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**STRENGTHENING INSTITUTIONAL FRAMEWORKS FOR LOCAL GOVERNANCE PROGRAMME
2015-2017**

STUDY
**Finance Benchmarks: areas and options for assessing
local financial resources and financial management
in Azerbaijan**

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Country Study for Preparing Local Finance Benchmarks

Political and administrative structure

The Republic of Azerbaijan is a unitary state. Other than the Nakhchivan Autonomous Republic, there are no independent states within the republic. Nakhchivan Autonomous Republic is integral part of the republic. The autonomous status of Nakhchivan Republic is due to its location that holds a geopolitical importance. The conflict with the Armenian Republic and absence of direct link with other territories of Azerbaijan leads to giving autonomy to Nakhchivan to manage internal affairs. The fundamentals of the public structure of the Nakhchivan Autonomous Republic are defined by the Constitution of the Azerbaijan Republic. Nakhchivan Autonomous Republic is unitary according to its territorial structure and includes 7 administrative districts. Those administrative districts have the same powers as other administrative districts of Azerbaijan.

According to the Azerbaijan Republic Law on «Territorial structure and administrative territorial division», the administrative-territorial division of Azerbaijan consists of villages, settlements, regions and cities. These units were the basis for determining municipal territories in the Law on Municipal Territories and Lands. The territorial units are granted a status of a city, a settlement and village depending on the number of permanent residents or type of activity (household) of most residents, the social and economic development of the territory, specialization of industry or socio-cultural infrastructure and public functions implemented in specific areas. Cities may be divided into administrative territorial units, in which case each unit comprises a separate municipality. Only two cities are divided into districts (Baku and Ganja). In these cities, district or settlement bodies of local executive authority are subordinate to the city executive authority.

According to the Constitution, local government in Azerbaijan is exercised both through local bodies of state administration and through municipal governments. Local bodies of state administration are regulated by the Constitutional Provision on Local Executive Authority and municipal governments by relevant laws.

Currently, there are 1 Autonomous Republic (Nakhichevan Autonomous Republic), 90 administrative-territorial units (including 66 regions (sometimes called districts), 11 cities and 13 urban districts) in Azerbaijan. Each region is comprised of one city, and different number of settlements and villages). Each region has one central city with the same name + 11 cities makes 77 cities altogether. 2 of big cities (Baku and Ganja) have districts (urban districts) within them (11 in Baku, 2 in Ganja). Each of above mentioned administrative units have centrally appointed Executive Committees (excoms). Excoms of settlements and villages are subordinate to their region's excoms.

There is a one-tier municipal system in Azerbaijan, which means that there is no hierarchy among municipalities irrespective of the status of the administrative-territorial units, their fiscal capacity and number of people living in their territory. All the municipal authorities are equally independent and have been established on the basis of the same principle (having an independent source of income, the same responsibilities and ownership of the right to their properties and order issuance) and countrywide general elections. Each

municipality acts as an independent juridical entity, with neither horizontal nor vertical subordination.

Under the requirements of the Election Code, the number of municipal council members varies within the following range depending on the number of population living in their territory:

Table 1. Number of elected councillors

Population	Number of Council Members
0–500	5
500–1,000	7
1,000–5,000	9
5,000–10,000	11
10,000–20,000	13
20,000–50,000	15
50,000–100,000	17
100,000–300,000	19

There are 73 city, 147 settlement and 1387 village municipalities, **1607** altogether in Azerbaijan. The latest reforms of unification were made just in line with the last elections in the end of 2014 and number of municipalities reduced from 1718 to 1607. The analysis of municipalities grouped as per the number of population reveals that there are no municipalities with a population of 1000 citizens and below in 17 administrative rayons (regions or districts). The majority of municipalities in Azerbaijan have a population of 1000-5000 citizens, which increased from 46.8 per cent to 63.8 per cent in the aftermath of the latest amalgamation.

There are no such municipalities with 1000-5000 residents in the cities of Baku, Mingachevir, Ganja, Shirvan and Sumgayit. A change was also noticed in the number of municipalities with a population of more than 5000 residents, from 7.2 per cent to the final 17.9 percent. While the people in municipalities of Agstafa (86.2 percent) and Agdam (85.7 per cent) exceed 5000 citizens, there are no such municipalities in Khizi, Shabuz, Ordubad, Gobustand and Yardimli districts. Only a small percentage of municipalities have more than 5000 citizens in districts of Barda (1.5 per cent), Sharur (1.9 per cent), Agsu (3.1 per cent), Gadabay (3.2 per cent), Goranboy (3.9 per cent), Lerik (3.5 per cent), Zardab (3.7 per cent) and Tartar (3.4 per cent)

Table 2. Number of local governments

Population size	Elected local governments (municipalities)	
	Number	ratio

<999	314	18,3%
1,000-4,999	1097	63,9%
5,000-19,999	307	17,9%
Total	1,718	100,0%

Centre for Work with Municipalities under Ministry of Justice provides the methodological support to municipalities as well as carries out administrative supervision over their activity.

Administrative control over activity of municipalities is implemented to ensure that municipalities, municipal bodies and municipality officials (hereafter “municipalities”) follow the provisions of the Constitution and Laws of the Republic of Azerbaijan, decrees of the President of the Republic of Azerbaijan and decisions of the Cabinet of Ministers of the Republic of Azerbaijan (and in the Nakhchivan Autonomous Republic also the Constitution of the Nakhchivan Autonomous Republic and decisions of the Cabinet of Ministers of the Nakhchivan Autonomous Republic), and to eliminate the cases of violation of legislation by municipalities. To ensure implementation of administrative control municipalities should send a copy of the following adopted acts to the administrative control body (Centre for Work with Municipalities) not later than 15 days from the moment of their adoption:

- normative acts of the municipalities;
- acts on use of funds allocated from the state budget;
- acts on fulfilment of the property right on facilities under the municipal property;
- acts on implementation of one-time local taxes and fees;
- decisions reflecting results of the local public survey;
- acts resulting in expenses and financial liabilities for municipalities.

Local government functions

According to the Provision on Local Executive Authority adopted on the 16th of June 1999, the Azerbaijan president establishes regional branches of state administration, designating their heads. These heads later appoint their own persons or representatives in the villages and settlements located within their boundaries. Local administration expenditures are funded out of the state budget. In brief, the executive tasks of local excoms are:

- Economic, social and cultural development;
- Coordinate activities between local self-governments and excoms;
- Implement both state programs assigned by the president of Azerbaijan and other local programs;
- Establish and dissolve local excom departments, services, enterprises and organizations.
- Arrange elections, referenda and public discussion as stipulated by the law.
- Prepare and submit proposals on local development to the appropriate executive bodies.

