

Fines in Azerbaijan: A Tool of Punishment or a Source of Salary Increases?

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A proposed amendment to the Administrative Offenses Code will [increase](#) fines for violations of the Military Service Law. The State Service for Mobilization and Military Service will [receive](#) 50% of these collected fines to supplement the monthly salaries of its military personnel. This practice has become commonplace in Azerbaijan: While a portion of fines collected for legal violations goes to the state budget, government agencies receive a significant share. The government justifies this by citing the need to strengthen social protection for civil servants.

Recent years have seen a sharp decline in fine and sanction revenues flowing into the state budget. However, this decrease does not reflect a reduction in collected fines and sanctions. On the contrary, the total amount of fines and sanctions continues to grow year after year, but government agencies now receive a larger share while the state budget receives less. This article examines how Azerbaijan distributes fine and sanction revenues between the state budget and government agencies.

How Much Revenue Do Fines and Sanctions Generate for the State Budget?

Fines and sanctions for legal violations serve as administrative penalties and economic regulation tools to deter people from breaking the law. Many Azerbaijani laws include provisions for fines, which also serve as a source of state budget revenue. Cabinet of Ministers Decision No. 440 (11 October 2018) [classifies](#) fine and sanction revenues under subsection 143 of the budget revenue classification. This

subsection includes fines and sanctions for criminal offenses, administrative violations, and breaches of financial, insurance, tax, labor, employment, and land legislation. Traffic violation fines and other similar revenues also fall into this category.

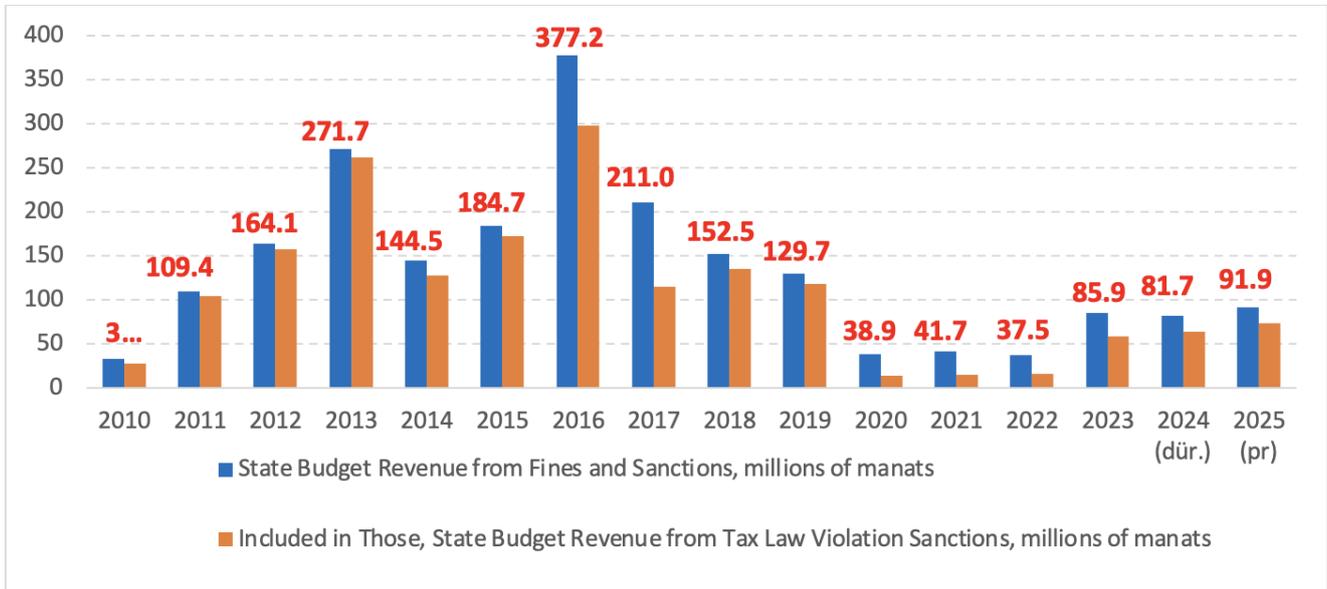
Let us first clarify the legal definitions of *fines* and *sanctions*. [The Administrative Offenses Code](#) identifies administrative fines as a primary form of administrative punishment. Article 25 of the code defines an administrative fine as “a mandatory monetary amount that judges or authorized bodies (officials) impose on guilty parties for the benefit of the state.” The code’s sixth chapter establishes 21 types of administrative fines (sections 20-40). [The Tax Code](#) (Articles 57-60) allows tax authorities to impose financial sanctions and interest penalties for various tax law violations.

