

Has Azerbaijan Actually Made Significant Progress in Budget Transparency?

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On May 31, 2022, the results of the Open Budget Survey-2021 (OBS-2021), prepared every two years, were announced. For the first time in the history of the Open Budget Index, Azerbaijan ranks 44th out of 120 countries (57 out of 100 possible points). This is 37 points higher than Azerbaijan's last score in 2019. The results were a surprise even to some experts, and there has already been a lot of discussion around Azerbaijan's score.

The question is whether this success reflects reality. In other words, is this progress despite Azerbaijan's existing problems with transparency and accountability in the state budget? Is it blatantly incorrect? Or is it a methodological issue?

The Open Budget Index is only a component of Open Budget Survey

The Open Budget Survey (OBS) has been prepared by the International Budget Partnership (IBP) since 2006, and the latest survey is the eighth edition. Azerbaijan has participated in all published indices so far. While it bore the name Open Budget Index until 2017, this assessment has since been called the Open Budget Survey. It includes three components: budget transparency, public participation and budget oversight. One confusing point is that budget transparency component, i.e., the availability of the eight key budget documents that are subject to evaluation, is also called the Open Budget Index. Thus, Azerbaijan's success in that index, consciously or unconsciously, is presented as a whole as a result of the Open Budget Survey, which causes a

bit confusion.

However, the IBP has recently adopted an approach to the changing priorities for assessing budget transparency. We should note that the IBP methodology is not its own product, but is based on methodologies developed by International Monetary Fund, the Organization for Economic Cooperation and Development, the Global Initiative for Fiscal Transparency and other global institutions. Thus, the report on the final survey presented first public participation component rankings (Azerbaijan scored only 9 out of 100 possible points on this component), then budget oversight and finally, budget transparency.

Thus, the success of one index, the Open Budget Index, i.e., the budget transparency component, is indeed a reality, but it would be wrong to attribute Azerbaijan's success in this area to the country's budget management, and in particular to a supposedly inclusive budget process based on participation.

How has the Azerbaijani government gained success in budget transparency?

Azerbaijan's success in the latest index is primarily due to the preparation of two new documents, which the Ministry of Finance did not supply in previous assessments. For the first time in history, Azerbaijan was included in the list of countries where all eight budget documents were prepared. According to the report, only 17 out of 120 countries prepared and submitted all eight budget documents.

The two previously undisclosed documents are the Pre-Budget Statement and the Mid-Year Review. The first is announced before the budget envelope is submitted to parliament and contains the main budget parameters for the next year, as well as macroeconomic indicators. The Ministry of Finance has prepared and posted the Pre-Budget Statement on its official website for two years. The second document is more important. In contrast to the semi-annual budget execution report, in

preparing the Mid-Year Review, the government analyzes the budget execution for the first six months of the year and the macroeconomic situation as a whole, and makes changes to the annual budget. The main focus of the Mid-Year Review is to review the performance of the budget for the first 6 fiscal months, called the assessment period (2020).

Finally, other factors that contribute to Azerbaijan's recent success are the significant enrichment of the official website of the Ministry of Finance and the timely placement of the required documents. At present, the budget execution data of the previous month, which is an indicator of efficiency in the accountability of budget execution, are reflected in detail at the end of each subsequent month.

Why did the index results cause dissonance among experts?

At first glance, indeed, the availability of budget documents in itself is an important condition for budget transparency, especially accountability, but it is not sufficient. Typically, increased budget transparency is accompanied by increased public interest in the budget process. This is due to the need for the budget process in society, at least in the expert community. In any case, an increased score in the Open Budget Index is not a panacea and is not indicative of the country's ability to solve many problems associated with budget management. However, it is good that each of the eight identified budget documents is open to the public.

Is it possible to change anything in current Azerbaijani budget management with the availability of these eight documents? The answer to this question compels the international community to be satisfied not only with transparency, but also to strengthen control mechanisms and raise the issue of public participation as a logical continuation of increasing the state's democratic accountability.

Why is public participation significant?

Public participation in the budget process usually lends legitimacy to the budget process, increasing confidence in the government and thus ensuring the inclusiveness of the process. Naturally, a non-public budget process undermines public confidence in government; the government has to take full responsibility during recessions, even if the most effective budget policy is implemented (although a non-participatory budget process is usually ineffective compared to a participatory budget, unless other factors are taken into account). However, if public participation is ensured, this responsibility could be shared.

