

How Can the Heads of Local Executive Authorities Attract Investors?

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President Aliyev's instructions to the heads of local executive authorities to attract investors to the provinces at any cost are a trend of the last 4-5 years. I heard no such calls before the 2015 oil crisis. At that time, the sharp fall in world oil prices, the country's loss of 15 billion USD in foreign exchange reserves in one year, and the economic downturn along with the social tensions it created shocked the government. At that time, it realized that the most realistic alternative is to replace the oil money that had been flowing into the country for more than 10 years with outside investments. Aliyev made his [first call](#) to local executive authorities in September 2016 during the opening of the Shirvan-Mugan main water pipeline in Salyan. Later, he made similar calls several times. The importance of attracting local and foreign investors to the regions was brought up most recently [on August 24](#), during the appointment of new executive authority heads in the Bilasuvar and Saatli districts.

But what is the reality: is the main reason for the lack of investment in the regions the incompetence and bribery of local executive authorities? Most importantly, what powers do local executive authorities have for attracting investors – both in practice and by law?

The powers of local executive authorities in shaping the business environment

The activities of local executive authorities are regulated by the [Statute](#) approved by presidential decree. According to that document, there is a lot of work to be done at the local level in terms of creating a favorable business environment,

developing entrepreneurship, and promoting investment. For example, one of the powers listed is the power to create conditions for investment by legal entities and individuals. But how is this authority to be exercised? Again, we look at the Statute and find the following long list:

- to arrange for the development of local socio-economic development programs and approve them;
- to create conditions for the implementation of investment projects aimed at the development of the agrarian sector together with the relevant state bodies;
- to take measures to develop entrepreneurship and support local producers in the agricultural sector;
- to exercise control over the provision of agro-service, agrochemical, veterinary, and other services for producers and processors of agricultural products;
- to issue permits for the sale of products (e.g. alcoholic beverages and tobacco) included in the list of activities requiring a special permit (license);
- to create conditions for the development of competition and a market economy, and to assist in the establishment and operation of business entities;
- to support the development of micro, small, and medium-sized enterprises in the area;
- to take measures for the efficient use of state-owned land resources;
- to register approved architectural projects;
- to approve architectural projects and the rules of technical and ecological evaluation of the project in coordination with the body issuing architectural-planning instructions;

- to issue construction permits after approval and registration of the architectural design of buildings at the appropriate level;

As you can see, it is a long list, but it is also a list of powers that are real and vague (abstract). For example, according to both the above-mentioned Statute and [the City Planning and Construction Code](#) (Articles 74, 75 and 76), entrepreneurs who want to construct a building necessary to start a business are faced with the real legal powers of the heads of executive authorities. Construction and architectural documents, and the required reviews and permits are written by local executive authorities (except in Baku). Even entrepreneurs who receive or lease land from the municipality for the construction of a building must wait for a review by the local executive authorities for the land in accordance with [the Law on Municipal Land Management](#) (Article 6.5). Local executive authorities can also support the development of entrepreneurship in the agricultural sector by creating equal and transparent conditions for all farmers in the lease of state-owned agricultural land – that is a fairly real power.

But, for example, how can local executive authorities create the conditions for the development of competition and a market economy? Do they have more authority than the antitrust authority to prevent monopolies and market dominance? Do entrepreneurs have more effective levers than state financial institutions in creating equal access to financial resources? Or can they interfere in the protection of violated property rights and economic interests at the level of the country's higher courts?

Undoubtedly, the irregularities faced by investors when dealing with executive authorities in setting up enterprises and obtaining construction permits, which reduce the investors' interest in the regions, may be one issue, but they cannot be the decisive issue. They avoid the provinces because they avoid the country as a whole. If we take into account the

lack of independent courts to protect property rights and economic interests in general; the lack of an independent parliament, freely elected, that makes flexible and effective laws; the lack of free media, civil society, or an independent business ombudsman to protect business interests; strict regulations (restrictions) on the free movement of capital; the lack of a specialized workforce with knowledge and skills in high-tech fields; infrastructure of insufficient quality; etc., it would be naive to think that bribery or other irregularities required at the local level for building permits in the early stages of building a business is what scares away investors.

Incidentally, Aliyev also recently expressed concern about the flight of local businesses from the country. [At a meeting](#) with the newly appointed executive authority heads last month, he called on local entrepreneurs who have invested abroad to invest in their country first. This speech was a recognition of the fact that these people had fled not only from the provinces or Baku, but from the country as a whole.

The first step that local executive authorities should take

The first thing these agencies could do to attract investors in the current context is transparency. The local heads should start with themselves: they should update their income and property status declarations on local government websites every year, and regularly publish the most important information about the real economic potential of the region. For example, if a foreigner is interested in investing in the agricultural sector or food industry of a particular region without visiting Azerbaijan, it should be possible to obtain detailed information on the economic potential of the region, as well as the amount of municipal and state land suitable for agriculture, the amount of free land to lease, the real scale of other resources which could attract the investor, reliable statistics on the standard of living, employment, and education level of the population in the area.

Visit the website of any local executive authority and see, is there any information there that could encourage even local investors, let alone foreigners, to invest their money? On the contrary, an entrepreneur who visits the site, even if they had such a plan, will eventually abandon it. In short, the younger generation, unlike their predecessors, may abandon the practice of *suffocating* investors by demanding bribes, but it is clear that this will not have a decisive impact on improving the investment climate in the provinces, which is impossible due to the root causes mentioned above.

Elected local self-government based on public trust should be established in the regions, and decisions on the fate of business should be made not by the office of a person appointed by the center, but by collegial local councils (local parliaments) elected by the people. How logical and realistic would it be for an investor to entrust his property to a government that local public opinion does not trust?

A brief statistical overview of investment in the regions

According to [the State Statistics Committee](#), in 2019, a total of 18.538 billion AZN was invested in production, services and housing construction in Azerbaijan (i.e. fixed capital investments). Of these funds, 13.287 billion AZN (about 72%) was invested in the Absheron Peninsula (Baku, Sumgayit, and the Absheron region). In turn, 12.250 billion AZN of these investments went directly to production, in which the share of the Absheron Peninsula is 84% (the share of the remaining regions is 16%).

The regions and cities outside the Absheron Peninsula receiving the most investment in 2019 were Ganja, Shamkir, Sheki, Siyazan, and Guba (in the range of 180-200 million AZN). The five administrative units with the lowest investment were Bilasuvar, Saatli, Samukh, Naftalan, and Balakan (in the range of 11-19 million AZN).

Here too, however, the statistics are so opaque and inexact

that it is difficult to find information on how much of the investment in each region and city belongs to the public and private sectors, and how these sectors of the economy (agriculture, industry, tourism, etc.) are distributed.