

After the Third Municipal Merger in Azerbaijani: An Initial Assessment

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Municipalities in Azerbaijan that went through a third round of consolidation completed their first fiscal year in 2025. It is still too early to speak about the effectiveness of the merger because this requires time. However, the budget data of local self-government bodies published by the State Statistical Committee makes it possible to publish some initial observations.

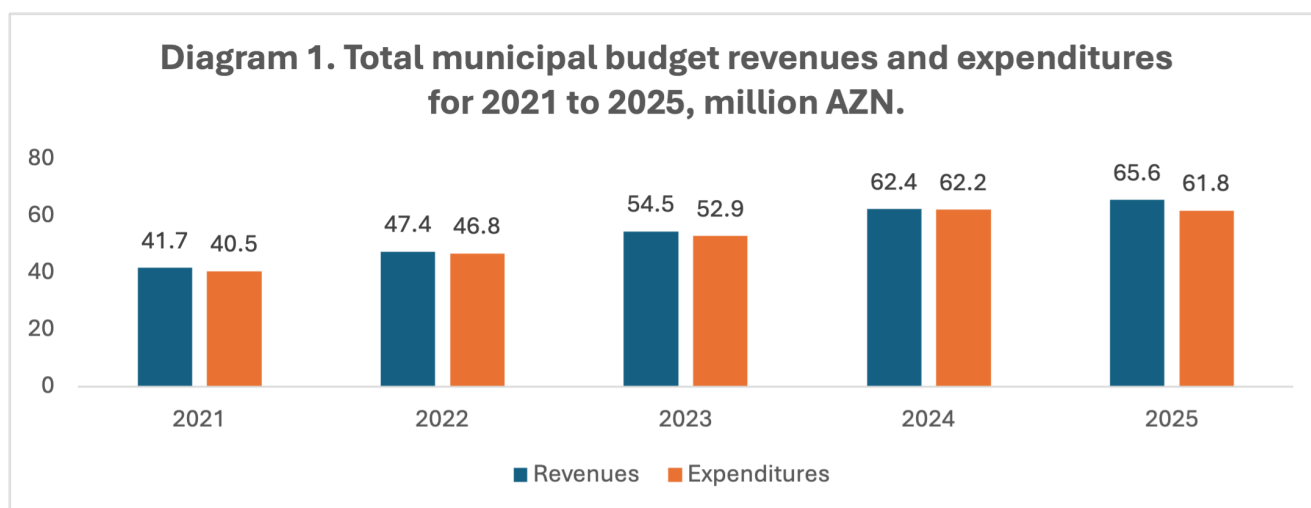
First, I should note that the most recent, third consolidation of municipalities was carried out on 16 April 2024. It was implemented on the basis of amendments made to the laws [On Joint Activity, Merger, Separation and Dissolution of Municipalities and On the Status of Municipalities](#). The first consolidation campaign began in 2009. As a result of amendments made to the legislation that year, the number of municipalities was reduced by 38% – from 2757 to 1718. In the Nakhchivan Autonomous Republic, the consolidation was carried out under [a separate law](#). The second round of consolidation took place in 2014. That year, amendments to the [legislation](#) led to the creation of 94 municipalities on the basis of 211 municipalities, which reduced the total number to 1606. The first two consolidation initiatives were formally considered voluntary. The changes made in 2024 gave the government [the authority](#) to merge municipalities by fiat. Within this authority, municipalities with a population of fewer than 3000 people or fewer than 1000 households were merged with others. As a result, the number of municipalities was reduced to 685. The reduction mainly affected rural municipalities and, to a lesser extent, township municipalities. [As a result of the mergers](#), the number of township municipalities fell from 149

to 99, while the number of rural municipalities declined from 1383 to 512. Urban municipalities, meanwhile, remained unchanged at 74.

To assess the impact of the merger on the financial position of municipalities, let us look at both the revenue and expenditure sides of local budgets.