Local branches of state administration are directly subordinate and accountable to the central government and carry out its executive tasks regionally.

The status and jurisdiction of municipalities in Azerbaijan are determined by the Constitution and Law on “Status of municipalities”. Pursuant to Article 1 of the law on “Status of municipalities”, the local self-governance in the Azerbaijan Republic is a system that enables the citizens to resolve issues of local importance independently within the law and fulfil a certain public affairs as specified in the Constitution (Article 144).

In Azerbaijan a municipality has its own property, local budget, and elected self-government body. Municipalities use the power given to them under law to solve important local economic, social, cultural and ecological issues. Municipalities and their bodies are not included in the system of state bodies. State bodies and state officials are not permitted to implement local self-government. In other words state bodies both central and local cannot intrude with affairs of local governments.

They are directly responsible to the centre and implement competencies assigned to them by laws. They locally administer the state programs. However, most of the tasks of local character fall under their responsibility. Local executive authorities are not part of the municipal structure and do not control the work of municipalities. According to Azerbaijani legislation, municipalities can apply to the court if there is any interference in their work by such institutions.

The Milli Majlis (the Parliament) has adopted 17 laws that regulate functions of municipalities. The most important of these are the following: "Status of Municipalities", "Basis for Finances of Municipality", "Permanent and Other Commissions of Municipality", "Status of Municipal Councillor" and "Municipal Service".

The structure of municipalities and municipal bodies is determined by the municipal charter. The chairperson and where necessary a deputy chairperson are elected amongst the municipal councillors by open or secret ballot during the first meeting of newly elected councillors. They are considered to be elected if they obtain a majority of the municipal members' votes.

Municipalities establish permanent or *ad hoc* commissions to examine and address issues that fall within its mandate, to assist in the implementation of municipal decisions, and to control the functioning of municipal enterprises and organizations. These commissions prepare programs on local social protection and social development, ecology, economic development, and local services. These programs are submitted to the municipal council and the public for discussion. Municipalities perform these local programs not covered by state programs. Central government adopts regional socio-economic development programs and implements them through Line Ministries and Local Executive Committees. These government programs involve participation of municipalities in their implementation.

Municipalities must adopt their own social and economic programs but they must not overlap with the state ones.

Local social protection and social development programs address issues in the areas of *education, health, culture, local infrastructure and roads, celebratory services, communication services, cultural facilities, and assistance to old, poor and sick people and children without parents.*

Local economic development programs are intended to resolve important local economic development issues in areas such as *agriculture, industry, communication, and transport*.

Local ecological programs are aimed at raising awareness of environmental issues among the local population and addressing these issues. In particular, programs focus on those issues that complement or are not in the State's ecological programs. These programs can include *maintaining the ecological balance in the local area, cleaning and improving the territory of the municipality, collecting and recycling waste materials, protecting water, air and land from pollution, and implementing ecological measures in conjunction with neighboring municipalities or with State institutions*.

In case if legislative and executive bodies grant additional functions to municipalities, they shall be provided with financial means necessary for implementation of these functions. If a municipalities' expenditure increases and/or income decreases due to decisions approved by executive bodies of the Republic of Azerbaijan, these bodies shall pay compensation to the municipality. The amount of compensation shall be determined by the time of relevant decree's approval. The municipality shall implement the decisions of the state bodies, which caused additional expenses, within the limits of the compensation granted.

In theory, municipalities have extensive authority in providing public services as well. According to legislation, municipalities may adopt programs of public service delivery and create municipal entities to implement them in the following areas: education, health care, culture, municipal housing and other buildings, sanitation, water supply and sewerage, local transport and communication, cemeteries and funeral services, public catering and consumer services..

Some strategic services such as education, culture, public health services, communications, public catering and other services, are carried out by local divisions of the relevant state structures. Management and control over public service delivery are performed by central executive bodies, such as ministries, committees and the local state administration. These services are financed from the state budget.

All public services are jointly provided by the state administration and municipalities with domination of state. There is no any delegation of responsibility in this direction. Capital investments are financed from local excom budgets or directly from state budget.

The executive branch of the municipality reports to the local council on the performance of these services, which must correspond to the standards determined by the state. Municipalities have complete autonomy in determining the *method of public service delivery* and may take local conditions into account in order to determine exemptions and other special features.

Certain public services may also be delivered by the private sector (local, joint and foreign organizations) on a contractual basis. Private companies may engage in any public service where not explicitly prohibited, provided that they meet standards established by the state. The role of the private sector is substantially increasing in this field, especially in public health care, education, transport, communication, trade and public catering. This is an undoubtedly positive trend, which leads to increased quality of public services at reduced

cost. However, in the absence of quality control, certain negative phenomena emerge, such as inconsistency or division of services.

Share of local local budget revenues and expenditure in overall state budget revenue and expenditure (%)

<i>Years</i>	<i>Share of local local budget revenues in overall state budget revenue (%)</i>	<i>Share of local local budget expenditure in overall state budget expenditure (%)</i>
2002	1.4	1.37
2003	0.91	0.90
2004	1.16	1.17
2005	1.18	1.13
2006	0.85	0.87
2007	0.83	0.82
2008	0.40	0.40
2009	0.26	0.25
2010	0.25	0.24
2011	0.22	0.22
2012	0.21	0.21
2013	0.24	0.25

Expenditure 2013: (Aggregate)

Operational/maintenance	39,5 %
Education	0,7 %
Health	0,1 %
Social protection	3,4 %
Culture, art, sport	1,3 %
Communal services	36,3 %
Transport	7,4 %
Others	10,3 %
Total	100 %

Local government own and shared revenues

Annex 1. Summary of the proposed benchmarking areas: local own source and shared revenues

Law on Municipal Finance defines the following sources of income for the local budget:

Tax revenues:

- *land tax from natural persons;*
- *property tax from natural persons;*
- *tax on the use of natural resources upon building materials of local importance;*
- *municipal enterprise profit tax;*

Non tax revenues:

- *fees for advertising on municipal property;*
- *hotel fees, parking fees and other local taxes or duties stipulated by the law;*
- *payment for fixed or mobile trade, catering and other services on the specific sites allocated by municipalities*
- *revenue from privatization or the lease of municipal property;*
- *income from lotteries or other municipal activities;*

Transfers

- *financial aid from private entities and international organizations or funds;*
- *compensation from the state for expenses incurred due to state decisions.*
- *subventions from the state budget*

Table 3. Local government revenues 2013

Land tax:	14.1 %
Property tax:	9.1 %
Mine tax:	1.1 %
Enterprise profit tax:	0 %
Tax revenues	24,3%
AD tax:	0.5 %
Land and asset sale	48,8 %
Land and asset lease	8,8 %
Non tax revenues	58,1
Aids	2,2 %
Transfers	11,2 %
Others	4,2 %
Total	100%

Source: Statistical Committee of the Republic of Azerbaijan

Local tax revenues

Local (municipal) taxes rates shall be established within limits stipulated by tax legislation. In accordance with tax legislation municipalities shall be entitled to make decisions on complete

or partial tax release or decrease of tax levels for certain categories of taxes paid by taxpayer in their areas.

