



Baku Research Institute

Fiscal Reforms in Azerbaijan:
*The Current Process and Evaluation of Its
Preliminary Results*

ANALYTICAL REVIEW

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Introduction

Fueled by oil revenues for a long time, Azerbaijani banks began to recover after the government's restrictive policy in 2015. This is the period when the price of crude oil, the main *contributor* to the Azerbaijani state budget, plunged in world markets, resulting in a sharp deterioration of Azerbaijan's budget revenues. In this situation, the government, unlike in previous years, adopted a *Roadmap*¹ to ensure sustainable economic growth in the non-oil sector. The main approach of this *Roadmap* was to reduce the budget's dependence on transfers from the State Oil Fund (SOFAZ) and to find mechanisms to more effectively leverage expenditures.

According to the *Roadmap*, the budget mechanism shall be viewed as part of the Medium-Term Expenditure Framework (MTEF) and public financial resources shall be allocated as per programs and strategic objectives rather than as separate items. The government expected that the budget office lay the foundation for MTEF by the end of 2019, and that it adjust to performance-based budgeting (PBB) before late 2020.

The fiscal rule was first triggered in June 2018 by *amendments to the Law on the Budget System*². This rule was valid for only one year in 2019, and in 2020 the government decided to suspend the rule until 2022, pointing to the need for increased budgetary spending to address the negative effects of the COVID-19 pandemic. The fiscal rule was reinstated in 2022, but the previous rule applied in 2018 was repealed and a new fiscal rule was identified in accordance with *amendments to this Law*.³

Seven years have passed since the government-initiated reforms of the budget sector. As an expert group at BRI, we have sought to assess this 2016 policy shift by analyzing the budget reforms carried out during the period. We focus primarily on assessing the preliminary results of the budget rule reforms and provide a comparative explanation of the two different fiscal rules that the government has applied over the past 3 years. Next, we analyze the progress of reforms within the budget planning application. Since our analysis reveals a number of shortcomings, we trace the origins of these shortcomings.

Section 2 of this paper is devoted to the assessment of budget transparency and accountability. This is because budget transparency and accountability are an integral part of budget reforms. The key elements here are information transparency, citizen participation in the budget process, and available budget execution reports. In this regard, this section lists major international initiatives on budget transparency and accountability and reviews Azerbaijan's position in these initiatives. In addition, it analyses the current state of Azerbaijan's budget transparency and accountability.

¹ *Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan:*

<https://monitoring.az/assets/upload/files/15075d6928310402cd152c96db0d6835.pdf>

² *Büdcə sistemi haqqında Qanuna dəyişiklik:* <https://e-qanun.az/framework/39838>

³ *Büdcə sistemi haqqında Qanuna dəyişiklik:* <https://e-qanun.az/framework/48877>



Section I: Legal Moves Associated with Changes in Azerbaijan's Public Finance System

The initiatives and steps taken to make relatively radical legal changes in the share of oil revenues in Azerbaijan's budgetary system are concentrated in the period since 2015. The last seven years have seen a sharp fall in the price of crude cut on the world market, leading to a sharp reduction in Azerbaijan's budget revenues, as well as a serious loss of value of the national currency because of a significant decline in foreign currency flows. Under the circumstances, the government urgently adopted a *Roadmap*⁴ aimed at the sustainable development of the nation's economy. The main approach of the government was to reduce the state budget's dependence on transfers from State Oil Fund (SOFAZ) of the Republic of Azerbaijan and find mechanisms to ensure efficient public expenditure. The *Roadmap* emphasizes the importance of applying three main priorities to achieve these goals: (i) to effectively reinforce the Medium-Term Expenditure Framework (MTEF) as a medium-term budget planning tool; (ii) to adjust to performance budgeting; (iii) to implement a fiscal rule.

According to the *Roadmap*, the development of MTEF will eventually have the following advantages in terms of managing financial resources of the government: fiscal discipline, predictability of state budget indicators, and proper distribution of budget resources between and inside sectors, performance-based increases of responsibility of particular entities and improvement of efficiency of state budget expenditures.

The *Roadmap* looks at performance-based budgeting mechanism as an integral part of MTEF, highlighting the necessity to realize performance budgeting under a range of conditions, such as ensuring that the government's financial resources are implemented as per programs and strategic objectives rather than as separate items; clearly defining the programs and strategic objectives including main outcomes expected from these activities; bringing the objectives and strategic priorities of state authorities in line with integrated and planned programs; and developing the budgets of state authorities based on the outcomes expected from these authorities. According to the *Roadmap*, the budget office was to lay the foundation for MTEF by the end of 2019 and adjust to performance budgeting before late 2020.

The *Roadmap* envisages the application of a "golden rule" in order to eliminate the dependence of the main macroeconomic indicators on the volatility of oil revenues. In this way, the oil revenues accumulated will be fairly distributed among Azerbaijan's age cohorts and the amount of the transfers from SOFAZ to the government budget will be aligned with the need for sustainable economic development.

Those steps taken in these three areas constitute the main line of fiscal reforms undertaken over the past 8 years. The fiscal rule was launched in June 2018 by amending the *Law on the Budget System*.⁵ According to this rule, the upper limit of the consolidated budget expenditures for the next year shall not exceed 103% of the current year's indicator; the ratio of the consolidated budget's non-

⁴ *Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan*:

<https://monitoring.az/assets/upload/files/15075d6928310402cd152c96db0d6835.pdf>

⁵ *Büdcə sistemi haqqında Qanuna dəyişiklik*: <https://e-qanun.az/framework/39838>

oil base deficit to non-oil gross domestic product for the next fiscal year shall be less than the current year's corresponding indicator. As the basic indicator used to determine the amount of expenditures, the spendable part of oil revenues was taken as the basis, and this amount could not exceed 30% of net financial assets. The main indicators used in determining the amount of net financial assets are the balance of SOFAZ and the single treasury account, the amount of total public debt, etc. The basic document for the application of the fiscal rule was the Uniform Budget Classification⁶ approved by Presidential Decree of 18 December 2018. According to the classification, the non-oil-base budget deficit was calculated as the variations between remaining consolidated budget revenues and base expenditures without taking into consideration the spendable part of oil revenues. That is, the fiscal rule approved in 2018 appeared to impose limitation on the growth of consolidated budget expenditures, the spendable part of oil revenues and the size of the non-oil budget deficit. This rule was valid for only one year in 2019, and in 2020 the government decided to suspend the rule until 2022, pointing to the need for increasing budgetary spending to address the negative effects of the COVID-19 pandemic.

In 2022, the budget rule was reinstated, but the rule that went into effect in 2018 was repealed, and a new budget rule was identified, with the *Law on the Budget System* being amended.⁷ The new rule eliminated the requirement to limit the amount of budget spending, with the review identifying the ratio of non-oil base budget deficit to non-oil GDP and the ratio of public debt to GDP as the main limiting indicator. The law entrusted the Azerbaijani president with the authority to establish thresholds for these indicators for the medium term. According to the relevant presidential decrees, the upper limit of the ratio of the non-oil basic budget deficit to the non-oil gross domestic product was set at 27,5%,⁸ at the end of 2022, 25,0%⁹ at the end of 2023 and 17,5-20,0% in the medium term, respectively. According to Presidential Decree¹⁰ of 30 December 2021, the non-oil deficit of the consolidated budget is calculated as the difference between non-oil revenues and basic expenditures of the consolidated budget.

The activities within the Medium-Term Expenditure Framework (MTEF) were launched in August 2018 with the introduction of the relevant rule,¹¹ according to which the Medium-Term Expenditure Framework, which facilitates the strategic phase of budgeting, is a set of institutional measures related to the prioritization of budget revenues and expenditures, to the development of the medium-term resource package, and to the alignment of national expenditure priorities. MTEF, on the other hand, is a strategic budget plan that highlights a medium-term resource package, medium-term fiscal policy and national spending priorities, and must be approved by the president not later than 15 June. The preparation of this document is considered a strategic step in the budgetary process.

According to the 2022 fiscal rule, the medium-term resource package is a record of the total accrued revenues and receipts of the consolidated budget and the state budget for 2023 and the next following three years, while the medium-term budget policy is a statement reflecting the national spending priorities for 2023 and the next following 3 years. National spending priorities are areas of spending based on the country's medium- and long-term targets.

⁶ *Büdcə qaydasına uyğun icmal büdcə xərclərinin yuxarı həddinin hesablanması Qaydası*: <https://president.az/az/articles/view/31146>

⁷ *Büdcə sistemi haqqında Qanuna dəyişiklik*: <https://e-qanun.az/framework/48877>

⁸ 2022-ci il üzrə qeyri-neft büdcə kəsirinin müəyyən edilməsi: <https://e-qanun.az/framework/49313>

⁹ 2023-ci il üzrə qeyri-neft büdcə kəsirinin müəyyən edilməsi: <https://e-qanun.az/framework/53099>

¹⁰ *İcmal büdcənin qeyri-neft kəsirinin müəyyən edilməsi Qaydası*: <https://e-qanun.az/framework/48879>

¹¹ *Ortamüddətli xərclər çərçivəsinin hazırlanması Qaydası*: <https://e-qanun.az/framework/39832>



The MTEF also provides for certain legal mechanisms for adjusting to performance budgeting. For example, in the above fiscal rule, the budgetary organizations are required to develop sectoral strategic plans, which set out the goals for the established short- and medium-term periods and measures to implement these goals, including sources of funding. The development of sectoral strategic plans is regarded as a stage of technical or annual budgeting of the budgetary process. This stage acts as a base for the formation of performance budgeting.

With the Resolution¹² of 31 January 2020, the Collegium of the Ministry of Finance approved two instructive documents on the preparation of the MTEF. These documents are related to the issuance of orders from budget organizations on basic forecasts for the medium term (as well as on new policy initiatives) and the development of the action plan of budget organizations on the program (activities) for the medium term.

