

# Budget Transparency and New Challenges for Azerbaijan

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We are entering a new era, the details of which we can not yet fully imagine. But it seems clear that the government will first need to put an end to the practice of spending public funds right and left without asking for a receipt. It is hard to imagine a different scenario. Let's try to briefly answer the question: "Why now?"

First of all, the global effects of the coronavirus, the scale of which is still uncertain, have not given us a choice. It truly is frightening, and the biggest threat is to weak, dependent economies like ours. Secondly, the post-oil era is already a bitter reality for resource-dependent economies like ours, and the pandemic has brought that prospect closer. Thirdly, unlike neighboring oil producers (Russia, Iran, Kazakhstan), Azerbaijan is an oil-depleted country, and no matter how promising the expectations are for natural gas, it does not have the same earning power as oil. It is enough to point out that of the two massive projects launched at about the same time in the 1990s, the Azeri-Chirag-Gunashli (ACG) oil fields (1994) have brought Azerbaijan 145 billion USD, while the major gas project, Shah Deniz (1996), has so far raised only 2 billion USD. It can be argued that this does not take into account all revenues from the Shah Deniz project—for example, about 3 billion USD is credited to ACG as condensate gas, and another 2 billion USD is transferred to the domestic market as barter. Even in that case, though, the state still receives only 10 billion USD in revenues from this huge gas project. Meanwhile, while while 46 billion USD have been spent on ACG so far, close to that [amount](#) (32 billion USD) has been spent on Shah Deniz. Fourthly, the national economy is not dependent on oil alone. It is also heavily dependent on the public sector. So far, we have been able to establish neither

a normal non-oil sector, nor a private sector. So all hope rests on the efficient and accountable spending of the state budget.

Contrary to stereotypes, the state budget is not just about collecting and spending public funds. As a rule, the role of the state budget is greater in oil- and gas-dependent countries than in others. The main factor here is the large financial capacity of the state, regardless of oil revenues, and the relative weakness of both the private and non-oil economies. Economists call this “the Dutch disease” or, more broadly, “the resource curse.” Here, for objective reasons, the large funds accumulating in the hands of the state give it more opportunities than usual to contribute to economic and social development. It turns out that, unlike countries that are funded mainly by minority taxpayers, in oil-dependent economies, the state has, in a sense, economic superpowers. It is precisely this liquid power that provides for large-scale public investment in the economy and, at the same time, economic stability. But though it sounds paradoxical, this superpower based on oil potential is also very fragile, because it has no defense against external shocks. All this makes transparency doubly important in the management of the state budget.

Why do we lag behind in international transparency indices? Since 2006, budget transparency around the world has been measured by the International Budget Partnership (IBP) through the Open Budget Index (OBI). Although we have never received [good scores](#) in the OBI (30 out of 100 possible points in 2006, 36 in 2008, 43 in 2010, 42 in 2012, 51 in 2015, 34 in 2017, and 35 in 2019), recently the situation has further deteriorated. In short, the reason is that 2 of the 8 budget documents measured by the OBI are not prepared at all, an accessible electronic version of the government’s draft budget is still not available, periodic budget execution reports are not comprehensive, parliamentary control over the budget is weak, and public participation in the budget process is

virtually nil. It is true that since the end of last year, the government has already made some progress in this direction by making documents available online, and it seems that they are intent on eliminating other shortcomings. Serious efforts recently made by the Ministry of Finance in this area (e.g. the work done on the implementation of Medium-Term Budget Expenditures) give this idea some credence. But the question is, why was the issue of budget transparency pushed into the background for the past 15 years, and why is the government now desperately trying to make up for its losses? Again, the short answer is to be found in the economic situation. At a time when oil prices were skyrocketing, budget transparency was not necessary and in a sense undesirable. Expenditures were self-sustaining, and the government was not particularly concerned even though the efficiency of large-scale public investment questionable in some cases. There was a feeling that the "money from heaven" would be eternal.

But it is not just the oil factor that allowed us to settle for undesirable ratings in the transparency and accountability indices. For example, neighboring [Russia](#), which is not known for transparency, accountability and good governance in general, gained 3 points in the last index and moved up to 14<sup>th</sup> place out of 117 countries with a total score of 74. But there is a solution to this seeming paradox, and it is that budgeting is a firmly institutionalized process in Russia. In other words, there are laws and regulations governing the budget process, and the relevant documents are published routinely in accordance with the legislation, without the need for a special initiative. Yes, it may seem somewhat surprising that the mission and aim of the formal institutions of public administration in Russia is not only to act in conjunction with one another, but also to meet international requirements and function in accordance with them, but that is a fact, at least in terms of the budget process. Does this mean, however, that Russia can reduce the scale of corruption in the state budget? No, on the contrary, Russia has set a record in

this area. Russia ranks 147 in the 2019 Corruption Perceptions Index. By comparison, Azerbaijan occupies a relatively good position (129) in this [index](#).