Rates of municipal taxes are determined within the limits specified in the tax legislation. In accordance with tax legislation, municipalities may adopt decisions to fully or partially exempt specific categories of taxpayers from local taxes or reduce tax rates in their territories.

Land Tax. Physical persons and enterprises who own or use land plots in the territory of the Republic of Azerbaijan are payers of tax on land. Land owners and users are liable to pay tax on land irrespective of results of economic activity, and land plots granted to their ownership or use is a taxable base. Tax rates for *agricultural lands* are calculated for each hectare of such lands based on conventional points determined with consideration of the purpose, geographical location and the quality of agricultural lands. The price of one conventional point is 0.06 manats. The land tax is established on the basis of documents that confirm the right of ownership and use of lands.

The land tax is also paid for lands located under structures, buildings and facilities as well as plots necessary for sanitary protection of facilities. Physical entities and municipal enterprises must register at municipalities within 1 month after obtaining documents proving their right to own or use land plots.

The rates specified in the next tables are applied for every 100 square meter plot of land with the exception of agricultural land:

Table 4. Land tax rates

Settlements	Lands of industry, construction, transport, communication, commercial and trade services and other lands of special designation (in mantas)	
	Up to 10000 m²	For the area of more than 10000
Baku	10	20
Ganja, Sumgayit cities and Absheron district	8	16
Other towns (with exception of regional subordination), regional centers	4	8
In towns, districts and villages of regional subordinations (with exception of districts and villages of Baku and Sumgayit cities and Absheron district)	2	4

Settlements	Settlements of courtyards lands and land in garden plots of citizen (in manats)	
	Up to 10,000 m ²	more than 10,000 m ²
Baku	0.6	1.2
Ganja, Sumgayit cities and Absheron district	0.5	1
Other towns (with exception of regional	0.3	0.6
In towns, districts and villages of regional subordinations (with exception of districts and villages of Baku and Sumgayit cities and Absheron district)	0.1	0.2

Physical entities' taxes on land are calculated by the municipalities by **July 1** every year, and the payment notification containing the amount of the land tax is delivered to them not later than **August 1**.

For land plots owned or used by the number of legal or natural persons separately for placement of structures or for service, the tax is calculated proportionally to areas of structure owned by such parties. Calculated tax on land is paid by physical persons to the local (municipal) budget in equal sums not later than **August 15** and **November 15**. If the land tax was not paid by previous owner of the land, it must be paid by the new owner of land plot by the date established by legislation.

Amount of land tax calculated for land used by natural persons for the purposes of entrepreneur activities is considered as deductions from profit.

Tax relieves

The amount of tax on residential lands (not commercial) owned by following physical persons is reduced by **10** manats which is an annual flat reduction:

- National Heroes of the Republic of Azerbaijan;
- Heroes of the Soviet Union and Social Labor;
- disabled war participants
- widowed wives (husbands) of war participants who were killed at war or died later;
- income of persons who were awarded orders and medals for heroic labour in the front during the years of **1941-1945**.
- persons who received the status of war veterans in accordance with legislation;
- persons who acquired radiation and radiation sickness or had these diseases as a result of accidents at Chernobyl AES, radiation accidents in civil or military atomic facilities.

Physical persons – residents of the industrial or technological parks founded by the decision of the President of the Republic of Azerbaijan are released from paying tax on land for the used territories in the *business parks for 7 years* starting from their reporting registration year. These are industrial and technological parks founded by the government in order to stimulate growth of non-oil industry. They are supported through different stimuli which also involve tax reliefs.

Property tax

Resident and non-resident physical persons are payers of property tax. The buildings and their parts as personal property of physical person in the Republic of Azerbaijan, as well as any water and air transport facility owned by a physical person, irrespective of where they are located and whether they are used or not, are considered taxable unit for the property tax. Physical persons pay the property tax in following order and rates:

Table 5. Property tax rates

Settlement	Residential and non-residential areas owned by a physical person (AZN/m ²)
Baku (0.7-1.5)	0,4
Ganja, Sumgayit cities and Absheron district	0.3
Other towns (with exception of regional centersubordination), regional centers	0,2
In towns, districts and villages of regional subordinations (with exception of districts and villages of Baku and Sumgayit cities and Absheron district)	0,1

The rates specified in the table above are applied (if building is situated in Baku, the coefficients not lower than 0,7 and more than 1,5 determined by Cabinet of Ministers are applied) per square meter area of the buildings in their ownership (with respect to residential areas – their larger parts than 30 sq m section) The property tax for premises owned by physical persons is calculated by the municipality of the area where they are located. Property tax on a building with several owners is calculated in accordance with the share of each owner in that building. Area of the property can be estimated by independent professional assessors, upon the initiative and at the expense of each individual or by municipality.

Tax authorities calculate tax on water and air transport facilities **as of January 1** of each year on the basis of the relevant information submitted by authorities registering such facilities. In the absence of such registration the owner of this property provides relevant authorities with documents that include all necessary data (year of manufacturing, price at the moment of purchase and technical characteristics) on all water and air transport facilities owned each year **before January 1**. Tax on a water or air transport facility that has several owners is withheld from the person who has registered such facility under his own name. Municipalities must submit tax payment notifications to taxpayers **not later than August 1**.

The annual tax amount is paid in equal portions **before August 15 and before**

November 15. If property tax was not paid by the previous owner of property it shall be paid by new owner within timeframes stipulated by this article. Property tax from physical persons is paid to the local (municipal) budget.