The Presidential Decree¹³ of 4 February 2019 defines three pilot areas for the implementation of MTEF in the initial stage: the functional sections of the state budget for *Education, Agriculture and Environmental Protection*. This decree additionally defines three tasks for competent public authorities: (i) to analyze the efficiency and effectiveness of public expenditures in the educational section of budgetary expenditures, as well as in the auxiliary section of public investments; (ii) to submit, together with the draft state budget for 2021, sectoral strategic plans related to the National Spending Priorities for the three mentioned pilot areas, as well as the MTEF of the said sections based on these sectoral strategic plans; to draft a corresponding bill not later than 1 January 2021, which includes in the Law on the Budget System the mechanisms provided for in the MTEF's application rule.

Following these rules, the Cabinet of Ministers, with Resolution No. 571 of 28 December 2018, issued regulations¹⁴ to develop a strategic plan for budgetary organizations. It defines the structure of the strategic plan, as well as requirements for the assessment of its preparation and implementation.

1.1. Preliminary Results of Reforms in the Application of the Fiscal Rule

The fact that the government has introduced 2 different budget rules, one of which was suspended and then reinstated, over the last 5 years shows that experimentation has been widely used in reforms. The government, in doing so, however, has neither carried out an in-depth analysis of those good results from reform that might lead to the implementation of proposed mechanisms and initiatives, nor has it invited open and transparent discussions with the participation of various stakeholders and the expert community. As a result, the rule will continue to be often changed without much forethought and planning to account for undesired results, or the government simply has no intention of making systemic changes and will continue changing the rule merely to appear that it's doing something. We can draw this inference based on the government's application of the fiscal rule and its adjustment to performance budgeting.

The risks associated with the first fiscal rule which was launched in 2019 and was also eliminated from the legislation in the same year, were known in advance. Those risks were

¹² *OMXÇ-nin hazırlanması ilə bağlı təfəsilatlı Təlimatlar* <https://e-qanun.az/framework/44429>

¹³ *Ortamüddətli xərclər çərçivəsinin hazırlanması Qaydasına dəyişiklik*: <https://e-qanun.az/framework/41353>

¹⁴ *Büdcə təşkilatlarının sektor strateji planlarının hazırlanması Qaydası* <https://e-qanun.az/framework/41122>



corroborated by the analysis¹⁵ announced by independent budget experts in December 2018. That analysis said that the proposed fiscal rule would not reduce the budget's high dependence on oil, and the rule formula proposed in the rule for SOFAZ's accumulated funds is at its maximum when oil prices are high (\$60 or above). In addition, the amount of transfers to the state budget based on net financial assets and expendable oil revenues did not guarantee that the state would avoid protectionist budget policy, its stated goal, but instead, facilitated SOFAZ revenues to be spent even in a high-price-oil (between \$80-and \$100) environment. A formula, in addition to the above rule formula, was developed that was quite complicated and involved a large number of indicators for the application of the previous budget rule. But the problem was not only in the complexity of the rule. These rules did not make it possible to achieve the stated goals—to reduce the procyclical nature of budget policy and increase budgetary reserves with the minimum possible in oil revenue expenditures. The formula was constructed in such a way that oil prices should have settled above \$55-60 to generate revenues. In the practice of some oil and natural gas-rich countries (e.g., Chile, Russia), the fiscal rule sets a limit on budget expenditures based on world market prices of natural resources. Consequently, it is a method of limiting spending in times of decreasing oil and gas revenues. On the other hand, the current Azerbaijani fiscal rule does not take into account currency exchange risks at all. For example, the state's net financial assets are valued in U.S. dollars. The fact that there was a 20% currency devaluation of the manat means that the amount of net financial assets, also expressed in manat, would have increased equally by 20%.

As a result, this complicated rule, which did not produce the expected result, lasted for only one year. It was first suspended because of the pandemic outbreak, and then it was deemed ineffective, and a new one was proposed. However, the proposed formula isn't exactly new. One of the few restrictions proposed previously—the ratio of the deficit of the non-oil base of the review budget to the non-oil GDP—was retained. Therefore, it is not realistic that the new fiscal rule introduced in 2022 will reduce the budget's dependence on oil, as well as protect the budget system from the negative impact of price volatility on global energy exchanges. The recently proposed simplified rule does address indicators such as the *expendable part of oil revenues*, *net financial assets*, and, as noted, ensures the application of the fiscal rule only by setting a limit on the non-oil budget deficit.

With what arguments does the government justify its belief that this mechanism will help achieve its major goals (for example, imposing a limit on the use of oil revenues, preventing abrupt changes in spending dynamics)? We can answer that question by taking this example. Let's say that total 2022 non-oil budget revenues amount to 11 billion AZN and expenditures to 31 billion AZN, excluding interest payments on the national debt. In this case, the deficit of the non-oil base budget is 20 billion AZN. If it is decided that the share of deficit of the non-oil base budget in the non-oil GDP in the next year cannot exceed 25% and the government forecasts 90 billion AZN non-oil GDP for the same period, then the maximum amount for the non-oil budget deficit should not exceed 22,5 billion AZN. Consequently, the logic behind applying this constraint is that the attraction of oil money to cover this deficit will be indirectly reduced. Without a fiscal rule capping oil transfers, the larger the size of the deficit in absolute terms, the more must be transferred from SOFAZ to cover the deficit. The risk that the new fiscal rule will not meet expectations is related to the fact that the non-oil budget deficit is not necessarily defined in numerical terms, but as a percentage (relative to GDP), and in this



¹⁵ *Azərbaycanda fiskal qaydanın tətbiqinə start verildi*

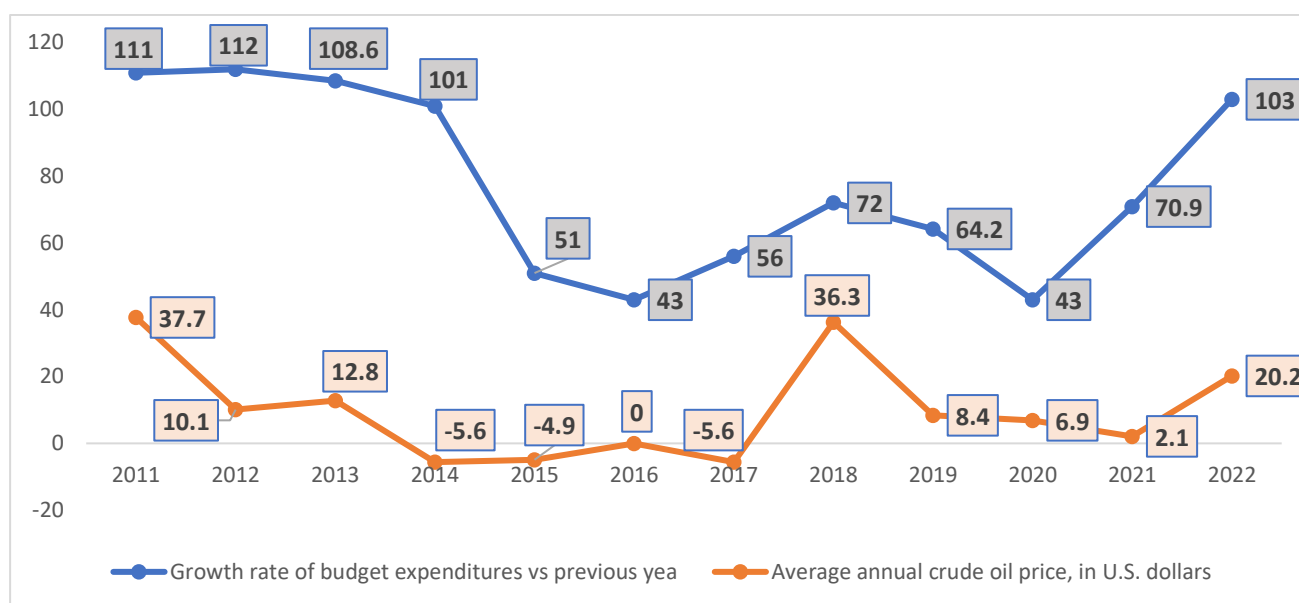
https://eurasiahub.khazar.org/uploads/newsletters/AZ_Fiskal_Qaydalar.pdf

case the proposed formula cannot take into account the risk of inflation. For example, at the end of 2022, although non-oil GDP surged nearly 9% in real terms, it grew by some 22% in nominal terms. Under such conditions, not only the nominal volume of non-oil GDP is inflated due to the price factor, but also the non-oil budget deficit grows at the same level as its value in absolute terms and thus too the spendable part of oil revenues. To avoid this risk, a ceiling figure for the non-oil budget deficit should have been defined in absolute terms along with the target figures expressed as a percentage.

Another issue of risk is that the budget constraint will be implemented not by *the Law on the Budget System*, but by executive bodies responsible for budget spending. The law should have at least contained criteria and principles as well as a legal framework for determining this indicator.

In fact, the budget indicators for the past year also confirm the above-mentioned risks of the new fiscal rule. For example, the 2022 state budget expenditures amount to 32 billion AZN, which is 20,2% more than in 2021. However, such a sharp increase in budget expenditures during the post-2010 period did not occur even in most years when the budget rule was not applied.