The Constitutional Court’s Decision of 6 August 2002, [states](#) that financial sanctions and interest penalties for tax law violations serve as enforcement measures to ensure taxpayers properly fulfill their obligations to the budget and extra-budgetary funds. These measures, which tax authorities implement through state enforcement, both restore legal rights and serve as punishment. The court’s decision emphasizes that the Tax Code’s financial sanctions essentially function as fines, noting that tax authorities can impose both financial sanctions and interest penalties under the Tax Code (Articles 57-60) as well as administrative fines under the Administrative Offenses Code (Articles 244-247, 249-251).

Diagram 1 shows how fine and sanction revenues to the state budget changed from 2010 to 2023. The data comes from actual budget execution reports in the budget packages (Book V) that the Azerbaijani government submitted to parliament with each year’s draft state budget. As Diagram 1 shows, fine and sanction revenues to the state budget grew from 33,1 million manats in 2010 to 271,7 million manats in 2013. After a slight decrease over the next two years, these revenues peaked at

377,2 million manats in 2016. Since 2017, fine and sanction revenues to the state budget have declined sharply each year, reaching their lowest point of 37,5 million manats in 2022.

Diagram 1: State Budget Revenue from Fines and Sanctions (millions of manats)



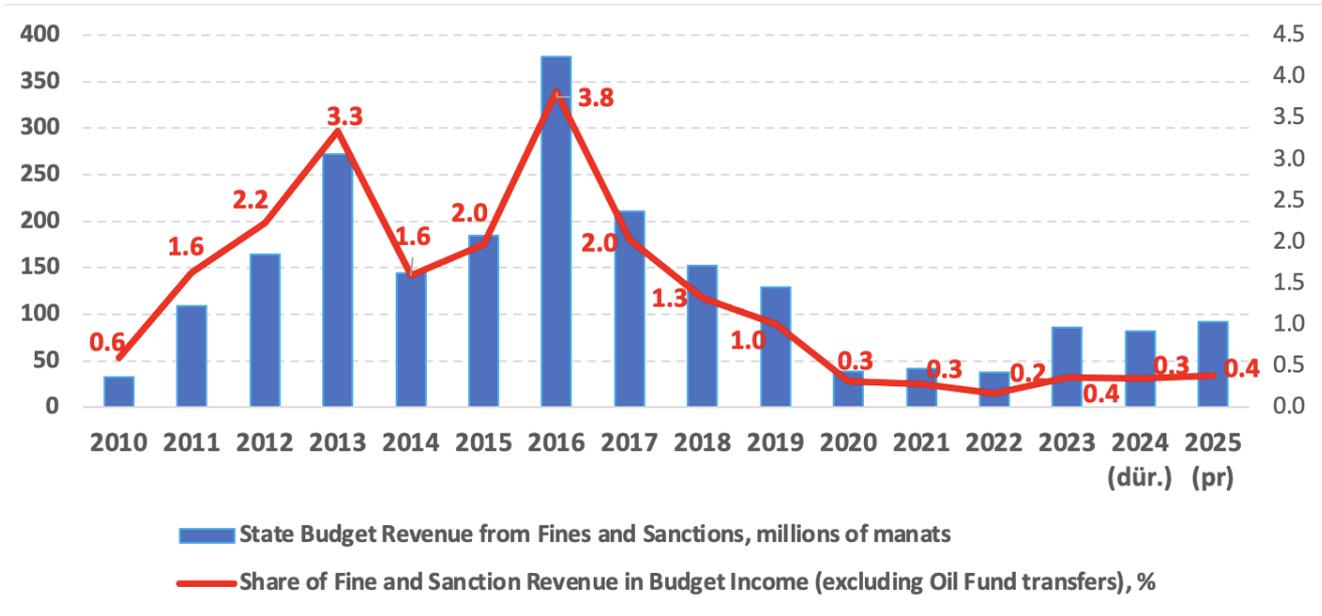
Source: Data compiled from budget packages submitted to the National Assembly

