

Do developed countries allocate non-refundable financial assistance from the state budget to municipalities?

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In response to a media question concerning the limited financial support allocated to municipalities in the draft state budget of 2026, one of the Azerbaijani MPs [stated](#) that in a number of developed countries municipalities do not receive subsidies from the federal or state budget at all. He added that in international practice a significant part of the funds attracted by municipalities comes from sources outside the state budget. Unfortunately, no specific country examples were given in the explanation.

If the discussion concerns developed countries, the first that come to mind are European states, the United States, and Japan, which have decades of experience in local self-government. That being said, for Azerbaijan the experience of European countries is especially important. This is because Azerbaijan, as a member of the Council of Europe, has [ratified](#) the European Charter of Local Self-Government. Article 9 of this Charter emphasizes that local self-government bodies must have sufficient financial resources within national economic policy and that the financial resources of these bodies must be proportional to the responsibilities granted to them by the constitution or law. The Charter does not impose any requirement on what share of municipal financial resources should be formed by taxes or by support from the state budget. It states that the financial systems on which the resources of local self-government bodies are based must be sufficiently

diverse and flexible. It also states that at least part of these resources must come from local fees and taxes.

So what is the real situation in the member states of the Council of Europe? By examining the experience of some of the countries that are developed both economically and in terms of the functioning of their local self-government system, we can also clarify how realistic the statement in question is.

According to the 2022 [report](#) on local democracy prepared by the Congress of Local and Regional Authorities of the Council of Europe, in England half of the financial resources of local governments come from taxes and fees, and the other half comes from grants provided by the central government. A certain portion of these grants is allocated for the financing of specific services and functions. The remaining amount is provided as income support to cover budget deficits. According to the statistics provided, the share of earmarked grants in the structure of local budget revenues was 34 percent, the share of non-earmarked financial support (subsidies) was 17 percent, and the share of local taxes and fees was 49 percent.

The local finance system of Scotland is similar to the English model. The financial resources of local government consist both of taxes and fees collected locally and of grants provided by the Scottish Government. The volume of grants is determined based on the size of the population and the tax potential of local self-government bodies. 85 percent of local government expenditures are covered by such grants.

According to the 2022 [report](#) of the Congress, taxes for municipalities in Sweden are also collected by the state and then transferred to municipal budgets. Taxes account for 83 percent of municipal budgets. The share of central government grants in local budget revenues is 23.3 percent. Of this, 6.3 percent consisted of earmarked allocations and 17 percent consisted of non-earmarked allocations (subsidies). Given that the total revenue of municipalities in 2020 amounted to 41.2

billion euros, then the total amount of government grants reached 9.4 billion euros.

According to the latest [report](#) prepared by the Congress, 21.1 percent of the total revenues of municipalities in the Czech Republic is formed through transfers from higher budget levels. Of this amount, 14.7 percent consists of current transfers and 6.4 percent consists of capital transfers. Sixty five percent of the revenues of regional governments is formed directly through allocations from the central government.

Thus, the reports prepared by expert groups representing specialized structures of the Council of Europe show that even the official statements in Azerbaijan concerning the local finance system of developed countries are quite problematic. In those countries transfers allocated by central and regional governments hold a significant share in the formation of municipal revenues and in the exercise of their spending powers.

At the same time, the financial base of the local self-government system in Azerbaijan remains extremely weak, and one of the main reasons for this is the government's limited provision of financial resources to these bodies. A [study](#) conducted by the Baku Research Institute in this field showed that, in terms of financial resources, Azerbaijani municipalities are in an exceptionally weak position compared to the other two South Caucasus countries. For example, while the total budget of all municipalities in Azerbaijan amounts to around 30 million US dollars, in Georgia this figure reaches 750 million dollars, half of which consists of transfers from the central government. In [Armenia](#), the share of municipal budgets in GDP is 2.5 percent. Considering that the country's GDP amounts to 27.5 billion US dollars, it becomes clear that local budget revenues are close to 600 million dollars.