

# Azerbaijan: Is Nakhchivan the Region that Relies Most Heavily on Financial Support from the Central Budget?

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Amid a series of arrests of Nakhchivan Autonomous Republic (AR) officials on charges of corruption, the topic of inefficient use of the region's economic potential has become widely discussed both in traditional media and on social networks. One of the main arguments is that the share of local revenues in the budget of Nakhchivan is very small, and a significant part of the local budget expenses is covered by subsidy obtained from the central government budget. According to the *Law of Azerbaijan Republic on Budget System*, subsidies are irreplaceable [financial support](#) given to low-budget links (regions). Indeed, a significant part of the budget of the Nakhchivan AR comes from the central budget. For example, out of a total 506,5 million manats approved by the Ministry of Finance in 2021, 25,3% of budget revenues or 128,4 million manats were identified as local revenues, while 74,7% or 359,8 million manats were [transfers](#) from the central budget. According to the draft 2023 budget, which is currently under discussion in parliament, this dependence on the central budget seems to have decreased slightly and dropped to 71%, but still such a dependence is quite high. So, according to budget forecasts, next year the total budget of Nakhchivan AR is projected to be 635,3 million manats, of which 185,5 million manats will be local revenues, while 449,8 million manats will be [provided](#) by the central state budget.

The numbers presented here are facts. But the principal issue is completely different: are other regions in a better financial situation compared to Nakhchivan in terms of

dependence on the central budget? As a result of contemporary public discussions, those who do not have enough information about the subject get the impression that Nakhchivan remains highly dependent on the central budget at a time when other regions are rapidly transitioning to self-financing. There is some truth to this: in 2023, the central budget will [allocate funds](#) to only 8 districts.

Undoubtedly, Nakhchivan is probably the worst example of bad local governance in the country. The suppression of economic competition, monopolies on a mass scale, and rampant corruption are more acute in Nakhchivan than in the rest of the country—and these facts are not disputed.

But if we speak about inter-regional comparison in the field of transparent and efficient use of the tax potential of the regions, the facts show that the differences between Nakhchivan and other regions are not large. In reality, what is the share of local revenue in the Nakhchivan budget compared to that of other regions? According to the structure of the economy and the demographic potential of Nakhchivan, it is best to compare it only with the Ganja-Dashkasan economic region. According to statistical data on the country's total output, only 5-10% of the [economic output](#) of Azerbaijan's regions comes from industrial production. In 2021, this figure was in the Ganja-Dashkasan and Nakhchivan economic regions was 37% and 28%, respectively. As for the population, according to official statistics, Nakhchivan AR is home to about 470.000 people, while a little more than 600.000 people live in the Ganja-Dashkasan economic region. The area of these two regions is approximately the same (about 5,5 thousand sq/km). The approved 2021 [state budget](#) set 93,2 million manats in local revenues for Ganja-Dashkasan, while Nakhchivan AR was to account for 99,5 million manats in local budget revenues (without taking into account customs revenues). But under such conditions, the local expenses of Ganja-Dashkasan totaled 64,7 million manats, and 506,5 million manats for Nakhchivan. The reason for this difference is that the coverage of local

expenses for the two regions is different. For the Ganja-Dashkasan economic region, local expenses mean only the maintenance of local executive authorities, as well as housing and communal services and highways under their control.

Local expenses reflected in the budget of Nakhchivan AR include all 12 expenditure directions of the state budget. In 2021, more than 300 million manats were approved to cover the education, healthcare, culture-art, agriculture, social protection and transport expenses of the Autonomous Republic. Based on the population, these expenses for the Ganja-Dashkasan economic region, which is roughly 25% more populated, are nearly 400 million manats, and with the same approach, the dependence of this region on the central budget is not lower than that of Nakhchivan.

This fact actually proves that the distinction between *subsidized* and *non-subsidized* regions of Azerbaijan is flawed. Moreover, we need to note that the government has not abandoned the system of centralized economic management that was installed under the Soviet Union. As a result, local authorities remain as authorized representatives of the central government, but with limited powers. In other words, there has been neither financial nor administrative counter-centralization due to lack of a locally elected administration system. In a country where financial and administrative decentralization has not occurred, identifying a *non-subsidized region* is a distinction without a difference. A coefficient of *financial independence* can be calculated when local self-governments have autonomous powers and financial independence from the central government, and the coefficient demonstrates to what extent a local self-government has created a "subsidy-free region" by taking advantage of their budgetary independence.

But in Azerbaijan, the financing of most of the spending needs of all regions except Nakhchivan is allocated from the central budget, but those other regions are formally declared

financially independent.

The facts described in the given article show that in reality, we can hardly find an economic region across Azerbaijan that has no heavy reliance on the central budget, and all the regions are as dependent as Nakhchivan. In this regard, the national budget documents should contain detailed information about the spending allocated for all functional areas of the budget, including investment expenditures for each district and city. Only in this way, is it possible to objectively assess the true extent of self-financing or dependence of the regions.