Growth Rate of Budget Expenditures 2011 - 2022 vs Previous Year (%)¹⁶



As can be seen from the chart above, the volatility of budget expenditures is directly related to the world market price of crude oil, and growth in expenditures moves in a positive linear relationship to price. Over the past five years, the government has managed to stabilize SOFAZ fund transfers to the state budget, at an amount ranging from 11,5 billion AZN to 12,5 billion AZN. However, it is incorrect to directly link this stabilization to the introduction of the budget rule. Because the indicators for the years 2017, 2018, 2020 and 2021, when the rule was not applied, were roughly close, with minor deviations, to those in 2019 when the rule was introduced. The only exception was 2022—in the past year, SOFAZ fund transfers fell by 3,7 billion AZN compared to the previous year. But it is too early to present this decrease as an effect of the fiscal rule. Because the most important indicator—the budget’s dependence on oil, regardless of the transfer volume—was approximately the same (about 50%) every two years. Simply because of the sharp rise in the price

¹⁶ Neftin qiyməti Mərkəzi Bankın 2011-2022-ci illər üzrə pul siyasəti icmalı hesabatlarından (<https://cbar.az/page-13/monetary-policy-review>) götürülüb və Brent markalı neftin qiymətini əks etdirir. Bütçə xərcləri ilə bağlı məlumatlar Mərkəzi Bankın makroiqtisadi göstəricilər statistikasından (<https://cbar.az/page-41/macroeconomic-indicators>) götürülüb



of natural gas on world markets (on average, 6-7 times), there has been a significant expansion of income tax revenues paid to the state budget under production sharing agreements. Thus, in 2021 foreign oil and gas companies transferred 2,2 billion AZN in profit tax to the state budget, yet in 2022 that figure is forecasted at 7,4 billion AZN. That is, instead of 3,7 billion AZN in transfers from SOFAZ, which the government saved compared to 2021, the state budget could receive additional resources income—5,2 billion AZN in profit taxes paid by foreign oil and gas companies.

Oil revenues of the state budget in absolute terms amounted to nearly 13,5 billion AZN in 2021 and 15,3 billion AZN in 2022. That is to say that the dependence on oil revenue transfers remained unchanged for the fiscal year when the rule was restored after a two-year break.

With this in mind, in some countries (e.g., in Russia), a fixed oil price is set and a limit on excess revenues to the budget is established, while excess revenues received due to high prices are allocated for accumulation. If the Azerbaijani government really wanted to drastically reduce the budget's dependence on oil, it could impose legislated limits on SOFAZ fund transfers (for example, in no case can the share of transfers in state budget revenues exceed 20%, and the Fund's expenditures—50%). In any case, if the fiscal rule does not allow for countercyclical fiscal policy in resource economies, then the mechanisms for the rule have been chosen incorrectly. The essence of countercyclical policy is that the government spends less than it earns in those years boosted by buoyant economic conditions; the reserves built up then allow it to compensate for lost revenues to meet potential financial resource needs in future years of economic crisis; no sharp fluctuations occur in the dynamics of budget expenditure that depend on the volatility of world market prices for energy resources.

Incidentally, when the fiscal rule was updated, the Ministry of Finance should have offered to parliament at least some estimates about future years as well as a chance to enact legislation based on consultation with the ministry. The estimate could highlight issues such as what crude oil price ceiling would be sufficient for total oil revenues to cover the non-oil budget deficit in the first year when the rule would be introduced, as well as justification for the dynamics of the non-oil base deficit in the next 5 years, the budget's dependence on oil revenues and the level of oil prices that would allow to raise funds at a level that ensures the deficit is covered. Based on this justification we could see how effective the ministry's proposed model would be over the next 5 years.

1.2. Progress and Preliminary Results of Reforms in the Application of Budget Planning

A budgeting system based on medium- and long-term budget planning has become very popular around the world in recent decades. This mechanism involves the development of either a medium-term (usually 3 years) or multi-year (usually up to 5 years) budget plan.

Why is long-term budgeting important? As a rule, the funding period is limited to one fiscal year, yet the implementation of its programs and strategies, as well as their results call for a longer period. Since annual budgets do not take into consideration future expenditures, with a concomitant long-term plan, governments lose the opportunity to conduct effective strategic planning. It is for these reasons that the implementation of medium- and long-term budget planning becomes a necessity.



But long-term financial planning is not limited to forecasting activities that set the budget frameworks over a longer period of time. It is also the forecasting of expenditure outcomes over the long term to ensure a more efficient usage of resources. For example, on the basis of measurable indicators, the government predicts and declares the benefits that every single manat spent will bring to society.

To address this inconsistency in policy decision-making and implementation, two mechanisms are used in parallel: (i) *prepare a medium-term financial (expenditure) framework*; (ii) *implement performance program-based budgeting*.

MTEF is a policy tool for planning and budgeting for the medium term (usually 3 years). It consists of both a *top-down* and a *bottom-up* assessment. The *top-down* assessment determines the resource package at the macro level, and ensures the bottom-up assessment of the volume of expenditures for the current and medium-term budgetary policy. According to the legislation of Azerbaijan, *MTEF, a strategic stage of budgeting, is a set of institutional measures aimed at prioritization, presentation and management of budget revenues and expenditures that ensures coordination of a medium-term resource package and national spending priorities*.

The implementation of MTEF is important not only from the point of view of long-term budget planning, but also from the point of view of providing a link between the allocation of budgetary expenditures in accordance with the priorities of sectoral policy and fiscal discipline. Simply because, unlike developed countries with many years of experience in effective management of public finances, in transition economies like Azerbaijan, it is not easy to conduct medium- and long-term economic as well as budget planning because they have not completed radical structural changes from Soviet socialism. World Bank experts believe that in order to overcome this barrier, it is important, first of all, to implement performance budgeting reforms and to complete the interaction of these reforms with MTEF.¹⁷

The main conclusions made by experts via a generalization of the experience of different countries are that the implementation of program-based performance budgeting and the MTEF mechanism requires the parallel existence of many factors. The factors that determine the speed and success of MTEF and program-based performance (PBB) could include, for example, the prioritization of the budget expenditure efficiency; the preparation of budget documents in an open and transparent environment; the adoption of MTEF as a necessary tool for allocating budgetary resources between strategic goals; public authorities' advanced knowledge and skills in the field of budget reform; official approval of program-based performance budgeting and MTEF; and official reference to them as basic information documents when discussing the budget in parliament; and others. The country's leading ministries must sign a memorandum in order to harmonize these factors. If parliament is unable to request a report on performance budgeting that includes its deviations from MTEF, there are serious risks to the successful completion of these reforms. In order for parliament to make such requests, there must be legal provisions in law regarding the mandatory application of strategic plans for both MTEF and performance budgeting, as well as for all budgetary organizations. International practice also suggests that even with the successful implementation of MTEF, the effective outcome of public finance management reforms as a whole is not possible unless a shift to performance budgeting occurs. An effective outcome here means both ensuring efficient budget



¹⁷ Performance-Based Budgeting and Medium-Term Expenditure Frameworks in Emerging Europe
<http://siteresources.worldbank.org/INTECA/Resources/WBperformanceBudgetingTEF.pdf>

spending, budget transparency and accountability, and public participation at all stages of the budget process. MTEF can independently set a framework for spending, impose limits on budget expenditures for political purposes, and make budget policy predictable. In this regard, synchronizing reforms toward the implementation of MTEF with the shift to performance budgeting is fundamental to comprehensive public finance reforms that will have effective results.

Beynəlxəq təcrübə onu da iddia etməyə əsas yaradır ki, hətta OMXÇ uğurlu tətbiq edilsə belə, nəticə əsaslı proqram büdcəyə keçid baş vermədikdə bütövlükdə ictimai bütövlükdə maliyyə sahəsində islahatların effektiv nəticəsi mümkün olmur

Beginning in 2022, the government started publishing MTEF documents, the text of which is disseminated through the official website of the Ministry of Finance.¹⁸ So far, two documents have been made public: *MTEF* for 2022-2025¹⁹ and 2023-2026.²⁰ A number of indicators are determined within these documents. They include: indicators of public debt in the medium term, state budget expenditures by function, distribution of expenditures on three pilot sectors by program, revenues and expenditures of the consolidated budget, types of state budget payments, including the structure of tax and non-tax types.

In fact, even before the legal framework related to the MTEF was created and the reforms under this name were announced, the government included in the budget package presented to parliament the overview and state budget forecasts for the medium-term period (the next and subsequent 3 years). For example, issue No.6 of the 2019 state budget package, which we review as an example, includes forecasts of consolidated budget revenues and expenditures for 2019 and 2020-2022, as well as state budget expenditures by function and revenues by type of disbursement. This fact indicates that the initiative to define a medium-term fiscal framework in general was launched even before the new phase of reforms. Thus, the key innovation for the reforms initiated in 2022 with respect to medium-term financial planning and the leading line of these reforms could be adjusting to performance budgeting. Undoubtedly, the creation of a regulatory framework for this mechanism is an important step in terms of ensuring its continuity and legitimacy. However, operability of the MTEF (Medium-Term Expenditure Framework) is as important as its legitimacy. This implies the absence of sharp deviations between forecasts and performance indicators within the medium-term fiscal framework and a high level of reliability of forecasts. For example, the variation between the forecast of state budget revenues and expenditures for 2022 and the actual performance indicators was about 25%. In fact, the current situation is not only related to deviations from the forecasts and to the problem of the reliability of the forecasts. Although the government's medium-term fiscal framework documentation aims to impose restrictions on government spending over the forecasted period, the political will at any time may turn these restrictions into a formal mechanism, which can include indicators that differ sharply from forecasts in the budget document drawn up. As in the mechanism of fiscal rule, if the medium-term fiscal framework does not lead to strengthening financial discipline and to making the budget system predictable, then we will be faced with reforms that have no real consequences, but are purely formal in nature.

The second, but no less important direction of MTEF reforms—the adjustment to performance budgeting—has serious problems. First of all, there are cases of violations of the requirements of

¹⁸ A collection of documents on the Medium-Term Budget Framework: <https://maliyye.gov.az/static/295/ortamuddetli-budce-cercivesi>

¹⁹ Medium-Term Budget Framework for 2022-2025: <https://maliyye.gov.az/static/296/2022-2025>

²⁰ Medium-Term Budget Framework for 2023-2026: <https://maliyye.gov.az/static/297/2023-2026>

relevant legislative and executive acts. For example, according to the Presidential Decree of 4 February 2019,²¹ on the Amendment to the Rules for the Introduction of MTEF, the analysis of the effectiveness and efficiency of public spending should be conducted under the *Education* section of budget spending, as well as under the subsidiary section of *State* capital investments. There is no information on the status of these activities' implementation. Secondly, the relevant draft law ensuring the determination of the budgeting process and the mechanism for the implementation of performance budgeting provided for in the rule of application of the MTEF, in the Law of the Republic of Azerbaijan *on the Budget system*, should have been prepared by 1 January 2021. There is no information on whether this task has also been accomplished. Finally, sectoral strategic plans for *Education*, *Agriculture*, and *Environmental protection* and the medium-term expenditure framework for the mentioned sectors based on these plans were supposed to be presented with the draft state budget for 2021. However, over the past 3 years, no documents related to the adjustment to performance budgeting on pilot functional divisions have ever been included in the draft budget and in the submission of that budget to parliament.