For context, the State Statistical Committee (SSC) publishes an official bulletin every year titled [*Execution of Municipal Budgets*](#). This bulletin reflects data on the implementation of annual revenues and expenditures of municipalities across the country. The data is not provided separately for each municipality. The [annotation](#) of the bulletin states that the publication presents aggregated data on the execution of municipal budgets by economic regions and administrative territorial units. However, even this level of data is incomplete. With reference to Article 22 of [the Law on Official Statistics](#), data for five administrative territorial units, Ganja, Shirvan, Mingachevir, Khizi, and Naftalan, is not disclosed. According to that article, published aggregated data must cover at least three statistical units. Since the number of municipalities in these areas is fewer than three, their data is not disclosed. In fact, municipal budget funds are public funds and should be disclosed in the same way as the state budget and the State Oil Fund. Data for eight administrative territorial units, Babek, Ordubad, Sharur, Kangarli, Sadarak, Julfa, Nakhchivan city, and Shahbuz, is combined and presented as a single figure for the Nakhchivan Autonomous Republic. In nine administrative territorial units located in the Karabakh and Eastern Zangezur regions, Shusha, Kalbajar, Jabrayil, Lachin, Gubadli, Khankendi, Khojali, Khojavand, and Zangilan, which were under occupation since the 1990s, a municipal institution has not yet been established. As a result, out of 74 administrative territorial units, data for only 52 is included in the bulletin, and we are forced to make an assessment based on this limited information.

A comparison with 2024 shows that in [2025](#) the total revenues of merged municipalities increased, while expenditures decreased. Last year, municipal revenues across the country amounted to 65,6 million manats. This is 3,2 million manats or 5,2% higher than the previous year. This can be considered a relatively weak result compared to the expected growth rate against the background of such a large-scale institutional change. Diagram 1 shows the dynamics of total revenues for 2021 to 2025. It shows that revenues have followed an upward trend since 2021. The average annual growth rate over the past five years has been around 15%, yet it fell to 5,2% last year. The most recent merger did not lead to a significant increase in overall revenue dynamics. Revenue growth largely continued the trajectory of previous years.



Source: SSC

Last year, the main drivers of revenue growth were the cities of Baku, 3,3 million AZN, and Sumgait, 0,8 million AZN. These are cities where either no merger took place, as in Sumgait, or the impact of the merger on the overall result was minimal, as in Baku. In the capital, which accounts for 35% of total municipal revenues, the number of municipalities was reduced from 53 to 45. The eight abolished municipalities were small, and their contribution to revenues collected in Baku was negligible.

Since official data is presented by administrative territorial

unit, it is not possible to determine which municipalities experienced revenue increases or decreases in 2025. However, an analysis by administrative territorial units shows that in 23 of the 52 units with [available data](#), municipal revenues declined. The largest decreases were recorded in the municipalities of Gobustan (49,5%), Aghdam (47,2%), Salyan (43,8%), and Gabala (31,9%). At the same time, municipalities in several districts recorded strong revenue growth. Examples include Saatli (112,4%), Aghjabadi (61,3%), Tartar (58,3%), and Lerik (56,2%).

There has been a noticeable change in the structure of budget revenues. Tax revenues increased by 26,5% to 34,4 million AZN. Their share in total revenues rose from 43,6 percent to 52,5%, which is a record level. This increase was driven by significant growth in revenues from property tax on individuals, 37,9%, and land tax on individuals, 22%.

In contrast, non-tax revenues declined. Revenues in this category fell by 11,3% in 2025 to 31,2 million AZN. The main reason for the decline was a decrease of 4,3 million AZN in revenues from the privatization of municipal property. Even an 8,8% increase in revenues from leasing and use of municipal property and land, which have a significant share, could not offset the overall downward trend. At the same time, financial assistance from the state budget decreased by 3,6%. This indicates that, contrary to expectations, no additional fiscal support was observed in the initial phase of the merger.