Tax relieves

The property tax on buildings is to be paid by aforementioned physical persons who are granted tax privileges *on tax on land*, as well as people on retirement or obligatory military service and their family members for the period of such service is reduced by the amount of **30 manats**, with exception of cases of their leasing, rent or use for entrepreneurial or other commercial activity. Buildings of art workshops or parts of buildings where such workshops are located that belong to physical persons involved in entrepreneurial activity without establishing the legal entity on craft production of copper, tin and pottery products, house appliances, gardening instruments, national music instruments, toys, souvenirs, house appliances made of reeds and cane, involved in embroidery and production of house appliances from wood, are not taxed.

Physical persons – residents of the industrial or technological parks founded by the decision of the President of the Republic of Azerbaijan are released from paying property tax for their property in the parks for 7 years starting from their reporting registration year. Physical persons involved in production of agricultural products (including production by industrial method) are exempt from property tax on objects used during the process of activity up to January 1, 2019

Municipalities have some discretion over tax reliefs (full or partial reduction) but they should abide by tax law. They can include different categories who fall under the groups mentioned by law.

Mining tax

The tax paid for the use of subsurface resources in the territory of the Republic of Azerbaijan is called the mining tax and physical and legal entities extracting the minerals from subsurface strata of the earth are payers of the mining tax. The mining tax on following construction materials of the local importance is paid to municipal budget:

- brick-tile clays
- mortar sand
- raw materials for gravel

Physical persons and enterprises pay the mining tax on these construction materials at the rate of **0.5 manat per cubic meter** of extracted material. For the purposes of mining tax, the time of taxable operation is the time when minerals are extracted. The tax period for the mining tax is a calendar month. Mining taxes must be paid **before the 20th day of the month** following the month of extraction of the product. Payers of mining taxes must submit tax returns on mining tax to the municipalities **no later than the 20th day of the month** following the accounting month.

Profit tax from municipal enterprises

Enterprises and organizations owned by municipalities pay the profit tax to municipal budget. Rate of the profit tax is **20 percent**.

Hotel tax

According to the effective legislation, municipalities shall charge payment no more than one equivalent to percent of conditional monetary unit (i.e. 1.1 manats) from the facilities in the municipal territory delivering hotel, resort, sanatorium, inn and touristic services to people. These payments shall be withheld from the registered entities/individuals, and paid to the relevant municipalities by the 5th of the next months.

Non-tax revenues

Advertising fees

Enterprises or persons wishing to advertise on municipal property have to pay pre-specified fees to municipal budgets. Amount of fees are mutually agreed and put on the contracts.

Payment for either qualified parking spaces that belong to individuals and legal entities within municipal territories, or other permanent or temporary parking spots, specified by municipal resolutions, for all kinds of vehicles is another source of income. Such payments shall be defined as not exceeding 0.1 manat per vehicle per day and shall be withheld from each payer, and paid to the municipalities in manners and within dates defined by the municipalities

In the manner specified by law, municipalities may resort to legal entities and individuals for one-time optional payments for the purpose of financing targeted projects carried out as a result of local public opinion surveys. Such payments should be used for the intended purpose only.

Taxes are collected either directly from the source (deducting tax prior to gaining income or profit), upon declaration (deducting tax after gaining income or profit); or upon notification (payment of the tax by taxpayer on the basis of payment notice, issued for the sum, calculated by taxation authority of municipality on the basis of cost of the taxation object and area).

Local tax administration

Municipalities are to set up their **own tax authorities** to deal with issues of local taxation. Neighbouring municipalities can jointly organize their tax administration to efficiently deal with local taxation. It's within their own competency to calculate, notice, and collect local taxes. That is accurate calculation and complete timely payment of taxes and fees in compliance with the law, shall be controlled by the tax service agencies of municipalities. The registration of payers of local (municipal) taxes shall be conducted by municipal tax authority. Control over calculation in accordance with legislation, complete and timely payment of local taxes(municipal taxes) is conducted by municipal tax authorities. They are free to apply to courts in case their rights are violated. In cases where tax payments are based on declaration principle such as hotel fees of mining taxes in order to control correctness of

the tax calculation and payments municipalities can participate in regular controls held by state tax authorities. *They have to apply to central tax authority and express their willingness to take part in controls.*

Municipal property

Municipal property shall consist of assets of the local budget created from local taxes and payments; municipal non-budget funds; municipal property as well as municipal land; municipal enterprises and organizations; municipal apartment stock and buildings other than dwellings; roads that do not belong to the state or are personal property; municipal education, health, culture and sport organizations; other movable and fixed property.

According to the law, municipalities may have the right to assign structures of municipal property to physical and legal entities for permanent or temporary use, lease them, privatize municipal property in accordance with the rules defined by the law, conclude deeds relating to municipal property, define terms of usage of the privatized and utilized property in agreements and contracts. Municipalities may define, for the local population's benefit, terms of use of land which is within the borders of the municipality, in accordance with the law. According to the law, municipalities may create legal persons for economic and other activity not prohibited by the law, and may resolve the issues related to their re-organization or termination. Municipalities shall define the aims, terms and rules of activity of legal persons; regulate prices and tariffs of goods (services); approve their charters; appoint and release their managers; listen to the reports on their activity.

Local governments are obliged to present results of their budgetary activities to statistical body which is a State Statistical Committee on quarterly and yearly basis. The Committee releases yearly bulletin reflecting data regarding income and expenditure of local governments. Consequently the main source of information is database of the Statistical Committee.

Tariff Council (central government agency) regulates tariffs, user charges, service fees, water sewage waste public transportation.

Intergovernmental transfers, fiscal equalization

According to the legislation, municipalities have the right to receive allocations from the state budget during the process of regulation of the local budget.

Article 32.2.2 of the law on "Budgetary System" provides that in the event of incapability of financing local socioeconomic development programs through local budget resources, state budget allocates subsidies and subventions.

According to the Law on budget system of Azerbaijan, **funding from state budget** takes the following forms:

- Budgetary loan** —funds allocated from the state budget to the local budgets to be repaid in a certain period of time;
- Donation** — unearmarked funds donated to the local budgets *to regulate* their incomes and expenditures;

- **Grant** — earmarked funds donated at the expenditure of internal and external sources;
- **Subvention** — earmarked funds allocated from the state budget to the local budgets for specific purposes – mostly *capital investments*-, being repaid if not used for those purposes or in a certain period;
- **Subsidy** — *unearmarked funds* donated from the state budget to the local budgets.