If you pay attention to the monitoring report submitted by the Ministry of Finance on the 3 pilot sections provided for in the MTEF's implementation, it becomes clear that there are serious shortcomings with the steps taken to adjust to performance budgeting. The following can be noted as the most significant shortcomings:

1) *The full texts of the strategic plans of all 3 ministries selected as pilots, which outline their mission, vision, analysis of the current situation and needs in their sectors ((SWOT analysis), are not publicly available.* It is not even clear whether such documents have been issued or not. However, the adjustment to performance budgeting is impossible without information transparency and openness in the management of budget. If the full texts of the strategic plans, which are the basic documents for this transition, are kept confidential, this means that the government is not interested in the formation of the performance and program-based budgeting mechanism, i.e., the process is of a formal nature. The institution's ability to demonstrate its status and the reason for its existence, as well as the resources it requires for the achievement of its goals, is determined by many factors. But the most important factors are evident in how reliably and professionally institutions can express their mission and vision of the future, as well as the challenges they face. The mission reflects what the institution does, how and for whom it does the mission, and the mission should express its goals, and not the duration of the work to be performed or of the services to be provided. The institution's vision should reflect how the institution sees the ideal future.

The performance budgeting documents for each institution should be fully open and accessible to create opportunities for public monitoring, evaluation and audit by civil society, the media and the highest audit institution. Strategic goals and objectives emerge from an institution's mission and vision, and from its established needs. If the full text of the strategic plan document is kept secret, how can other institutions and civil society determine that the nexus between mission, vision and established needs has been identified?

Although there is legislation on the development of strategic plans, there are no legal norms on the responsibilities and duties of authorized bodies for the development of such plans and on the coordination of interagency activities while preparing those plans. One of the main objectives should

²¹ Changes to the rules for the implementation of the MTEF: <https://e-qanun.az/framework/41353>

be the establishment of bodies responsible for strategic management and strategic planning in public institutions.

2) *Strategic targets for institutions have not been determined.* However, strategic targets reflect the outcomes that will be achieved by the implementation of activities related to the works (services) the institution will provide. These outcomes are usually related to solving socio-economic problems in society and meeting people's needs. Strategic targets are formulated based on the answers to 2 questions: with what purpose and by what means. For instance, in the example of city management, we can consider this example of a strategic target: “to create a clean and healthy environment to improve the quality of life in our city.” This target is achieved by creating a clean and healthy environment. This target also means the end result—improving the quality of life, creating a clean and healthy environment. In the document submitted by the government of Azerbaijan, there are no *strategic objectives* at all; only *strategic targets* are defined. In the government’s strategic plans that meet the standard requirements, the objectives are sub-objectives that qualitatively and quantitatively measure the outcomes achieved by the implementation of strategic targets within the established timeframe. The framework for targets is defined by strategic objectives expressed in terms of quantity, quality, finance and time. Targets are evaluated by measurable intermediate and final results, as well as quantitative and qualitative indicators. Intermediate result indicators include physical and financial resources associated with the provision of works (services), and human capital. Final result indicators are performance indicators, reflecting the outcomes achieved in the utilization of resources.

Let's pay attention to the shortcomings of the strategic plan integrated into the budget in the example of the selected pilot directions for the adjustment to performance budgeting: One of the possible strategic goals for preschool education in any country is the physical, emotional and cognitive development of preschool-aged children (3-6 years old). Such a goal is important in order to demonstrate the results the government wants to achieve in preschool education in the medium term.

Azerbaijan has identified 2 objectives (subobjectives) for the *preschool education* program, which are not mutually exclusive: providing educational opportunities for preschool-aged children in preschool institutions and opening preparatory groups in public elementary schools.

It is enough to give an example of an analogical incorrect approach to the fiscal-strategic plan relationship developed for agriculture, which is another pilot sector. In the strategic plan document for this this sector, the targets are said to be realized despite the lack of defined strategic objectives. For example, such an objective might be “ensuring a sustainable food supply by increasing productivity and quality in the agricultural sector,” but the document contains no such objective.

3) *The strategic plans integrated into the budgets of the pilot sectors have no targets.* The name of this reform is adjusting *to performance budgeting*. But the strategic plan document, which is the fundamental document ensuring the integration of the budget and relevant sectoral programs, does not contain any outcome indicators. In turn, the target should cover not only quantity, but also focus on measuring quality. For example, if increasing the coverage level of pre-school education and creating a pre-school education structure that guarantees the cognitive and physical development of 3-6-year-old children are chosen as the main targets, then quantitative and qualitative indicators for evaluation may include the ratio of children enrolled at this stage of education to all children of the same age; the share of children enrolled in schools with unfavorable infrastructure; and the percentage

of schools that do not have the necessary infrastructure for physical and mental development of children.

The plan defines the strategic targets related to secondary education as: “increasing students’ knowledge of the general education program” and “improving the system for assessing students’ knowledge of the general education program and acquiring international achievements.” These targets are common, and linking them to outcomes is complicated. In such circumstances, the submitted document does not offer any indicators that could measure the achievement of these targets.

Finally, the government does not offer any quantitative or qualitative indicators to measure common agriculture targets, such as “stimulating the cultivation of crops”; “enhancing insurance against agricultural risks”; “increasing investment opportunities in agriculture for farmers”; and “facilitating small and medium farmers’ access to domestic markets.” In this case, how will the effectiveness and efficiency of the spending allocated to agriculture from the state budget be evaluated?

4) *Although the monitoring report mentions various programs, no program documentation with certain standards is available.* For example, the document indicates that under the names *Preschool education, General education, Vocational education*, etc. names of other programs are mentioned. In addition, various budget documents reflect information about program allocations, *such as informatization of the education system in the education sector, improving the coverage and quality of new content programs* implemented in higher education. A program is a document with a clear structure, approved and published by the authorized state structure. A clear structure is a reflection of the program’s objectives, targets, priorities and indicators of implementation of the action plan, mechanism and sources of funding, as well as expected results and outcomes. However, neither do the strategic plans integrate the aforementioned programs, nor do they propose intermediate and final outcome indicators to measure the result of program activities. The government adopted the National Strategy²² for Socio-Economic Development of the country for 2022-2026, but its 2023 fiscal submissions do not include integration of the said strategy with the pilot functional units either.

Therefore, the fiscal law should establish legal norms concerning the alignment of state programs, sectoral strategies, development plans and strategies developed at the national level with the development plans of strategic plans. For example, the government approved the National Priorities for the Development²³ of the country for the period up to 2030. The Rules²⁴ for drafting and implementing state programs are approved in the National Priorities for Development, and those Rules provide for the development of programs that meet the requirements necessary for a strategic plan (target indicators, indicators of intermediate and final result of evaluation, fields of priority, objectives). If development programs are created based on the Rules, the preparation of strategic plans according to professional standards and the integration of those plans with the budget should easily be solved.

²² *Azərbaycan Respublikasının 2022–2026-cı illərdə sosial-iqtisadi inkişaf Strategiyası:* <https://e-ganun.az/framework/50013>

²³ Milli İnkişaf Prioritetləri: <https://president.az/az/articles/view/50474>

²⁴Rule on the formulation, implementation, monitoring and evaluation of state programs: <https://e-ganun.az/framework/47063>



5) *The government has neither a clear vision of the adjustment to performance budgeting, nor a plan with a clear timeframe.* In fact, the correct name for the fiscal reforms launched in Azerbaijan should be as follows: transition from an outcome-based program to a budget system.

The countries that have launched such transitions to budget systems first had the experience of an approach that distinguished between *performance and program-based* budgeting systems. But the general approach, which has been formed in recent years, includes development programs with an outcome-based approach and have the system of indicators necessary for evaluation (as well as monitoring).

Performance budgeting is a budgetary system based on the priority of expenditures subject to budget transparency and accountability, resource efficiency, in which expenditures and activities are classified by program, and expenditure priorities are integrated with the policy goals and objectives.

In international practice, performance budgeting focuses not on what goods and services the government purchases with public funds, but on what works it performs and implements, what results it achieves in its activities. The priority of this budgeting system is to organize expenditures not by items, but by programs and their objectives. In performance budgeting, activities are reflected as parts of specific programs, and cost forecasting appears in the form of a forecast of the outcomes that will be achieved.

Planning and programming are complementary components of the same process. The objectives and targets identified in the planning phase are implemented through program activities. Programs are also a means of combining resources with activities.

The main feature of programming is the unification of activities around a single target, regardless of which institutions they are distributed among. Activities or subprograms within programs do not necessarily belong to the same entity, and their distribution between various entities may not be considered a problem.

6) *There are no legal requirements for accountability with regard to MTEF.* The requirements for the submission to parliament of activity reports on the implementation of performance budgeting for sections by function of the state budget, as well as their disclosure to the public, should be reflected in the budget legislation. The report for each sector should be prepared separately and submitted by the person responsible for the sector. For example, the Minister of Education him/herself must submit a report on performance budgeting, just as he/she submits the ministry's strategic-plan-integrated budget.

7) *The current functional budget classification creates an obstacle to the adjustment to performance budgeting.* According to the International Monetary Fund Government Finance Statistics Manual,²⁵ government expenditures by function are classified into 10 divisions. This manual lacks 2 divisions that are currently used in Azerbaijan: the *Investment* and the *Non-core services divisions*. There are serious problems with transparency in these additional divisions. With the Investment division, investment costs should be considered in each functional subdivision and in current and capital costs for each functional subdivision. Additionally, investment projects should be transparently visible while budgeting on the basis of strategic planning. As for the *non-core services division*, it is a serious obstacle to transparent program budgeting. In this regard, it is important not only to ensure the transition to classification by program, but also to bring classification by function

in line with the requirements of the International Monetary Fund (IMF) Government Finance Statistics Manual.