At first glance, one might attribute the decrease in fine and sanction revenues after 2017 to the government’s decision to partially suspend business inspections during that period. However, as our following analysis will show, this decline in budget revenues does not actually reflect a reduction in total fines and sanctions: In recent years, the total amount collected from fines and sanctions has not just held steady. It has increased. The key change is that a smaller portion of these funds now goes to the state budget.

The second curve (line) in Diagram 1 shows budget revenues from financial sanctions imposed for tax law violations. The diagram clearly shows that until 2020, tax violation sanctions made up the majority of fine-based budget revenue (ranging from 85-95% in some years). The revenue from fines and sanctions saw rapid growth during two periods: 2010-2013 and 2014-2016. Compared to 2010, these revenues increased 8,2

times by 2013, and compared to 2014, they grew 2,6 times by 2016. During these same periods, state budget revenues (excluding transfers from the State Oil Fund) only increased by 48,4% and 9,1% respectively.

Diagram 2: Annual Changes in the Share of Fines and Sanctions in State Budget Revenue (excluding State Oil Fund transfers), %.



The red curve and right scale in Diagram 2 illustrate this change. While fines and sanctions grew from 0,6% of state budget revenue (excluding State Oil Fund transfers) in 2010 to 3,8% in 2016, this share gradually decreased in subsequent years, stabilizing at around 0,3% in recent years. The data we have presented so far does not show the complete picture of all fines and sanctions collected in the country. It only reflects the portion that enters the state budget revenue (classified under code 143 in the budget revenue classification).

Distribution Mechanisms for Collected Fines and Sanctions

Various legislative acts establish how to divide revenue from legal violation fines between state agencies and the state budget. Laws specify the ratios for this distribution, while presidential decrees determine which state agencies receive

these funds. The Cabinet of Ministers approves the rules for using funds transferred to state agencies. Below, we present a table showing the current legislative acts governing the distribution of fines and sanctions, along with their current allocation status.

Table 1: Distribution of Fine and Sanction Revenue Between State Budget and Government Agencies

Legislative Act	Subject of Fines and Sanctions	Portion to State Agency	Portion to State Budget	Note
Tax Code , Article 22-1 (Section 22-1.1); Presidential Decree No. 814 dated 21 August 2019, on implementing Law No. 1648-VQD dated 12 July 2019	Financial sanctions applied by tax authorities and proceeds from court-ordered confiscation of goods with fake or missing excise stamps	To Ministry of Economy's account: <ul style="list-style-type: none"> • 93% for 2019-2022 • 43% for 2023 and beyond 	Remaining portion	
Tax Code , Article 22-1 (Section 22-1.2); Social Insurance Law , Article 20	Financial sanctions for violating Social Insurance Law requirements	43%	7%	Remaining portion goes to State Social Protection Fund