Among the above mentioned types of transfers only DONATIONS (unearmarked transfers) have been effective up to date. However they comprise very tiny portion of local budget revenues. Only lately there has been legal clarification on how LG s should apply for subventions (earmarked transfers). (explained below). Once the donations have reached municipalities, they are free to use them. The volume of donations is defined arbitrarily by Ministry of Finance based on information (necessary documentation presented by LGs on an annual base). There aren't usually any negotiations between LG s and MoF.

Municipalities requesting for financial support of the state budget should submit the following documents and materials to the Ministry of Finance by the May 1 of the current year:

- Reference of the budget outcomes actual in the previous year and expected in the current year;
- Incomes and expenditures of the local budget for the next budget year, substantiation of the volume of donations and other funds to be allocated from the state budget;
- Auditor's opinion on the execution of local budget in the previous year;
- Other materials upon request of ministry

Proposals are formulated in person by municipalities requesting donations and submitted to the MoF. There is no specific formula applied in calculation of donations. Ministry of Finance directly defines the volume of overall donations. Donations are transferred to the local offices of MoF to be delivered to individual municipalities.

According to the recent amendments to the Budget Law during the calculation of donations, the following criteria are to be considered. There is no specific formula yet applied in calculation of donations. The volume is defined by central government (Ministry of Finance) directly.

- Size of municipal population
- Its share in the formation of financial resources of the country
- Revenue and expenditure capacity of municipalities
- Location in high mountainous region
- Location in the frontiers or country borders
- Living standards of the people within municipal borders.
- Socio-economic projects planned for implementation

Also municipalities requesting earmarked grants (subventions) for specific projects should apply to the Ministry of Finance no later than March 15. The ministry must respond within 30 days. In case the proposal is accepted municipalities should present above mentioned documents no later than May 1st. Subventions are delivered to the municipalities no later than 15 February of the following budget year.

Local borrowing

In fact there is no legal restriction for the municipal borrowing. However borrowing is not easy for municipalities with low fiscal capacity. Municipalities are not commercial entities and cannot get loans under the commercial terms. . Cooperation between municipalities and credit and insurance organizations is implemented on the basis of contracts. . Municipalities shall have the following rights, in accordance with the rules defined by the legislation

- to choose an authorized bank for their accounts and cash operations, and to create a treasury, or implement cash realization via state treasury, in accordance with legislation;
- to take short-term and long-term credits from the bank and other credit organizations which are residents of the Republic of Azerbaijan;
- to determine the insurance of objects which are part of municipal property, and of municipal officials.

The government is not responsible for municipal borrowing.

Although municipal borrowing is not prohibited by laws, it is not common in practice. LGs are not capable of borrowing because of low credibility and lack of sustainable financial management. There is no specific law regulating the process.

Local financial management

A local budget is a municipal budget and it is not a part of the state budget. The local budget is a financial resource created and used for realization of self-governance principles in accordance with the status of municipalities and the implementation of powers of municipalities defined by the Constitution and Laws of the Republic of Azerbaijan. Local budgets are prepared on an annual based and budget year begins on January 1 and ends on December 31. Local budget is independent and this independence is ensured by the existence of its own income sources and its right, without exception, to give directions about the municipality's local budget funds. Legislative and executives bodies of the Republic of Azerbaijan are not allowed to interfere with municipalities' budget activities.

Municipalities independently make arrangements for any balance of the local budget accumulated at the end of the financial year. A municipality independently prepares, discusses, approves, and implements the local budget, and controls its implementation in accordance with the requirements of the laws on the economy.

The government guarantees the independence of local budgets and it is not responsible for their undertakings. State guarantees are based on the following:

- to create conditions for the development of production and service areas;

- to determine additional income sources or allocation of subsidies and subventions during the fiscal year for meeting a deficit in a local budget, taking into account the finance available from the state budget, when it is not possible to finance local social or economic development programs from the local budget

When legislative and executive authority bodies give additional responsibilities to a municipality, they provide the municipality with the necessary funds for implementation of these powers. If income to the local budget is reduced or expenses are increased as the result of decisions adopted by the executive authorities, the amount reduced or increased is provided by the bodies that made such a decision. The municipality submits information on the local budget to the statistical agencies and relevant executive power body, in accordance with the rules defined by legislation.

The amount and types of expenses of the local budget are defined by the municipality. The local budget is formed on the basis of the standard expenses defined by the municipality, taking into account expenses on management of the municipality, and on maintaining social-welfare, living, cultural and sport buildings, streets, yards and gardens for common use.

Expenses of financing social protection, social and economic development, and ecological programs can also be determined by local budgets. Necessary expenses shall be secured in the local budget for assisting in organizing burial and mourning ceremonies of the diseased people from needy families living in the municipality, and be spent for such purposes only.

Draft local budget shall be developed on the basis of assessment of economic activities of municipal enterprises and other legal entities, including individuals operating within the municipality, as well as socio-economic forecasts and special-purpose programs.

Municipalities must present required documents to the Ministry of Finance relevant executive authorities, by May 1, in order to receive a subsidy allocated from the state budget.

Drafting of local budget shall start 11 months prior to the next fiscal year and continue until draft budget is submitted for consideration at the municipal meeting. Drafting and submission of the draft budget shall be the liability of the Municipality Chairperson, and s/he can decide whether to involve standing and other commissions of the municipality, municipal servants and experts for such purposes.

Draft decision on local budget for the next fiscal year shall along with the relevant papers be submitted for discussion and approval at the municipality meeting, not later than October 15 of the current year. Draft local budget shall be published within 10 days from the date of its submission to the municipal meeting, to be introduced to the municipality population. Draft local budget for the next fiscal year shall be approved at a municipality meeting, not later than December 20 of the current year. Draft local budget for the next fiscal year that includes a subsidy from the state budget shall be approved by decision of the municipality, not later than December 25 of the current year. The approved local budget can be specified by a decision of the municipality.

Municipalities can make changes in income and expenditure line items during implementation of the local budget, within the limit of loans approved in accordance with the budget classification, except for specific purpose funds received from the state budget. Operations on commitments incurred from implementation of the local budget shall be finalized upon the end of the fiscal year, and unused funds shall remain at the municipality's

disposal. Municipalities shall approve annual reports on implementation of the local budget and inform the local population about it.

If income received during the implementation of local budget is reduced, and if this causes debts to be greater than the limits, a mechanism for reduction of expenses can be used. Reduction of expenses consists of proportional reduction of expenses of each article of the budget, except for those articles protected against reduction such as expenditure for basic public service provision or wages. However this is not common in practice.