The question then is, if transparency cannot prevent corruption, then what is its benefit? First of all, it should be noted that Russia's relatively high position in the Open Budget Index is indeed a surprise to most experts, who stress that something is off. Most likely, this is an exception in which the preparation of detailed budget documents and their timely disclosure have an effect, and which in this sense meets the requirements of the index. However, this should not cast doubt on the index itself. It is enough to point out that New Zealand leads the index, Azerbaijan's neighbor Georgia is in the top five along with Sweden, and post-Soviet Tajikistan is 101 out of 117 countries with only 30 points.

Secondly and more importantly, while transparency is the first and a necessary condition for preventing corruption in the state budget, it is not possible to put an end to corruption and achieve good governance as a whole simply by ensuring transparency. For that, at the very least transparency must transform into accountability. It should also be noted, however, that there is no linear relationship between transparency and accountability. In other words, ensuring transparency does not automatically mean absolute accountability. For that, other institutions and tools must be put in place, and the main institutional tool here is public participation. It is no accident that Russia's lowest score in the [index](#) is for public participation—22 out of 100 possible points. For comparison, Azerbaijan received only a 9. Overall, public participation is the weakest component in the post-Soviet space, although there are positive examples. In the Open Budget Index, these are usually the countries where a certain amount of social mobility is observed, i.e. Kyrgyzstan, Georgia, Ukraine and Moldova.

First and foremost, public participation creates a basis of

legitimacy for government decisions. Feedback from the public makes it possible to assess the real social picture more clearly through. In this regard public hearings, for example, play the role of a bottom-up information channel, which is an important condition for more successful long-term strategic planning in the context of the Medium-Term Expenditure Framework (MTEF). Without that, the MTEF itself remains in question.

“But is it possible to create a participatory institution in the absence of a free election environment?” you might ask. Of course, ideally, such institutions should be based on fundamental principles and integrated with the free choice of society. It is precisely that unity that makes the government not only transparent and accountable, but also responsible. But in reality, those principles are violated, and therefore everything that we have said seems to be incomplete, and does not give the expected results. Thus, the transparency-accountability-responsibility triad is essential for the establishment of good governance and a highly prosperous society free of corruption. Otherwise, transparency in and of itself does not solve the problem, rather turning into what some experts call “zombie transparency.”

The question is, can transparency solve the fundamental problems of society when, for objective reasons, accountability and responsibility have not yet been provided? The answer is that in order to ensure the above triad, it is necessary to start with transparency in any case. It is precisely transparency that plays the first and most exceptional role in this important construction. Transparency provides the opportunity to uncover distortions in the management of the state budget and to correct mistakes. Which do you think is better, the Turkmen government, which banned coronavirus, or the Western authorities, which are looking for ways to fight the disease together with the public? Therefore, instead of asking skeptical questions like: “What are society’s main problems that can be solved by transparency?”

it should be established at all costs.

But is there a demand for transparency? There should be a demand in society for increasing transparency. The demand will arise when the opportunity is provided to influence government decisions. It turns out that if there is no such demand yet, the presence or absence of transparency has no effect on the improvement of the economy or social life. On the other hand, the opportunity to influence decisions arises when you have complete and accurate information. As a first step, the government can fill in the gaps arising from the requirements of the Open Budget Index, which should be implemented not as a special initiative, but as an institutionalized routine.

According to economists, in some cases, supply is a condition for demand. The first smartphone put on the market was a clear example of this. The fact that the average Azerbaijani is insufficiently interested in the state budget cannot be an obstacle here. It is enough to have a small number of well-prepared citizens who are highly interested in it and can contribute to its improvement. The key is to start, and this work should not be the sole responsibility of the government or the Ministry of Finance. This is a good opportunity for the Milli Majlis, which has been left out of the budget process until now.

Apart from all this, why is budget transparency important? The state budget is the largest socio-economic document of any country. The budget is primarily a financial mirror of society's expectations. Although the priorities are set by the government, they are made on behalf of the citizens, and it is for that legitimacy that the budget document acquires the status of a law. The state budget must reflect the interests of each of the country's citizens, for which there are sufficient mechanisms. But even if those preferences are correctly reflected in the document, budget expenditures must be monitored and evaluated by society.

Recently, against the background of constant news about the fight against corruption, we have witnessed the misappropriation of budget funds. But if, instead of fighting the outcomes of corruption, the budget process had already been transparent and accountable, there would never have been such a wide range of opportunities for corruption. Open discussion of the budget process and independent evaluation of its reports will not be without problems. It is worth starting even if the approach is incompetent and tendentious. To give up on transparency using those who want to unfairly cast dispersion the activities of the government (there is no society free from such things) as an excuse is a dead end, because transparency will create trust and confidence in the government and the authorities as a whole. This is much more important now than ever before.