<p>Tax Code, Article 22-1 (Section 22-1.4); Mandatory Medical Insurance Law, Article 15-9.2</p>	<p>Financial sanctions and late payment interest for violating Medical Insurance Law requirements</p>	<p>43% 23%</p>	<p>7% 7%</p>	<p>Remaining portion goes to Mandatory Medical Insurance Fund</p>
<p>Presidential Decree No. 388 dated 25 February 2011</p>	<p>Funds entering the customs system's extra- budgetary development fund</p>	<p>60% (50% until 2017)</p>		<p>Remaining portion stays with the fund</p>
<p>Road Traffic Law, Article 23</p>	<p>Fines for violating traffic rules, road safety, and road usage regulations</p>	<p>93%</p>	<p>7%</p>	
<p>Statute on Service in Migration Bodies (Law No. 930-IIIQ dated 4 December 2009), Article 90-1</p>	<p>Fines collected by migration authorities for violations of migration legislation</p>	<p>18%</p>		<p>No information about remaining portion</p>
<p>Unemployment Insurance Law, Article 23</p>	<p>Fines collected for violations entering the Unemployment Insurance Fund</p>	<p>43%</p>	<p>7%</p>	<p>Remaining portion goes to Unemployment Insurance Fund</p>

Employment Law , Article 33.2	Fines collected for violations of this law	18%		No information about remaining portion
Public Health Protection Law , Article 56	Fines collected for violations of this law	18%		No information about remaining portion
Environmental Protection Law , Article 27	Funds entering the state environmental protection fund	7%		Remaining portion goes to Environmental Protection Fund
Veterinary Law , Article 39.4	Fines collected for violations (including those from cases sent to courts with formal violation reports).	43%		No information about remaining portion
Phytosanitary Control Law , Article 34.5	Fines collected for violations (including those sent to courts)	43%		No information about remaining portion
Land Code , Article 45	Fines collected for violations (including those sent to courts)	25%		No information about remaining portion

Urban Planning and Construction Code , Article 106	Fines collected for violations (including those sent to courts)	43%		No information about remaining portion
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In addition to these legislative acts, Presidential Decree No. 978 dated 30 March 2020, on strengthening social protection for employees of various government bodies (including the Presidential Administration, Presidential Business Management Department, Special Medical Service, Cabinet of Ministers, and Security Council Secretary's office) also provides for transferring portions of collected fines to these agencies' accounts. However, this decree's text is not publicly available. (A similar [Presidential Decree](#) No. 1358 dated 1 May 2017, which was publicly available and specified distribution ratios, was [repealed](#) by Presidential Decree No. 1033 dated 22 May 2020, after the adoption of Decree No. 978 dated 30 March 2020.)