Over the past 2 years, the Azerbaijani Court of Accounts has voiced its position on the shortcomings associated with the reforms within the MTEF. Its most important observations regarding the progress of reforms can be summarized in the institution's feedback on the execution of the state budget for 2021²⁶ and on the draft state budget for 2023²⁷:

- The pace of work on both the MTEF legal framework and strategic planning lags behind expectations
- It is necessary to determine the regulation of the MTEF in the *Law on the Budget System*, and to form legal bases for the coordination of strategic and technical phases of the budgeting process;
- Although there is a legal requirement to approve documents related to the MTEF, namely a mid-term resource envelope, mid-term budget policy and national spending priorities, by 15 June, the agencies charged with these documents' preparation do not submit them;
- There is no legal requirement regarding *inclusion of the MTEF* documentation in the budget package, and therefore, the documents submitted with the draft state budget do not include information on action plans and sectoral strategic plans for the pilot divisions of the MTEF;
- In the monitoring reports of the Ministry of Finance on the MTEF, financing indicators are generally reflected without performance indicators, which makes the MTEF indistinguishable from the orders-based budgetary approach. In these conditions the MTEF becomes a framework of activities that is more often *conventionally called a program*, the activities of which are considered component parts.
- Analytical work in relevant ministries shows that the performance budgeting model has difficulties in determining indicators when qualitative indicators by type of activity are small. Additionally, line ministries have difficulties in summing up actual indicators.
- The large number of indicators (more than 600) in the MTEF creates difficulties in arranging continuous monitoring of performance indicators;
- Although the MTEF includes programming, there has been no complete alignment between traditional government programs and the MTEF. Also, the question of the application of program classification, which is important for the preparation of the MTEF documentation, is not included in the current Consolidated Budget Classification;
- The link between the targets for the medium term and the funds intended to achieve them is weak;

²⁶ Opinion of the Chamber of Accounts on the implementation of the state budget for 2021: https://sai.gov.az/files/R%C9%99y-2021_%20icra%2019.05.2022_yekun-183625280.pdf

²⁷ Opinion of the Chamber of Accounts on the implementation of the state budget for 2023: https://sai.gov.az/files/BUDCE_REY_2023-46346334.pdf

Section II: Assessment of Budget Transparency and Accountability

Budget transparency implies timely and systematic full disclosure of relevant fiscal (both forecast and actual) information. Budget transparency is a prerequisite for public participation in the budgeting process. The combination of budget transparency, budget reporting and public participation in the budgeting processes can help fight corruption, hold public authorities accountable and promote purposeful and effective use of public funds.

2.1. Key International Budget Transparency and Accountability Initiatives

In their standards and recommendations to governments, international organizations, such as the *Organization for Economic Cooperation and Development (OECD)*, the IMF, the World Bank, and the European Commission, emphasize the importance of disclosing information about public finances, including the state budget, in order to support their transparency initiative. Those organizations also attach special importance to the quality of information disclosed. The *OECD Budget Transparency Toolkit*,²⁸ notes that budget transparency can provide accountability, equity, inclusiveness, trust, and quality. The principle of budget transparency is now widely applied around the world, including clear, comprehensive, reliable, timely disclosure and openness of public financial reporting. Although budgetary and fiscal transparency have different interpretations, they can all be summarized in a single sentence: budgetary transparency implies complete openness to the public about how public funds are collected and used.²⁹

In accordance with the requirement defined in the OECD document titled *Best Practices of Budget Transparency*,³⁰ annual budget reports must be published within 6 months after the end of the fiscal year. The requirements for the content of the disclosed report are as follows: expenses must be presented by administrative (by ministries and departments), economic and functional classification; any changes in the budget during the year must be reflected in the report as separate data; the annual report must comply with the format presented to parliament in the form of a draft; and it must reflect the comparison of budget targets with the actual outcomes achieved.

The *OECD Recommendation on Budgetary Governance-2015*, reflects 10 principles of effective structuring and management of the state budget.³¹ Ensuring openness, transparency and accountability of public finance information is the cornerstone of these principles.

The *Fiscal Transparency Code*³² adopted by the IMF in 2019, consists of four sections: 1) financial reporting; 2) fiscal forecasting and budgeting; 3) fiscal risk analysis and management; and 4) resource revenue management

The code notes that budget reports should provide a comprehensive, relevant, timely, and reliable overview of the government's performance and financial condition. The code establishes 4 requirements for government financial reporting:

- 1) Budget reports must include a comprehensive review of the public sector's fiscal performance and sub-sectors in accordance with international standards;
- 2) Financial reporting shall be published frequently, regularly, and in a timely manner;

²⁸ <http://www.oecd.org/gov/oecd-budget-transparency-toolkit-9789264282070-en.htm>

²⁹ [Microsoft Word - Toolkit CRC.docx \(oecd-ilibrary.org\)](#)

³⁰ <http://www.oecd.org/governance/budgeting/Best%20Practices%20Budget%20Transparency%20-%20complete%20with%20cover%20page.pdf>

³¹ <https://www.oecd.org/gov/budgeting/principles-budgetary-governance.htm>

³² <https://www.imf.org/external/np/fad/trans/Code2019.pdf>



- 3) Information in fiscal reporting shall be relevant, internationally and nationally comparable and historically consistent;
- 4) Fiscal statistics and financial reporting shall be subject to a credible and external independent audit and allow for accountability.

Under the *Fiscal Risk Analysis and Management* section of the IMF's Fiscal Transparency Code, the government is encouraged to disclose, analyze, and manage risks associated with public finances and ensure effective coordination of budget decision-making in the public sector. In Section 4, the IMF recommends that governments collect, manage, and disburse government revenues from natural resource exploration and extraction in an open and transparent manner.

The Public Expenditure and Financial Accountability Program (PEFA, 2016), funded by the IMF, the World Bank, the European Commission, and several countries, is a public financial management performance measurement system. Based on 31 indicators, it assesses public financial management and reports on its strengths and weaknesses. PEFA evaluates countries on the basis of those 31 indicators and 94 parameters³³ relating to 7 sections. Four of them are directly related to transparency and accountability. These include the sections on *transparency of public finances* (6 indicators, 12 parameters), *budget implementation and monitoring mechanisms* (8 indicators, 27 parameters), *accounting and reporting* (3 indicators, 10 parameters), and *external control and audit* (2 indicators, 8 parameters). PEFA's last assessment of Azerbaijan was conducted in 2014.³⁴ However, the last assessment of the program covers 2020.³⁵

We should also look at the [Open Budget Survey](#) (OBS), which has been published by the *International Budget Partnership*³⁶ (IBP) every 2 years, beginning in 2006. Before 2017, the OBS was called the Open Budget Index. The OBS assesses the openness and transparency of information on public finance. This index is a rating based on an expert survey. To compile the rating, experts evaluate 3 components:

- i) *Accessibility of budget information to the public;*
- ii) *The capacity of the public to participate in budgeting processes;*
- iii) *The role and effectiveness of official monitoring bodies (including the legislature and the chief audit institution).*

The questions included in the questionnaire are based on 5 important documents, which cover the standards and requirements of major international organizations (IMF, World Bank, OECD, and others) for transparent and effective management of public finances:

- The IMF's *Code of Good Practices on Fiscal Transparency*
- The World Bank's *Public Expenditure and Financial Accountability* (World Bank, PEFA) INTOSAI-P 1 - 1 The Lima Declaration,
- The OECD's *Best Practices for Budget Transparency*
- *Global Initiative on Fiscal Transparency*

This assessment, which was called the *Open Budget Index* before 2017, has since been called the *Open Budget Survey* and includes 3 components: budget transparency, public participation and budget control.

³³ <https://www.pefa.org/global-report-2020/en/report/what-is-pefa/>

³⁴ <http://www.pefa.org/assessments/summary/1346>

³⁵ <http://www.pefa.org/assessments>

³⁶ <https://www.internationalbudget.org/>



The Global Initiative for Fiscal Transparency-GIFT³⁷ founded in 2011, aims to increase openness and transparency of public finance information. The organization adopted documents under the names High-Level Principles on Fiscal Transparency, Participation and Accountability³⁸ (GIFT) in 2012 and under the name Principles of Public Participation in Fiscal Policy³⁹ in 2016.

2.2. The Current State of Fiscal Transparency in Azerbaijan

While the issue of budget transparency has always been a problem in Azerbaijan, since 2005, multiple increases in the state budget due to the country's growing oil revenues, the financing of large infrastructure projects by the state budget and the allocation of billions towards such projects have made the issue of budget transparency extremely important. That is why the state budget has always been an object of study of civil society experts, economists, independent researchers and representatives of the press. Since the early 2000s, representatives of Azerbaijani civil society individually and as a joint coalition (the National Budget Group) have taken various initiatives to procure the disclosure of information about budget revenues and expenditures by applying the lessons from successful international experiences in Azerbaijan. Although they have made significant progress in the disclosure of budget information, these individuals and the National Budget Group have not yet been able to ensure public participation in the budget process. This is because, despite the existence of the necessary legislation, the government is not interested in public participation.

When analyzing the *Law on the Budget System's* transparency requirements, the word transparency can be found in 2 places.⁴⁰ Article 19.1 of the law states that *in order to ensure transparency in the use of public finance, the Treasury keeps records of financial transactions for all departments, enterprises and organizations financed from the state budget in accordance with the relevant accounting rules*. According to Article 25.6 of the law, *transparency of the processes related to public debt and state guarantees is ensured in the manner prescribed by the legislation*.