Municipality shall control the implementation of the local budget and the expenditure of funds in accordance with the budget, and have the right to invite independent auditors not less than once a year.

Legislative and executive bodies control the usage of funds allocated for implementation of functions they have given to municipalities. Municipalities organize their finance within the territory of the municipality, as well as in cooperation with credit organizations which are located outside the territory of municipality and which are residents of the Republic of Azerbaijan.

According to Article 34 of the Law of the Azerbaijan Republic on the Status of Municipalities dated of July 2, 34, local governments in Azerbaijan have the *right to form legal entity*. There are no limitations for state registration of municipal entities and companies: they can start delivery of services, having been registered in a corresponding state office in compliance with general procedures applied to other enterprises and organizations regardless of property, organizational and legal forms. And the legislation does not stipulate any limitation or restrictions on the profile of the municipal enterprises/companies, they can be engaged in all kinds of activities unrestricted by Azerbaijan legislation.

Under Article 35 of the said Law, the activity of municipal companies is based on the following principles and conditions:

- Municipal companies are independent legal entities, their relations with municipalities are provided through labor and civil legislation;
- The objectives and conditions of municipal companies and enterprises are defined by municipalities;
- Prices (tariffs) of their goods (services) *are adjusted by municipalities*, and the chiefs are appointed and released by municipalities.

Municipalities shall conform to national accounting standards. Law on municipal finance requires publication of draft budget within 10 days after presentation to the municipal council; the same law requires that municipalities shall report on the budget realization to the municipal council on a yearly on 6 months base and must be approved by council in 15 days. Later these reports are disseminated via different sources (bulletins, leaflets, internet etc).

Law on local taxes and payments stipulates that supervision on implementation of the local budget shall be realized by relevant municipal commissions and as well as committees comprised of members elected by local community.

Under *Article 39.1 (Supervision over the local budget)* of the Law of Azerbaijan Republic on Budget system, as well as Article 12.2 of the Law on "Local (Municipal) Taxes and Payments", municipality shall supervise the local budget execution, including the

correspondence of the spent resources with the approved budget indicators and with this purpose has a right to involve the independent auditors.

Article 13.1 of the Law on financial bases for municipalities stipulates that municipal bodies control over local budget execution. Under Article 12.1 of the Law on local (municipal) taxes, the financial activity of municipalities shall be scrutinized by Review Commissions comprised of community members who are subject to approval in municipality meetings. That is not professional audit in municipal bodies, but purely community audit.

In Azerbaijan, the external audit is carried out by two bodies:

1) Chamber of Accounts of the Azerbaijan Republic ;

2) Chamber of Auditors of the Azerbaijan Republic .

The Accounts Chamber is the state-run legal entity, while the Chamber of Auditors, being a financial institution, is an independent audit body. In addition, Azerbaijan's Finance Ministry has the right to control over the use of State Budget subventions to local governments. Therefore, it is essential to clarify principles and duties of financial audit in local governments provided by the finance ministry.

Article 35 of "The Law on the Status of the Municipalities", municipal companies, first of all, shall report to municipalities. The reports must cover both the company's production (service) activity and financial results. Municipal enterprises shall submit quarterly and annual reports on local budget execution to the State Statistics Committee of the Azerbaijan Republic, while quarterly and annual financial reports to local structures of the Finances Ministry. The financial reports reflect prognosis for local budget receipts and expenditures as well as the present state of affairs on them.

Municipal company audit is voluntary. The audit can be conducted by the initiative of the municipal company or municipality.

Implementation of LFB

Main data source is from Statistical Committee. However Centre for Work with Municipalities and Associations of City, Settlement and Village Municipalities may serve as a data source to a certain extent. Individual city municipalities may be referred for specific data. Laws, rules and regulations regarding local governments are all accessible.

Municipalities (primarily bigger ones) would be interested in participating in LFB. It will essentially be Centre for Work with Municipalities and Associations of City, Settlement and Village Municipalities possibly interested in hosting the program. Larger local governments do have their internet sites where they publicize necessary information. Further information can be obtained upon request. Parliamentary elections are to be held in the country in November 2015. However it doesn't seem to hinder the program in any way.

Center for Work with Municipalities under the Ministry of Justice not only implements administrative control over local governments but also provides the methodological support to municipalities as well as carries out educational programs to develop institutional capacity of LGs in Azerbaijan. This Centre and Associations of

Municipalities seem to be main actors for raising central and local government public interest for LFB.

Latest reforms in the sphere of local governance are amalgamation of many small village municipalities into bigger ones. Now altogether 1607 (formerly 1718) municipalities exist in Azerbaijan. There are 73 city, 147 settlement and 1387 village municipalities. Another reform was the amendments to the Law on Budget regarding the criteria for donations (unconditional transfers) as well as procedure for receiving subventions (conditional transfers). City municipalities are potential partners for hosting the future LFB programme.

Annexes

<i>Annex 1. Summary of the proposed areas of benchmarking: local own source and shared revenues</i>

National systems, level of decentralization:

with references to Rec (2005) No. 1.-36.; 68.-72.

<i>General principles</i>	
Area No. 1.....	Rec (2005). No
<i>Local taxation</i>	
Area No. b	Rec (2005). No
Local governments: with references to Rec (2005) No. 9.-31.	
<i>General principles</i>	
Area No. 1.....	Rec (2005). No
Local government possess financial resources commensurate with their competencies Local governments freely dispose of their revenues number of local taxes ratio of local taxes to current and total local government revenues	Rec (2005). No. 3 Local authorities should, within the framework of the national economic policy, be entitled to their own resources, which should be adequate, and of which they may freely dispose, in the exercise of their powers and responsibilities, within the limits of the law (financial autonomy).
Local governments have discretion over local tax base and tax rates Local taxers are administered by LGs Standards and procedures of local tax administration Methods of paying local taxes	Rec (2005). No. 4 Where taxes are assigned to local authorities, they should also be given some power to intervene in their administration in order to improve their efficiency and to appropriate their proceeds (fiscal autonomy).
Share of local taxes and miscellaneous revenues compared to expenditure by functions	Rec (2005). No. 4 To the greatest extent possible, each local authority should finance, from its own resources, the expenditure it decides on (fiscal equivalence at the local authority level).

