

Why does Azerbaijan's score on the Open Budget Index 2017 remain low?

written by Azer Mehtiyev

The Open Budget Survey 2017 full report that includes 115 countries across the world was released at the end of January 2018. With its 34 Open Budget Index (OBI) scores out of 100, Azerbaijan ranks 78th among the countries providing minimal budget information. The average OBI score in the country fell 17 points from 51 in 2015, compared with 2017. But why does Azerbaijan's score on the OBI remain low, continuing to see such a decline in its score?

Azerbaijan's OBI score for 2017 is 34, ranking among the countries providing minimal budget information. Plus the country's score is 8 points less than the average OBI score in the countries in this category (42 scores).

Azerbaijan only succeeded in surpassing Tajikistan (30) among the countries within the Eastern Europe & Central Asia region. With regard to Azerbaijan's neighboring countries, Georgia scored 82 among the first group of countries providing extensive budget information and Russia did 72 among the second group of countries providing substantial budget information (both ranking among Sufficiently Transparent Countries), while Turkey (58), Moldova (58), Kyrgyz Republic (55), Ukraine (54) and Kazakhstan (53) belong to the third group of countries that provide limited amounts of budget information (all ranking among Limited Transparency Countries).

Launched in 2006, the Open Budget Survey (OBS), the world's only independent and comparative assessment, is conducted by the International Budget Partnership (IBP) partners with civil society organizations across the world. The 2017 survey is the

sixth round of this biennial assessment. Azerbaijan's OBI score rose significantly from 30 points in 2006, to 51 in 2015, but substantially fell back in 2017.

While getting acquainted with eight key budget documents included in the in the Open Budget Survey 2017 to assess components of a budget accountability system ([Open Budget Survey 2017](#)), it turns out that the decline in Azerbaijan's score is mainly due to technical reasons: (i) the government failed to produce the Pre-Budget Statement and the Mid-Year Review; (ii) the government delayed posting the Citizens Budget on the web; (iii) the government provided minimum (insufficient) draft budget information (posted on the web); (iv) plus the data contained in the publicly available minimum budget information are unavailable in a **machine readable format**; as well as, (v) government officials and legislators failed to provide opportunities for public participation in the budget process; (vi) the budget oversight by legislature (Milli Mejlis of the Republic of Azerbaijan) remains weak, etc.

However, all these technical issues are linked to very serious institutional and economic factors. Since while calculating the Open Budget Index 2017, the 2016 budget process was measured. The year 2016 was so hard for the government in economic terms that it failed to comply with the legislative requirement regarding the budget process. Since (i) in early 2016 – February 23 – the Milli Mejlis (Parliament) of Azerbaijan amended the Law on the State Budget in 2016 (*nevertheless, under Article 23.3 of the Law on Budget System of the Republic of Azerbaijan, the government can initiate before the Milli Mejlis the review of the state budget of the current year not earlier than May 15*); (ii) the 2017 draft State Budget of Azerbaijan Republic together with the other documents were submitted to the Milli Mejlis on November 15 (*nevertheless, under Article 13 of the above law (Submission of the documents to the Milli Mejlis of Azerbaijan Republic with regard to the State Budget for the next budget year), the*

draft law on the State Budget for the next budget year together with the other documents defined by this law shall be submitted to the Milli Mejlis of Azerbaijan Republic not later than October 15 of the current year.); (iii) the draft Law on the State Budget tabled in parliament was approved before the parliamentary discussions. Moreover, the budget cannot be approved without the parliamentary discussions.

Such tightness of the budget process toughness is directly associated with the higher dependence of the country's budget on oil revenues. In 2013 oil and gas accounted for 73.2 percent of budget revenues. The collapse in oil prices starting from mid-2014 reduced Azerbaijan's oil revenues, having major negative consequences:

- Budget revenues of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) for the period of January-December 2016 dropped 2.9-fold to USD 5.9 billion from USD 17.3 billion in 2013. SOFAZ transfers accounted for about 58% of the state budget from 2011 to 2013. A reduction in SOFAZ revenues in turn reduced its budget transfers: in 2017 it was projected to transfer AZN 6.1 billion to the state budget versus AZN 11.4 billion in 2013 (- 46.5%);
- In 2015 the Central Bank of Azerbaijan twice devalued the country's currency, with the currency losing half of its value vis-a-vis the U.S. dollar: The manat had been pegged at just over 0.78 per US dollar before February 20, while the manat rate fell to 1.55 per US dollar as of December 21. Finally, 2016 continued to see currency instability (even the rate of the dollar had neared AZN 1.75);
- Azerbaijan faced a full-scale banking crisis, with a number of banks going bankrupt. The surplus on the current account balance was replaced with deficit;
- The devaluation and banking crisis also led to a new wave of high inflation: As compared with the previous year, the Consumer Price Index (CPI) only rose by 1.4% in 2014, while 4.0% in 2015 and 12.4% in 2016;

- Higher oil price volatility in 2016 made it increasingly difficult to forecast both state revenues and budget revenues, etc.

The budget forecasting mechanisms used by the government in such a situation did not justify itself: the government still fails to have a serious mechanism for SOCAR transfers to the state budget (fiscal discipline), and does not apply the Medium Term Expenditure Framework in the budget.

The level of public participation in the budget process has also been measured in the Open Budget Index. Azerbaijani's indicator of public participation was only 11 points from 100 possible points, which is 1 point below the average of 115 countries. Almost all post-Soviet countries had a poor level of participation on this indicator, but in here Azerbaijan was only able to advance Tajikistan with 7 points (Russia and Kazakhstan 13, Georgia 22 and Kyrgyz Republic had 37 points).

Undoubtedly, the restrictions and the problems had a great impact on the activities of civil society in our country after 2014 for having such a low indicator of Azerbaijan in terms of public participation index.

By 2014, the government budget was not only analyzed in the media by the civil society in the country (e.g. National Budget Group, independent media organizations, etc.), but analyzing issues related to government's draft budget debating with the participation of representatives and the deputies of relevant government agencies as well as organizing the budget evaluation, implementing projects with the monitoring of government budget execution was the top priority.

The Open Budget Index is one of the influential international ratings, forming the international image of the country through reflecting the level of transparency and public participation in public finance management. In this rating, the government can work in two directions to improve the country's position:

1. Moves with more technical features that allow for an upgrade in the rating over the Index, also do not require serious institutional changes for implementation can be done shortly and without incurring serious costs. In order to do that:
 - experts of relevant government agencies should carefully examine the questions and criteria for the survey questionnaire for calculating Azerbaijan Budget Index (ABI) and adjust the content and publication period of the 8 main budget documents with these requirements (Together with the budget draft, there are pre-budgeted statement, semi-annual report and all information for other documents within the set of documents submitted by the government to the Milli Mejlis);
 - the budget schedule defined in the Law on Budget System of the Republic of Azerbaijan should be complied;
 - the government should provide sufficient draft budget information (posted on the web) and the data contained in the publicly available minimum budget information must be available in a machine readable format (all the documents and database regarding draft budget are developed in electron format and even their electron version is also submitted to parliament along with its printed version);
 - enhancing public participation: According to the Law on Public Participation, public councils consisting of representatives of civil society should be established by all state authorities. Several ministries are already working in this direction. The Ministry of Finance and other government agencies involved in the budget process can create such councils with the participation of independent civil society members, involving them in the budget process, etc.
2. Implementation of institutional reforms aimed at improving the transparency and efficiency of public financial management, improving the efficiency of public

spending and increasing public participation in budget processes. Such reforms are of a long-term nature. It includes the following:

- developing and implementing the fiscal rule the transitions from SOFAZ to the state budget, as well as systematic measures to minimize the dependence of state budget revenues on direct oil revenues and the global oil market;
- implementing results-focused budgeting mechanism (or program-based budgeting) and medium-term expenditure framework (Medium Term Expenditure Framework) in budget planning;
- building performance of all state authorities on strategic objectives and plans, develop budget requirements while adjusting them to that strategic objectives;
- establish the Committee on budget affairs in Parliament, as well as develop special procedures of budget discussions within the committees;
- strengthening the control of Parliament over the budget and enhance effectiveness of budget discussions, also establish independent financial institute – Budget Office to provide committees and parliament delegates with necessary budget investigations and study materials;
- eliminating the existing restrictions on the functioning of independent civil society both at the legislative and practical levels to expand real public participation in budget processes, and ensure establishment of a “government and civil society” relationship on the basis of mutual trust and reliance, etc.