One of the important conditions of budget transparency is the openness of budget information. Although the *Law on the Budget System* contains requirements for transparency, including information disclosure, it does not cover the entire budget process. No requirements are provided in the legislation for the disclosure of information on the first of the 4 stages of the budget process (budget drafting, budget discussion, budget adoption, budget implementation). According to Article 11 of the law, the state budget drafting process begins 11 months before the next fiscal year, i.e., in January, and covers the period until the day of submission of the draft budget to the National Assembly. Pursuant to Article 11.16 of the law, the draft state budget together with other documents must be submitted to the president no later than 25 September. The president, in turn, submits the draft budget to the parliament no later than 15 October. After the submission of the budget documents to the parliament, the second stage of the budgeting process begins. The public may obtain the information reflected in the state budget and other documents afterwards, that is, not earlier than the end of September. Until that time, the public neither participates in the budgeting process, nor has even the most basic information about the budget parameters. After the submission of the budget

³⁷ <http://www.fiscaltransparency.net/>

³⁸ http://www.fiscaltransparency.net/ft_principles/

³⁹ http://www.fiscaltransparency.net/pp_principles/

⁴⁰ <https://e-qanun.az/framework/1126>

documents to the parliament, the Ministry of Finance posts a *Statement of Preliminary Indicators of the State and Consolidated Budgets*⁴¹ for the respective year on ministry's official website. The statement contains many data, including fiscal indicators for the current year, macroeconomic targets and forecasts for the medium term, budget policy for the next year and the subsequent three years, and a forecast of state and consolidated budgets for the next year. Citizens of Azerbaijan, however, are entitled to have access to basic information about the next fiscal year only with the online publication of this statement. Not coincidentally, according to the recommendations of experts of the International Budget Partnership, the Ministry of Finance should develop pilot mechanisms to involve the public in the preparation of the budget and control over its implementation.⁴²

Setting disclosure as a requirement in the *Law on the Budget System* refers only to the period after the receipt of budget documents by the parliament. According to Article 14 of the law, documents for the next fiscal year shall be published in the press within 10 days of their receipt by the National Assembly. The obligation to disclose information in the law also includes the period of its signing. According to Article 16.3 of the law, the state budget for the next fiscal year must be published in the press after its approval and signing in the manner prescribed by law. The Ministry of Finance posts information regarding the budget of the following year on its official website pursuant to the law. For example, the following information⁴³ about fiscal year 2023 was placed on the ministry's website:

- *The preliminary indicators of state and consolidated budgets for 2023*
- *State and consolidated budget expenditure projections for 2023 and the subsequent three years*
- *Distribution of state budget expenditures for 2023 by functional and economic classification*
- *Projections of tax and non-tax state budget revenues for 2023*
- *Indicators of state debt and contingent liabilities for 2020-2023*

However, a book, which consists of 5 sections and nearly 1,500 pages, is distributed annually to members of the Parliament during parliamentary debates, but it is not made available to the public. This book is published by the parliament in limited numbers and available only to MPs. Although some of the information contained in this book covers information posted by the Ministry of Finance, the information in the book is more detailed and allows readers to precisely see the data that goes into making the figures posted on ministry's website.

Article 20.2 of the *Law on the Budget System* obligates the government to publish quarterly reports on the implementation of the state budget in the press. The quarterly report, along with other indicators, must present a comparative analysis of the execution of revenues and expenditures *with the approved assignment for that period*. We have no examples of such press publications in accordance with the law. But monthly and quarterly reports on the implementation of the state budget are posted on the website of the Ministry of Finance.⁴⁴

The Chamber of Accounts has provided financial disclosure on a broad scale since 2016 by placing feedback on the draft law of next year's state budget on its website.⁴⁵ The following financial information is available in the state budget reviews posted on the Chamber's website:

- Macroeconomic projections for next year and the subsequent 3 years;
- Analysis of budgetary sensitivity to macroeconomic processes;

⁴¹ <https://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/632443545f05e.pdf>

⁴² <https://internationalbudget.org/open-budget-survey/country-results/2021/azerbaijan>

⁴³ <https://maliyye.gov.az/static/253/ilkin-budce-gostericileri>

⁴⁴ <https://maliyye.gov.az/static-page/periodic-reports>

⁴⁵ <http://sai.gov.az/1/reyler/1/1>

- An overview of the volume of budget revenues and expenditures, and the distribution of revenues and expenditures by the elements of the overview section;
- The total amount of income and expenses of the state budget projected for the next fiscal year and comparisons of those indicators with the 2 indicators of the previous year;
- Structure of budget revenues by sections, auxiliary sections and paragraphs, as well as tax and non-tax revenues, oil and non-oil sectors;
- Information on functional sections, auxiliary sections and paragraphs of budget expenditures;
- Distribution of expenses according to the organizational classification of budget expenses;
- The economic classification of budget expenses is presented as a whole for general budget expenses, and at a limited level for individual functional divisions;
- Functional structure of centralized costs;
- Functional structure of local expenses;
- The amount of extra-budgetary expenses for functional divisions;
- State budget deficit or surplus;
- Summary budget deficit or surplus;
- Non-oil fiscal balance;
- The upper limit of the state external and internal debts;
- Amount of internal and external government debt, debt structure, debt servicing costs

Article 29 of the *Law on Access to Information*⁴⁶ spells out the duty of the state entity to which certain information belongs to disclose information. It lists the following sets of information for the state entity must provide, including disclosure of budgetary information:

- Budget forecasts;
- Reports on the activities of legal entities performing public functions (*including public legal entities*) and information on their income and expenses;
- Reports on the implementation of the state budget and summary budget;
- Information on the use of funds granted from the state budget or property allocated to private legal entities established by state bodies and municipalities or operating with their participation;

The legislation regulates the obligation to disclose budget information. Although the legally mandated disclosure of budget information is not at the desired level, it would be sufficient to form a broad picture of the state budget if the law were actually executed and it were provided to the public. An improvement in the quality of budget information legally mandated to be disclosed can positively influence Azerbaijan's position in international ratings. In the Open Budget Survey 2021, Azerbaijan ranked 44th among 120 countries with 57 points on the component of *budget transparency*.⁴⁷ Azerbaijan's rating was 12 points higher than the average 2021 index for the surveyed countries (45 points). This component assesses public access to information on how the central government collects and spends public resources. Here, the level of accessibility, timeliness of disclosure, and inclusiveness of the 8 major budget documents required by the OBI is evaluated on a 100-point scale. This suggests that a country with a score of 61 or higher on this indicator has published sufficient materials to support public debate of the budget. The recommendations of the experts of the

⁴⁶ <https://e-qanun.az/framework/11142>

⁴⁷ <https://internationalbudget.org/open-budget-survey/country-results/2021/azerbaijan>

International Budget Partnership state that the Ministry of Finance should develop pilot mechanisms to involve the public in the preparation of the budget and control over its implementation. The Chamber of Accounts should create a mechanism to ensure public support in the work of its own audit program.⁴⁸

In order to determine the extent of the openness of budget data in the Republic of Azerbaijan, it is sufficient to estimate budget expenditures on the basis of their functional distribution. This assessment shows that the data are mostly general in nature, limited to the distribution of costs. Let's look at a few examples to substantiate our point:

There is no detailed information on interbudgetary transfers. In the functional division of general government services, the state budget annually allocates earmarked and unearmarked financial aid to local self-government bodies. For example, the amount of unearmarked financial aid (grants) provided to municipalities from the state budget for 2023 comprises 5,5 million AZN, and the amount of earmarked financial aid (subventions) is 1,55 million AZN.⁴⁹ But in the budget package we have neither list of projects and municipalities, which are to receive earmarked financial assistance, nor information about the amount allocated for each project. On the other hand, there should be a list of the municipalities providing subsidies (grants). Such transparency will allow municipalities to carry out public monitoring of the extent to which financial assistance is allocated in accordance with the criteria provided by law.

The allocation of investment costs by institution and amount is not disclosed. The state budget annually allocates funds, the amount of which is measured in billions under the item of expenditure on public capital investments. For example, in 2022⁵⁰ the budget plans to allocate 5,97 billion AZN for public capital investments, and in 2023⁵¹ 5,65 billion. Regarding this amount, the public does not have access to information about which organization is allocated funds, nor about the amount of allocated funds. Until 2017, the allocation of investment expenditures was regulated by a decree of the cabinet, and at the beginning of the fiscal year, this list was approved and sent to a limited number of public institutions. Representatives of civil society could obtain this list, albeit with difficulty. Beginning in 2015, after the authority on allocation was transferred to the president of the country, it became impossible to obtain the list.

The distribution of funds to cities and districts by functional classification is unclear. The list of funds allocated to cities and districts of the country is published in the annual budget law. For example, 12,3 million AZN will be allocated from the 2023 state budget to 8 cities and districts to boost local revenues and cover expenditures. Although the list contains the names of the administrative districts that will receive funds and the amount of funds they will receive, there is no specification of the fields towards which these funds will be directed. That is, what portion of these funds is allocated for the maintenance of the executive structure of the district, what portion is allocated for refurbishment, etc.? On the other hand, funds are annually allocated to the administrative districts in various fields (education, health, culture, agriculture, etc.). Information about the distribution of funds allocated to these functional fields by cities and districts would allow us to determine the actual amount of funds allocated to the administrative districts during the year.

⁴⁸ <https://internationalbudget.org/open-budget-survey/country-results/2021/azerbaijan>

⁴⁹ <https://e-qanun.az/framework/53092>

⁵⁰ <https://e-qanun.az/framework/48723>

⁵¹ <https://e-qanun.az/framework/53092>

Although the fiscal law for the relevant year provides for the allocation of local revenues to cities and districts, the allocation of the amount of revenues by type of payment is not disclosed. For example, it is impossible to determine how much of the country's VAT, income tax and other tax revenues fall on the city of Baku.

In state programs and strategies, expenditures allocated from the budget for specific activities are indicated only in general terms. The Social and Economic Development Strategy for 2022-2026.⁵² one of the strategy documents adopted in recent years, has expenditures allocated in all divisions, but does not specifically mention what targets and activities of the strategy are covered.