There is no linear relationship between transparency and public participation, as demonstrated by OBS-2021. For example, while South Korea, the United Kingdom and New Zealand are subsequently in the top three assessed countries for the public participation component, Georgia, South Africa and Sweden hold these places in the transparency index. Although the Republic of South Africa ranks second in budget transparency, it ranks 36th in the public participation component. But does this mean that the components have no relationship at all?

In any society, fiscal transparency and accountability are like a chair built on three pillars. These pillars are public participation, budget oversight and transparency. If any of these poles are broken, the chair will fall. The sustainability of the fiscal ecosystem depends on the establishment of all three components at a high level.

Public participation is the most complex part of good budget management

Successful participation in the budget process does not depend only on the government. As a rule, in societies where freedoms are protected, the involvement of the general public in the budget process is a simpler process. Because in societies where freedoms and democratic principles are established, the

taxpayer and the government responsible to them are mutually interested in the accountability of the budget. In most developed democratic countries, budget participation is less relevant than in others, as established institutions and an independent judiciary already provide the desired division of powers and the rule of law (checks & balance). The results of OBS-2021 partially prove this. Most developed democracies are not at the forefront of the survey scores due to their lesser participation components.

It turns out that participation is more necessary for developing countries to compensate for the shortcomings of their weak institutional systems. It is easier to understand this necessity than to put it into practice. In most developing countries, the public understands the government's call for accountability in the budget process very simply, and they therefore sometimes make baseless accusations against the government, arguing that they can easily solve all existing problems through vague accountability measures. As a result, the government prefers to avoid involving the general public in this process, believing that participation hinders the implementation of effective fiscal policy.

In addition to the importance of public participation in such countries, including Azerbaijan, it is important to build more effective mechanisms, taking into account the context of the country. The mechanisms of public participation in South America, for example, do not work in Azerbaijan. It is hoped that if these mechanisms are properly implemented (public consultations, social audits, citizen surveys, advisory groups established with independent experts, etc.), interest in the budget process and the demand for budget documents in the country as a whole will increase significantly.

The budget process must be institutionalized

In order to strengthen the country's position in the OBS and to stay at a high level, the budget process in Azerbaijan must

first be institutionalized. When the transparency of budget documents is initiated by government agency only at the whim of the current minister, its sustainability is questionable. An example is the publication of Mid Year Review in the latest index. There is currently no legislative or institutional requirement for this document to be made available to the public in a complete and timely manner and in a format that meets international standards. This document may not be disclosed in the future when priorities change or when the minister changes their discretion. In this regard, the law on the Budget System is very outdated and cannot, in its current form, keep up with modern demands.

Three main functions of a parliament (representation, passing laws, control) are fully reflected in a budget process. By representing its constituents, the legislature exercises their priority interests in public expenditures, the adoption of a budget law, and, finally, control over the budget process. In Azerbaijan, the legislature's performance of the first and third functions is questionable. Elections to parliament in Azerbaijan are not free and fair and the president, not the legislature, sets priorities for the budget and controls its passage. That is why the budget discussions every autumn in Milli Majlis are of symbolic character.

Azerbaijan's good ranking in the budget oversight component of the OBS (68 out of 100) is related to the professional activity of the Chamber of Accounts in general. Budget oversight is based on two sub-components: the control of the budget exercised by the legislature and the control of the audit (Chamber of Accounts). Legislative control decreased by 8 points compared to 2019 and amounted to 50 points in the current review, while audit control is stable at a high level – 87 out of 100 possible points. The average score of these two types of control was 68 points.

It would be unsophisticated to expect a revolutionary change in the parliament's approach to the budget process in the near

future. But concrete progress is needed, and it is possible to make such progress now. First of all, the invitation of external experts and professional civil society representatives to budget discussions would be a good signal.

The recent high results of Azerbaijan in the Open Budget Index are commendable, and therefore the professional activity of the Ministry of Finance in this area in recent years should be especially noted. The sustainability of this success depends on the next steps of the government. It should be noted that the OBS is prepared every two years, and the assessment of the OBS-2023 begins this year.