As for budget expenditures, it is still too early to speak about the contribution of the merger in this area. A comparison of 2024 and 2025 shows a slight decrease in municipal expenditures. Total expenditures fell by 0,5% to 61,8 million AZN. At first glance, this dynamic may be interpreted as stronger fiscal discipline and more efficient use of resources. However, a closer look at the structure of expenditures reveals a somewhat different picture. It is important to note that a reduction in expenditures would

indicate effectiveness if it resulted from the optimization of administrative costs. ***If the reduction comes from cuts in investment or service expenditures, it may indicate a contraction in the scale of activities rather than efficiency.***

An examination of the expenditure structure shows that the reduction in administrative costs, which is the main indicator of efficiency in the merger, did not occur. On the contrary, those costs increased. Expenditures on the maintenance of local self-government bodies, which make up the largest share, rose by 8,2% to 42,8 million AZN. As a result, the share of this category in total expenditures increased from 63,9% to 69,2%, which is the highest level. This shows that expectations regarding the optimization of administrative costs, one of the main objectives of the merger, were not met.

On the other hand, the reduction in total expenditures was mainly driven by cuts in economic and infrastructure-related spending. For example, expenditures on economic activity decreased by 31,1%, and spending on transport and communications fell by 33%. Expenditures on construction and urban planning were completely absent compared to 2024. Other expenditure categories also recorded a decrease of 26,7%. This dynamic shows that the reduction in spending occurred mainly in areas related to development and infrastructure.

In social spending, the opposite trend is observed. Expenditures on social protection and social security increased by 20% to 3,6 million AZN. However, this increase was not sufficient to offset reductions in other areas within the overall expenditure structure.

As a result, the decrease in expenditures was not driven by improved administrative efficiency. It mainly resulted from cuts in economic and infrastructure spending. From this perspective, the consolidation of municipalities in the short term was accompanied not by the optimization of expenditures, but rather by a reallocation within the expenditure structure.

This creates certain risks for long-term development.

The analysis shows that the municipal merger carried out in 2024 did not lead to the expected scale of changes in fiscal indicators in the short term. The growth rate of total revenues remained weak and continued the trend of previous years. The main source of growth was an increase in tax revenues. At the same time, a decline in non-tax revenues limited the overall growth.

On the expenditure side, a more complex and concerning trend emerges. Although total expenditures decreased slightly, this was not due to the optimization of administrative costs. It mainly resulted from cuts in economic activity and infrastructure-related spending. At the same time, the increase in expenditures on maintaining local self-government bodies shows that the goal of reducing management costs through economies of scale was not achieved. This suggests that the changes in the expenditure structure reflect a redistribution of resources rather than improved efficiency.

This article provided an initial assessment of the impact of municipal consolidation on their performance. Time is needed to fully evaluate the effectiveness of this step. Previous consolidation efforts did not produce significant results. For example, [between 2008 and 2023](#), municipalities that underwent two rounds of consolidation saw their total revenues increased by only 26,5%. It is possible that local budgets will increase after the third consolidation as well. This increase may even be higher than before. However, such growth will not be sufficient to increase the role of the local self-government institution in the country. As I have argued [elsewhere](#), about the global trend of municipal consolidation, without fundamental changes, consolidation will remain a technical adjustment. It may lead to certain structural changes and some positive signals, including an increase in tax revenues. However, its real effectiveness can only be ensured through deeper institutional reforms, including expanding the powers

of municipalities and increasing their financial independence. It is not accidental that the recommendations issued as a result of monitoring by the Congress of Local and Regional Authorities of the Council of Europe in 2003, [Recommendation 126](#), in 2012, [Recommendation 326](#), and in 2021, [Recommendation 461](#), emphasize the need to expand municipal powers and financial capacities. They also propose recognizing municipalities as state institutions that exercise public authority as part of the overall system of public administration.