, programme manager for the Azerbaijani branch of Oxfam.

"The law puts a cap on your pension. There is a limit to how much you can get, and it's set very low."

Gulnaz Gulieva is a correspondent of the Turan news agency in Baku.

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