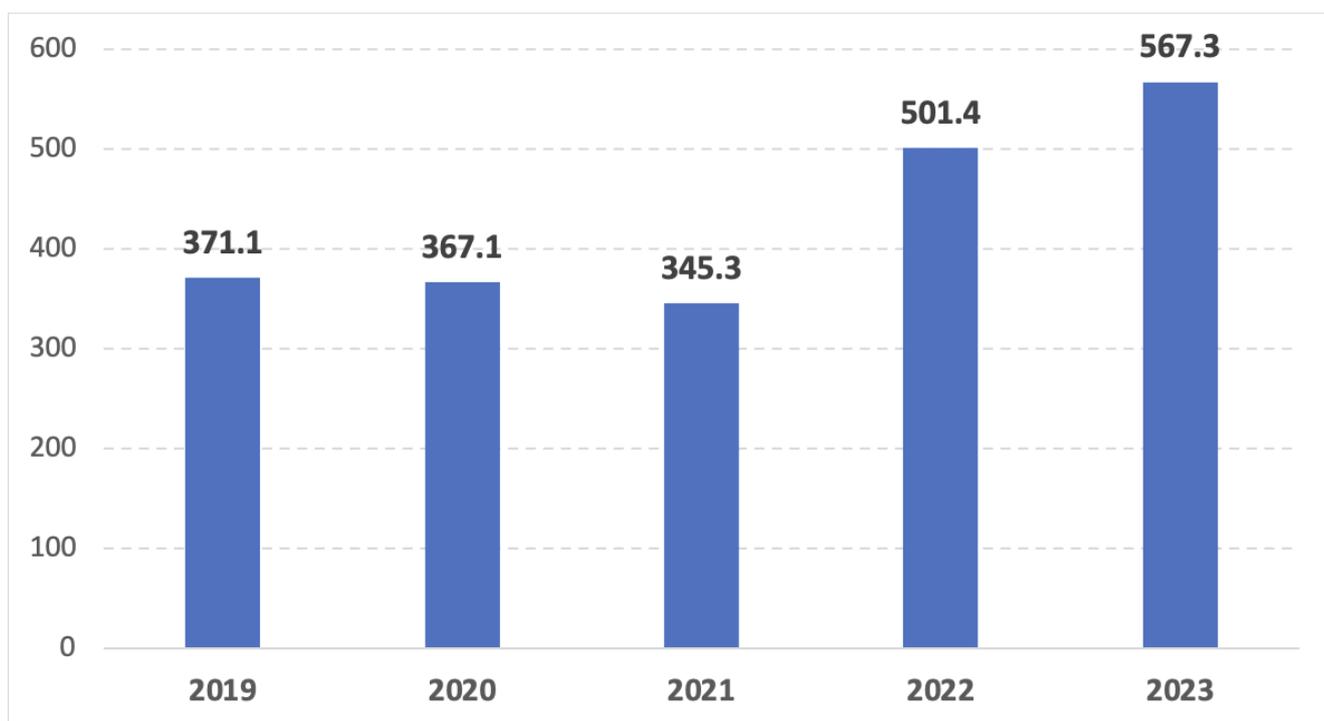
How Much Fine and Sanction Revenue Goes to State Agencies' Extra-Budgetary Funds?

When authorities collect fines and sanctions for legal violations, they classify portions transferred to state agencies as extra-budgetary revenue. When preparing the state budget, they record these funds as extra-budgetary income of budget organizations, following legislative requirements. In the [Budget Revenue Classification](#) (approved by Cabinet of Ministers Decision No. 440 dated 11 October 2018), Article 14252 is called *Revenue from portions of financial sanctions, administrative fines, and taxes designated as extra-budgetary income by legislation*. We can find both general and detailed (by sector) information about these funds from this source. Since 2019, the government has included such information in the budget package submitted to the National Assembly with draft state budgets.

According to the Ministry of Finance's actual execution data,

revenue from legally designated extra-budgetary portions of financial sanctions, administrative fines, and taxes amounted to 371,1 million manats in 2019; 367,1 million manats in 2020; 345,3 million manats in 2021; 501,4 million manats in 2022; and 225,9 million manats in 2023. The Ministry of Finance [explains](#) the sharp decrease in 2023 in its annual report on state budget execution: “Unlike previous years, 341,4 million manats of excess tax revenue collected through tax authorities in 2022 was not classified as extra-budgetary revenue in 2023.” If we include this amount as in previous years, the 2023 extra-budgetary revenue from financial sanctions, administrative fines, and taxes would total 567,3 million manats. Diagram 3 shows the yearly dynamics of these funds, including this adjustment.

Diagram 3: Dynamics of Revenue from Extra-Budgetary Portions of Financial Sanctions, Administrative Fines, and Taxes (millions of manats)



Source: Budget package attached to state budget draft

The published data shows that these extra-budgetary revenues come primarily from two sources: financial sanctions for tax law violations and fines for traffic violations (Table 2).