<i>Local taxation</i>	
Area No. a. Fiscal Decentralization	Rec (2005). No
<p>Significant proportion of the costs incurred are funded through own resources</p> <p>This proportion is sufficiently large to allow for and encourage substantial room for manoeuvre and accountability of LGs</p> <p>local tax revenues are directly connected to local functions</p> <p>local governments' autonomy in defining tax base, exemptions - setting tax rate (regulation allows: 0, minimum, maximum, range)</p> <p>tax collection is locally administered</p> <p>local taxes are more levied on voters</p>	<p>Rec (2005). No 13</p> <p>Financial autonomy of local authorities implies that local authorities have sufficient own resources to fund a significant proportion of the costs incurred in the discharge of their responsibilities, as defined in the Constitution or by law. This proportion should be sufficiently large to allow for and encourage substantial room for manoeuvre and accountability on the part of local authorities when they determine the expenditure to be incurred in the discharge of these responsibilities.</p>
Interbudgetary relations allow to support LGs	<p>Rec (2005). No 16</p> <p>When the degree of fiscal decentralisation is considered low on the basis of the parameters, the central authorities should consider, in conjunction with the local authorities, means of increasing the proportion of local authorities' own tax revenues and tax revenues transferred under a permanent law, without necessarily increasing overall tax pressure.</p>
<p>LG and their associations are negotiated when limitations on financial autonomy of LG are imposed</p> <p>Limitations are proportionate to objectives pursued</p>	<p>Rec (2005). No 20</p> <p>Limitations on the financial autonomy of local authorities should not be disproportionate to the objectives pursued, and should be discussed with local authorities or associations of such authorities, provided for by law and lifted as soon as possible.</p>
Compensation provided for decisions of higher authorities	<p>Rec (2005). No 21</p> <p>In general, when higher authorities take decisions that reduce the local authorities' tax base, compensations should be provided.</p>
Area No. b. <i>Structure of local taxation</i>	Rec (2005). No
proportion and type of local tax revenues collected from – residents	<p>Rec (2005). No 24</p> <p>The tax revenues of a local authority should come from resident individuals or property or businesses on the territory of the local authority in question</p>

<p>balanced (diverse) local tax structure</p> <p>local taxes supplement national tax structure</p> <p>avoiding tax exportation</p> <p>differences in setting local tax base and rate</p> <p>overall local tax wedge on residents</p> <p>local scope of manoeuvre in tax policy design</p>	<p>Rec (2005). No 30</p> <p>Local taxes should be neutral and create little negative economic distortion (minimum impact on growth and the economic structure of the municipality), demographic distortion (so as not to prompt people to migrate) and social distortion (so as not to cause further problems for social groups in difficulty).</p>
<p>national regulations on local tax relieves and exemptions</p> <p>Regulations on local taxes and tax administration</p> <p>Cooperation with higher authorities collecting information, relevant for local tax administration</p>	<p>Rec (2005). No 31</p> <p>The central authorities should be able to help local authorities draw up local tax regulations. The establishment of a single database (or a single access point) for all local taxation can make for greater openness.</p>
<p><i>Fees and charges</i></p>	
<p>Area No.</p>	<p>Rec (2005). No</p>
<p>Local authorities a free to charge for services they render</p>	<p>Rec (2005). No 9</p> <p>Local authorities should be entitled to decide what to charge for the services they provide according to the situation and local preferences.</p>
<p><i>Other resources</i></p>	
<p>Area No.</p>	<p>Rec (2005). No. y</p>

<p><i>Annex 2. Summary of the proposed areas of benchmarking: fiscal equalization and grants</i></p>	
<p>National systems, level of decentralization:</p> <p>with references to Rec (2005) No.37.-67.</p>	
<p><i>Financial equalization</i></p>	

Area No.	Rec (2005). No. z 39
<p>LGs have right to receive financial aid from central governments</p> <p>Financially weaker LG s are compensated for lower financial capacity.</p> <p>Equalization is in place for LG suffering from geographical location, demographic situation or other factors</p>	<p>The equalisation system should compensate, at least in part, for differences in authorities' financial capacity (so as to provide more resources to financial weaker authorities) and spending needs (so as to provide more resources for authorities that either have additional responsibilities or, by virtue of their geographical location, demographic situation or other factors, are obliged to spend more in order to discharge their responsibilities). It should not compensate for differences in managerial efficiency or differences in cost stemming from the adaptation of service levels to local preferences.</p>
<i>Grants to local authorities</i>	
Area No a. <i>General grants</i>	Rec (2005). No.
The grants are usually general with no strings attached	The higher authorities' contribution to local budgets should mainly take the form of general grants.
<p>Criteria for allocation is transparent and formula based</p> <p>LG are able to calculate amount of transfers before budget year</p>	<p>Criteria for the allocation of general grants should be clearly defined by law, or at least in accordance with the legal framework, on a non-discretionary basis. This should enable local authorities to calculate in advance the amount of the grants they will receive and adopt their budgets accordingly.</p>
<i>Area No b. Specific grants</i>	
<p>Criteria for allocating specific grants are objective and transparent</p> <p>LG are fully informed about availability of funds</p> <p>Procedures for grant applications are transparent</p>	<p>Specific grants should generally be awarded on the basis of objective, transparent criteria related to spending needs. All the authorities eligible for such grants should be informed about the availability of funds and the relevant criteria and should be able to submit applications for such grants, which should be compared by means of transparent procedures.</p>

Annex 3. Summary of the proposed areas of benchmarking: local borrowing

National systems, level of decentralization:

with references to Rec (2005) No. 73.-76

<i>Borrowing</i>	
Area No.	Rec (2005). No.
<p>LG s have free access to capital market</p> <p>Different forms of loans available for local governments</p> <p>Guarantees issued by national government/budget</p>	<p>Rec (2005). No 73</p> <p>Local authorities should be able to borrow in order to finance their capital expenditure projects. Such projects are intended to benefit future generations, and recourse to borrowing may therefore make it possible to spread the burden fairly among generations. As future generations do not have a say in the choice of projects to be financed, however, financing through borrowing is mainly suitable for services for which the loan will be repaid by means of charges to users.</p>
<p>Local authorities are fully answerable for their decisions to resort to borrowing</p> <p>Central government does not offer guarantee for loans raised by local governments</p>	<p>Rec (2005). No 76</p> <p>In order to make decision-makers more accountable, local authorities should be held fully answerable for their decisions to resort to borrowing. The central authority should not offer guarantees for loans raised by local authorities, save in exceptional circumstances.</p>
Local governments: with references to Rec (2005) No. 30.-31.	
<i>Borrowing</i>	
Area No.	Rec (2005). No.
....	