The structure of state budget revenues by sectors and types of property is not provided. Although the distribution of funds of state budget revenues by source and type of payments is given, their sectoral structure is not disclosed. This means that taxes collected by field (industry, construction, trade, services, etc.) are not disclosed to the public. Simultaneously, the distribution of revenues by public and private sectors is not disclosed. The distribution by type of payments for the State Social Insurance Fund, the Unemployment Fund, and the Health Insurance Fund by private and public sectors is also not published.

Only the total amount of funds allocated from the State Social Security Fund is disclosed. Although the public budget data provide general information⁵³ about pension expenditures allocated from the State Social Security Fund, the distribution of these funds by age, disability, and death of the head of a family is not provided.

Lack of detailed disclosure of funds allocated to higher education institutions. The government annually allocates about 250-300 million AZN from the budget to finance students studying due to state order as part of higher education expenditures. However, information about the amount of spending allocated is not disclosed.

We could add additional examples of the insufficiencies of the publicly disclosed information, but the above is sufficient to illustrate the overall problem. In general, a significant amount of information, the disclosure of which is necessary for budget transparency, remains outside public scrutiny.

Another important condition for budget transparency is public participation. According to international organizations, the primary condition for budget transparency is public participation in the budget process. Social participation with budget transparency ensures completeness. The weakest link of budget transparency in Azerbaijan is *public participation*. The public participation component assessed in the Open Budget Survey assumes the formal possibility of significant public participation at various stages of the budget process. In the 2021 Open Budget Survey, Azerbaijan made the list of countries with a low level of participation, scoring only 9 points out of 100 for this component. According to the recommendation of the International Budget Partnership, Azerbaijan's parliament should allow members of the public or civil society organizations to testify during its hearings on the budget proposal prior to its approval.⁵⁴

Article 15.2 of the *Law on the Budget System* states that the executive authorities must participate in the discussion of the state budget for the next fiscal year at a session of parliament in accordance with the procedure established by the president. But there are no provisions to support civil society participation.

⁵² <https://e-qanun.az/framework/50013>

⁵³ <https://e-qanun.az/framework/53093>

⁵⁴ <https://internationalbudget.org/open-budget-survey/country-results/2021/azerbaijan>

Article 18 of the *Law on Public Participation*,⁵⁵ adopted in 2013, is called “Organization of public hearing and public discussion on draft laws.” According to this article, public hearings and public discussions of draft laws submitted to Azerbaijan’s parliament are organized by the Secretariat of the Milli Mejlis (National Assembly). For this purpose, the secretariat allocates a special section on the parliament’s website to share draft laws. At the same time, the secretariat publishes in this special section the text of the draft law along with the following information: information about the initiator of the draft law; the registration number of the draft law; the committee(s) to which it has been sent; the schedule and location of public hearings, as well as the duration and rules for the conduct of public discussion; the rules for submission of opinions, remarks, and proposals; and the duration and results of discussion; and informs the public of the results of discussion of submitted opinions, recommendations, and proposals. However, in practice, information related to the discussion of draft laws, including on the draft and execution of the state budget, is not posted on the website. And the website provides for no public participation in the discussions, with few exceptions. Representatives of the public are invited to the discussion of some draft laws at best on a selective basis. Invited representatives have limited opportunities to speak at discussions in connection with budget documents.

In addition to laws, the government has nominally committed itself to transparency, including public participation, with the 2020-2022 National Action Plan to Promote Open Government,⁵⁶ adopted in 2020. The area of activities in the plan, entitled *Financial Transparency Measures*, envisages a number of transparency measures to be taken by the Ministry of Finance and the Chamber of Accounts.

- In 2020-2022, there must be public disclosure of information about the parameters of the draft state budget and the consolidated budget for the next year and the next three years before those documents are submitted to parliament.
- Increased participation of civil society institutions in the discussions of the draft state budget
- Public disclosure of information on the executive indicators of the state budget and the consolidated budget at the end of the month following the relevant reporting period
- Public disclosure of information by category of expenditure (including expenditure by budget programs) and of revenues of the approved budget for the next budget year
- Raising public awareness about the draft state budget and consolidated budget, as well as the state budget execution reports
- Publication of the Chamber of Accounts’ conclusions on the execution of the state budget and budgets of state extra-budgetary funds and semi-annual and annual reports on the annual activities of the Chamber of Accounts on its official website.

Despite the legislative framework of budget transparency, the problem of full, complete, comprehensive and timely disclosure of information still remains. The exclusion of citizens, including civil society experts, from budget discussions makes it impossible to include their opinions and interests in the budget. Likewise, the budget execution phase usually remains outside of public scrutiny. The limited capacity of civil society to monitor budget implementation calls into question the transparency of the budget execution process.

⁵⁵ <https://e-qanun.az/framework/26879>

⁵⁶ <https://e-qanun.az/framework/44619>

2.3. Current State of Fiscal Reporting in Azerbaijan

Fiscal reporting is the foundation of good fiscal management. According to the IMF, three main categories of fiscal reports can be distinguished⁵⁷:

Budget execution reports, which follow the annual budget's presentation and classification and compare outturns of revenue, expenditure, and other fiscal aggregates with the corresponding values in the approved budget;

Fiscal statistics, which are produced in accordance with national or international statistical standards and summarize the impact of public finances on the wider economy;

Government financial statements or accounts, which are produced in accordance with national or international accounting standards and summarize the government's financial position and performance.

The submission of periodic budget execution reports is stipulated by the Law of the Republic of Azerbaijan on the Budgetary System⁵⁸ (2 July 2002, No. 358-IIQ). Article 20 of this law is called *the State Budget Execution Report*, which defines the terms of preparation of monthly, quarterly, and annual reports on the execution of the state budget, the names of institutions where these reports are to be submitted and certain requirements for the content of the reports as well as for their publication.

State budget execution monthly report. According to the requirements of paragraph 20.1 of the article above, the report shall be prepared by the 25th of the month following reporting period and shall be submitted to the President, the Cabinet of Ministers and the Chamber of Accounts of the Republic of Azerbaijan. The report shall contain the forecasted results as of the beginning of the year based on a breakdown by function and economic category of the state budget. The law does not require the publication of these reports. However, beginning in 2020, on its website the Ministry of Finance has posted information on the state budget execution entitled "Periodic Reports on State Budget Execution"⁵⁹ in the "Analysis of Budget Revenue and Expenditure Execution" section of the state budget information base. The information includes the following items⁶⁰:

- 1) Information about the programs envisaged in the state budget and the implementation of activities of this kind for January-November—the information here is very general in nature, only indicating the total amount of expenditures for programs;
- 2) Information on the operational executive indicators of the consolidated budget by month (with increasing total);
- 3) The actual total amount of tax and non-tax budget revenues from the beginning of the year to the reporting period, indicators of both categories by sources of revenues, as well as their comparison with corresponding forecasts of revenues and with the corresponding period of the previous year;
- 4) Report on the execution of state budget expenditures (by functional and economic classification), submitted as cumulative periods by months;
- 5) Operational information on the aggregate state debt (internal and external) by month—the information is general in nature and presented in cumulative period by month

⁵⁷ <https://www.elibrary.imf.org/display/book/9781484331859/ch02.xml>

⁵⁸ <https://e-qanun.az/framework/1126>

⁵⁹⁵⁹ <https://maliyye.gov.az/static/15/budcenin-gelir-ve-xerc-hissesinde-yerine-yetirilmesinin-tehlili>

⁶⁰ <https://maliyye.gov.az/static-page/periodic-reports>

State budget execution quarterly report. According to the requirements of paragraph 20.1 of the article above, the report not later than the end of the first month of the next quarter shall be submitted to Azerbaijan's parliament and to relevant executive authorities. The report shall be published in the press. Together with other indicators a quarterly report contains a comparative analysis of the execution of revenues and expenditures with the approved assignment for the period “as well as the requirement to submit quarterly reports with” information on accrued, paid and overpaid taxes for the relevant period, and on the amounts refunded from the taxes overpaid to the budget and tax arrears.

It should be noted that previously this article also contained the following requirement: "if there is a difference in financing of expenses between the actual figures and the approved figures, the report should also reflect explanations of differences and information on the execution of state projects of significance." However, this requirement was excluded from the law under the Law “On making amendments to the Law on the Budget System” 440-VIQD, dated 24 December 2021.⁶¹

Currently, the Ministry of Finance does not publish state budget execution quarterly reports in accordance with the above requirements. The ministry’s website shares operative information on state budget execution for 3 months, 6 months and 9 months, presenting them as cumulative periods.⁶² From these press releases, we can only obtain information about total revenues and expenditures and budget deficit amounts with by cumulative periods of 3, 6 and 9 months. This database does not disclose information on actual and projected indicators by functional, economic, and administrative classification of expenditures, nor on actual and projected indicators by type of revenue payments. Also, there are no explanations for the deviation of the actual execution of revenues and expenditures from the forecast indicators.

Because the execution indicators in the information database on the Ministry of Finance’s website, *Periodic State Budget Execution Reports*, published since 2020, are also presented with in cumulative periods by month, it is impossible to see information separately for each quarter. For example, while the March report covers the first quarter, the June and September reports cover the combined six and nine months, rather than the second and third quarters separately.

Thus, the total quarterly indicators of state budget execution are publicly available, yet a report that meets the requirements of the legislation is not available to the public.

In the Open Budget Survey 2021,⁶³ Azerbaijan scored 96 out of 100 for the state of content and disclosure of current reporting. In the previous survey, 2019, Azerbaijan scored 44 for this component.

State budget execution annual report. According to paragraphs 20.2-1, 20.2-2 and 20.3 of the article above, the annual report on state budget execution, the consolidated forecast of budget expenditures prepared in accordance with the budget, indicators of the cash execution, and the relevant draft law shall be submitted to the Cabinet of Ministers and the Chamber of Accounts no later than 25 April of the next year, and no later than 5 May, to the president. According to the law, the annual report on statebudget execution and the relevant draft law shall be submitted for approval to Azerbaijan's parliament no later than 15 May of the next year.