Table 2: Annual Dynamics and Composition of Extra-Budgetary Revenue from Financial Sanctions, Administrative Fines, and Taxes (million manats)

	2019	2020	2021	2022	2023
Total revenue from legally designated extra-budgetary portions of financial sanctions, administrative fines, and taxes	371,1	367,1	345,3	501,4	567,3
Including:					
Extra-budgetary portion of financial sanctions applied by tax authorities	214,1	245,6	189,7	367,3	385,4
Extra-budgetary portion of administrative fines for traffic violations	97,6	82,1	110,5	132,7	180,4
Share of these two sources in total extra-budgetary revenue from fines and sanctions (%)	84,0	89,3	86,9	99,7	99,7

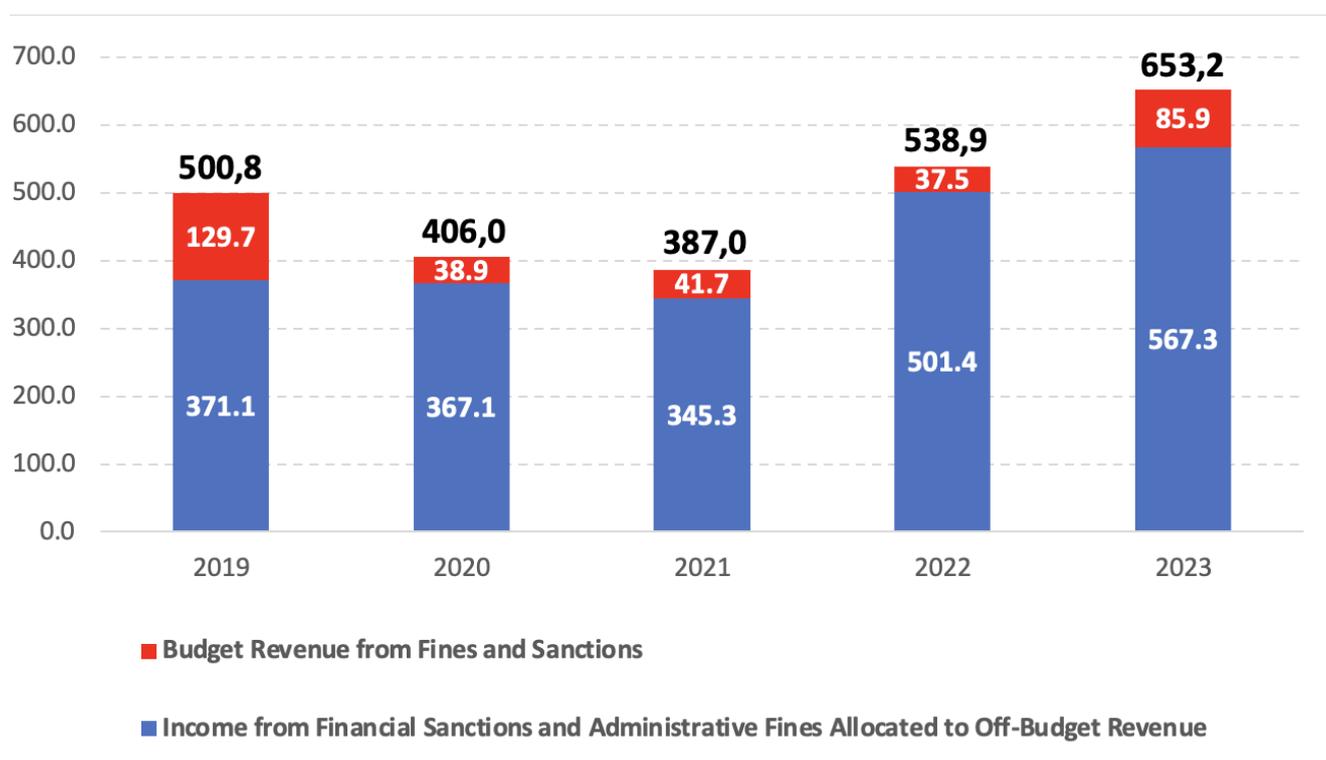
Source: Budget package attached to state budget draft