⁶¹ <http://e-qanun.az/framework/48877>

⁶² <https://maliyye.gov.az/static/105/dovlet-budcesinin-icrasina-dair-operativ-melumat>

⁶³ <https://internationalbudget.org/wp-content/uploads/Open-budget-survey-2021-1.pdf>

The law does not clearly define requirements for the content and volume of this report. Paragraph 20.3 underlines that "the report contains, among other things, information on all public debts incurred during the year, including state securities and state guarantees, as well as usage of funds of the Reserve Fund of the state budget, the Reserve Fund of the President of the Republic of Azerbaijan, the execution of targeted budgetary funds and local revenues on taxes and other types of payments." But it is not clear what the word "other" means here. Of this "other" information to be reflected in the report and the draft budget execution, the following can be found in paragraph 20.6:

- Total amount of actual revenues and expenditures, respectively;
- Amount of actual revenues by sources of revenues;
- Amount of profit or loss caused by changes in the exchange rate of the manat against foreign currencies;
- Amount of actual expenditures at the level of sections and auxiliary sections by functional-administrative classification;
- Amount of the state budget deficit or surplus ceiling;
- Free balance on the Single Treasury Account as of 1 January 1 of the current year.

The law requires that annual reports on budget execution be published in the press once the Chamber of Accounts has rendered its opinion.

The Ministry of Finance suspended posting documents under the name *Annual Report on the State Budget Execution* on its website after 2014, but resumed sharing it beginning in 2020. The ministry has posted reports on the execution of the state budget for 2019, 2020 and 2021 in the *Annual Report on the State Budget Execution*⁶⁴ subsection of the *Analysis of the Revenue and Expenditure Execution* section of its website.

The Annual Report⁶⁵ on the Execution of the 2021 State Budget includes the following sections:

1. The Macroeconomic Environment in 2021;
2. The Work Done in Improving the Budgetary Rule;
3. Indicators of State Budget execution in 2021:

3.1 State Budget Revenues (their total amount, composition and structure by sources, amount and structure of revenues by sectors, amount and structure of revenues by responsible entities, comparison with the forecast and actual indicators of the previous year, explanation of deviations, etc.);

3.2 State Budget Expenditures for 2021 (the amount of expenditures by areas and sections, comparison with the forecast and actual indicators of the previous year, as well as the state of public debt, etc.);

3.3 State Budget Deficit for 2021;

3.4 The Unencumbered Balance on the Single Treasury Account as of 1 January 2022;

4. 2021 Budget Execution review;

5. On the Proposals Raised in the Conclusions of the Chamber of Accounts of the Republic of Azerbaijan

⁶⁴ <https://maliyye.gov.az/static/153/dovlet-budcesinin-icrasina-dair-illik-hesabat>

⁶⁵ <https://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/62bdefc32b13c.pdf>

6. Appendix 1. State Programs and Activities Funded from the 2021 State Budget;

7. Appendix 2. Information about Cities and Districts Financing Their Expenditures from Their Own Revenues without Receiving Financial Assistance (Subsidies) from Centralized State Budget Expenditures in 2021.

In addition, as we have already noted above, the Ministry of Finance posts on its website a Report⁶⁶ on State Budget Expenditure Execution (by functional and economic classification, in cumulative periods by month). The January-December report is annual and contains a detailed structure of expenditures by functional-economic classification. It does not cover all sections of the budget, not does not disclose expenditures by administrative classification.

Information on the state budget execution by years is also available in laws governing state budget execution and presidential decrees enforcing such laws. They are posted in the section titled *Budget Laws*⁶⁷ in the State Budget Information Base on the Ministry of Finance's website. The *State Budget Execution Laws*⁶⁸ subsection provides access to laws and presidential decrees on state budget execution by year. Since 2018, presidential decrees on the application of the Law on State Budget Execution at the level of sections and auxiliary subsections of its functional classification provide the status and volume of executed funds and the organizations and activities that receive those funds by the administrative classification. But even this information is not provided for all expenditures.

Another source of reporting information on state budget execution can be found in the conclusions by the Chamber of Accounts. They are regularly posted on the website of the Chamber of Accounts in the *Conclusions*⁶⁹ subsection of the *Activities* section.

In the Open Budget Survey 2021,⁷⁰ Azerbaijan scored 62 out of 100 for the oversight component—the content and disclosure status of annual summary reports. Although this is two times better than 2019—then the score for Azerbaijan was 31—the content and scope of Azerbaijan's annual state budget execution report does not fully comply with international standards. The following information is still not reflected in the annual reports on state budget execution:

- 1) Economic classification of program costs;
- 2) Clarification of changes implemented at the level of sections and paragraphs of the budget forecast approved in parliament by relevant executive authority;
- 3) Alternative presentation of actual costs (costs by factors such as age, gender, region, income level, etc.);
- 4) Information on quasi-fiscal activities;
- 5) Information on changes in non-financial assets held by the government (the list);
- 6) Coordination of budget execution with the government's long-term goals;
- 7) Information on non-financial results of the budget;
- 8) Information on the composition of investment expenditures of the state budget by projects, status and results of implementation of projects;
- 9) Information on the results of public procurement carried out at the expense of budgetary funds;

⁶⁶ C:\Users\Admin\Downloads\4.pdf

⁶⁷ <https://maliyye.gov.az/static/102/budce-qanunvericiliyi>

⁶⁸ <https://maliyye.gov.az/static/104/dovlet-budcesinin-icrasi-haqqinda-qanunlar>

⁶⁹ <https://sai.gov.az/filter?type=rev>

⁷⁰ <https://internationalbudget.org/wp-content/uploads/Open-budget-survey-2021-1.pdf>

- 10) Lessons learned from the annual budget execution and proposals for changes in economic policy strategies.
- 11) The structure of budget revenues collected by cities and districts by type of payment, information on the spending structure;
- 12) Fiscal information on public administrative bodies at the level of districts and cities.

Reporting on extra-budgetary state funds. Four extra-budgetary state funds currently operate in Azerbaijan: (1) the State Oil Fund of the Republic of Azerbaijan (SOFAZ); (2) the State Social Protection Fund (SSPF) under the Ministry of Labor and Social Protection of the Population; (3) the Unemployment Insurance Fund; (4) the Compulsory Health Insurance Fund.

1) *SOFAZ.* Quarterly and annual budget reports are produced on a regular basis and made available to the public. The fund posts all yearly reports, including financial statements, on its website.⁷¹ The reports provide information on the sources of income, areas of expenditure, the value of its assets, and the level of profitability at the end of the reporting period. Information about the fund's quarterly revenues and expenditures is regularly posted on the website. The website also shares programs implemented through the fund.

It is appropriate to expand the coverage of information on the results of investment activities in the reports, as well as to provide the following information:

- Equities, fixed income assets and real estate portfolio by geographical region in which the fund has investments (Europe, North America, Asia, etc.);
- Income for each type of fixed-income assets (sovereign and corporate bonds, deposits, etc.) and sub-portfolio return by region;
- The volume of fixed-income assets managed by SOFAZ and transferred to external managers and their profitability in comparative terms;
- The currency structure of each region's equity portfolio, the volume for each stock index invested by SOFAZ, the return for each index, and a comparison of the return with the world's leading stock indexes;
- The fund's extrabudgetary losses from changes in exchange rates for each type of asset and currency;
- Asset portfolios invested in other currencies and their dollar value (because the fund's total assets are presented in US dollars) at the beginning and end of the reporting period.

2) *The State Social Protection Fund (SSPF) under the Ministry of Labor and Social Protection of the Population.* Information on the budgetary and financial reporting on the activities of this fund is available only to a limited extent. The fund's draft budget for the next year is produced and submitted to Azerbaijan's parliament together with the draft Law on the State Budget for the relevant year. Information on its budget projections can be obtained from this package and the corresponding conclusion by the Chamber of Accounts. Once the fund's budget is approved by parliament and endorsed by the president, it is published in the press and made available to the public on their websites www.president.az and www.e-qanun.az. The fund does not publicly produce separate reports on the current status of the budget and its annual performance. Since 2018, information on the fund's annual activities has been included in the annual reports of the

⁷¹ <https://oilfund.az/report-and-statistics/report-archive>

Ministry of Labor and Social Protection of the Population. For example, the 2021 Report⁷² contains the following information on the fund's annual budget:

- Dynamics of the fund's total gross revenues by year,
- Dynamics of proceeds from mandatory state social insurance contributions by year,
- Dynamics of the fund's total expenditures by year,
- Information on the number of labor pensioners and the average monthly amount of pension.

In addition, the fund's consolidated financial statements for 2020 and 2021 have been posted on the ministry's website.⁷³ Financial statements are presented in summary format, with the explanatory part remaining undisclosed.

Thus, there are no separate reports on the fund's budget execution, deviations between the budget forecasts and actual execution of the budget, and their reasons.

- 3) *The Unemployment Insurance Fund.* The situation with the Unemployment Insurance Fund is the same as with of the State Social Protection Fund. Although the draft budget of the fund is made available to the public after its approval by parliament, there is no separate report on budget execution. Annual reports by the Ministry of Labor and Social Protection of the Population contain general and brief information about the fund's annual revenues and expenditures.
- 4) *The Compulsory Health Insurance Fund.* A separate budget for the Compulsory Health Insurance Fund was first made available only this year, that is, in 2023. The 2023 budget of this fund was endorsed by the Presidential Decree⁷⁴ of 30 December 2022. There are no legal requirements to produce a separate annual report on the fund's budget execution.



⁷² <https://sosial.gov.az/uploads/files/2022/06/illik-hesabat-2021.pdf>

⁷³ <https://www.sosial.gov.az/dsmf-nin-konsolide-edilmis-maliyye-hesabatlari>

⁷⁴ https://static.president.az/upload/Files/2023/01/05/7d26b24c254b64e4686265e33e306a8d_2229271.pdf