As we can see, during 2019-2023, these two areas' combined share of total extra-budgetary revenue from fines and sanctions increased from 84,0% in 2019 to 99,7% in 2023. Table 2 highlights another notable trend: the rapid increase in extra-budgetary revenue from traffic violation fines. Excluding a slight decrease in 2020 due to strict quarantine measures during the pandemic, revenue from traffic violation fines has grown rapidly year after year. By the way, every Azerbaijan resident knows that traffic police often accept unofficial payments instead of issuing tickets, leaving many violations unrecorded

Distribution of Funds from Fines and Sanctions between the State Budget and Government Agencies

Based on our research, we can analyze the total amount and dynamics of funds collected from financial sanctions and fines in recent years. We combined the state budget revenues from fines and sanctions with the portion allocated to government agencies' off-budget revenues. Diagram 4 illustrates the results: the red sections of the columns show amounts transferred to the state budget from collected fines and sanctions, while the blue sections represent amounts received by government agencies. The figures at the top of the columns reflect the total amounts collected from fines and sanctions.

Diagram 4: Distribution of funds from financial sanctions and administrative fines between the state budget and government agencies, in millions of manats



The diagram reveals that the recent decrease in state budget revenues from fines and sanctions does not reflect a reduction in the total amount of collected fines and sanctions nationwide. Instead, while the total amount continues to grow, government agencies receive an increasingly larger share of these funds. Government agencies received 2,9 times more than the state budget in 2019, 9,4 times more in 2020, 8,3 times more in 2021, 13,4 times more in 2022, and 6,6 times more in

2023.

The total amount of funds from fines and sanctions (combining state budget transfers and agency off-budget revenues), excluding State Oil Fund transfers, represented 3,9% of state budget revenues in 2019, 3,3% in 2020, 2,6% in 2021, 2,4% in 2022, and 2,8% in 2023. For comparison, developed countries we studied allocate fine and sanction revenues to budgets of various levels, with such revenues typically not exceeding 0,4-0,7% of budget revenues.

Transparency and Accountability Issues

Another crucial concern involves ensuring accountability and transparency in how government agencies use funds from fines and sanctions. Research shows that some government agencies receive several times more money from fines and sanctions than their state budget allocations for operational costs. For example, according to the Ministry of Finance, while the State Tax Service under the Ministry of Economy received 64,7 million manats from the 2022 state budget for operational costs, they collected 367,3 million manats from financial sanctions designated as off-budget revenue.^[1] This means their off-budget revenue from fines and sanctions exceeded their state budget allocation by approximately 5,7 times!

This situation heightens the importance of transparency and accountability in how agencies use these funds. Unfortunately, government agency websites currently lack reports showing the formation and use of off-budget revenues. The Ministry of Taxation previously published such reports on its website (until 2017) but abandoned this practice and even removed historical reports. While the State Tax Service's [website](#) maintains a section titled *Off-budget Fund Allocations and Expenditures for Tax Authorities*, it only shows report forms without actual reports.

Conclusion

We see substantial annual collections from fines and sanctions imposed for legal violations: combined state budget revenues and government agency allocations reached 538,9 million manats in 2022 and 653,2 million manats in 2023. The Ministry of Finance expects these collections to reach 491,4 million manats by the end of 2024 and projects 531,8 million manats for 2025. Government agencies receive up to 90 percent of these funds, using them to increase employee salaries or improve their technical resources. This makes public access to information about these funds' composition and use essential, along with timely public reporting.

Another concern involves how this system changes the nature of such fines for legal violations. Could using these funds to increase employee salaries incentivize unjustified fines? This question becomes particularly relevant considering tax authorities impose financial sanctions without court proceedings. We might also ask whether this distribution of funds from fines and sanctions helps reduce corruption. We have not sought to answer these final questions in this article – they could be the subjects of future research.

Reference

[\[1\]](#) Azərbaycan Respublikasının 2024-cü il dövlət büdcəsinin zərfi, V kitab. Bakı, 2023, 15. [The State Budget Package of the Republic of Azerbaijan for 2024, Book V. Baku, 2023, 15.]