<i>Annex 4. Summary of the proposed areas of benchmarking: financial and budgetary management</i>	
National systems, level of decentralization:	
with references to Rec (2004) No. 1.-43	
<i>General principles</i>	
Area No.	Rec (2004). No.
	<p>Rec (2004). No 1</p> <p>The local or regional authority should be entitled, within the framework of national economic policy, to foreseeable resources commensurate with its competences and responsibilities that would allow it to implement these competences effectively and</p>

	of which it may dispose freely.
Central governments covers additional cost incurred by LG as a result of central decisions	Rec (2004). No 3 Higher-level authorities whose decisions impose additional costs on local and regional authorities should ensure that these costs are covered by new financial resources such as additional fiscal resources, evolving financial transfers or other financial means.
Public access to local budget documents Public is involved in local budget design Forms of local budget presentation support easy access to relevant information on revenues Diversity of methods for disseminating information on local budgets	Rec (2004). No 4 Legislation should establish rules for drawing up, approving and implementing local and regional budgets and for the supervision of their implementation, as well as for their healthy, balanced management in the long term.
Approval of the accounts, other than the elected deliberative body at local level.	Rec (2004). No 5 It should not be possible to delegate the adoption of the budget and the approval of the accounts to a committee or a body other than the elected deliberative body of the local or regional authority.
LG independently adopt their budgets	Rec (2004). No 6 Within the limits of the legislation, the local or regional authority should be able to independently adopt its budget and to adapt the operational rules applicable to its budget and to apply them to its specific situation.
Objectivity and transparency of criteria for limitations imposed by the state on the financial autonomy of LGs	Rec (2004). No 10 The limitations which may be imposed by the state on the financial autonomy of local and regional authorities should be established by law. Limitations should be based on objective, transparent and verifiable criteria, applied fairly and in such a way as to avoid accounting devices that obscure the truth.
<i>Limitations on financial autonomy</i>	
Area No.	Rec (2004). No.
	Rec (2004). No 8 The state or legally established supervisory authority may take measures to restrict the financial

	autonomy of a local or regional authority or to limit or reduce the amount of funding transferred to it. Such measures should be taken within the framework defined by statute and should not be excessive or threaten the principle of local autonomy.
<i>Fiscal estimation methods</i>	
Area No.	Rec (2004). No.
....	
<i>Financial risk management</i>	
Area No.	Rec (2004). No.
....	
<i>Local elected representatives and employees</i>	
Area No.	Rec (2004). No.
Mayor is responsible for quality and accuracy of the financial and budgetary information issued by LG	Rec (2004). No 25 The quality and accuracy of the financial and budgetary information issued by the local or regional authority should be guaranteed by the mayor, the chief executive or any other elected representative or executive body designated by law, who assumes responsibility.
Number of training courses organised locally for municipal servants Staff days spent at training courses in a year	Rec (2004). No 27 The central authority should ensure that local or regional officers and elected representatives receive appropriate professional training. If such training is not provided by the local or regional authority itself or its association, the central authority could, for example, set up standards in this respect, organise such training and help the local or regional authority and its association to organise training for their elected representatives and officers.
<i>Control</i>	
Area No.	Rec (2004). No.
Extent of the supervisory authority's intervention is proportional to the magnitude of the interests which the authority wishes to preserve.	Rec (2004). No 28 The external supervisory procedure should be laid down by law and should be balanced and fair. The procedure should be limited to an examination of the legality of decisions. In the case of a disagreement, the procedure should provide the

Supervision is neither political nor punitive and applied LGs based solely on objective factors connected with the situation of the authority concerned.	supervising authority with the possibility of recourse to the competent jurisdiction.
Possibility to delegate the adoption of the budget Approval of the accounts, other than the elected deliberative body at local level.	Rec (2004). No 31 There should be a legal deadline for the adoption of local and regional budgets and mechanisms to ensure the continuity of public services if the budget is not adopted in due time, or if the local or regional authority fails to fulfill its obligations
statistical and comparative analysis of budget implementation, spending and the rate of spending in order to detect any anomalies and trigger the relevant warning procedures in general financing system	Rec (2004). No 32 There should be statistical and comparative analysis of budget implementation, spending and the rate of spending in order to detect any anomalies and trigger the relevant warning procedures, rather than a series of successive authorisations that provide no dynamic overview.
<i>Recovery of local authorities in financial difficulty</i>	
Area No.	Rec (2004). No.
Guarantees issued by national government/budget	Rec (2004). No 34 As a general principle, the central authority should not guarantee the borrowings of a local or regional authority.
Reporting on implementation of budget by LGs on a quarterly or yearly basis Participation at public (committee, council) meetings Intervention at public meetings Media reporting on local budgets Forms of targeting specific groups (e.g. large taxpayers, • vulnerable groups) Channels of communication with the public•	Rec (2004). No 36 The state or supervisory authority should establish procedures for monitoring the financial situation of local and regional authorities by gathering financial information and making it public. This information should enable citizens, the local and regional authority and the government to be aware of the financial situation of a given authority, to compare it with that of other authorities with similar characteristics and to take appropriate measures, where necessary and according to law, to avoid any financial difficulties arising.
Local governments: with references to Rec (2004) No. 44.-87.	

<i>General principles</i>	
Area No.	Rec (2004). No.
Involvement of in-house experts and outside opinions in the process of public debates	Rec (2004). No 46 Budget projections and proposals should be prepared with the involvement of in-house experts (for example, receiver, treasurer, internal auditor) and outside opinions (such as economists, independent auditors, etc.), particularly in the event of public debate (hearings before the relevant committees, the local or regional council, etc.).
	Rec (2004). No 47 Whenever a decision is taken by the executive or the local or regional council, the budgetary expenditure for the current year and the following financial years should be clearly explained
Dissemination of the proceedings of committees dealing with budget matters	Rec (2004). No 48 As a general rule, the proceedings of committees dealing with budget matters should be open to the public and their documents should be published and accessible to the public.
<i>Information and openness</i>	
Area No.	Rec (2004). No.
Official manuals, training materials, which explain the framework of local reporting system to be easily readable, providing both a clear and comprehensible overview of the budget, sufficient details to analyze the budget and to make comparisons. It includes some examples to understand the way of analysis and to recover risks. The manuals contain ideas how to involve citizens to recover budget needs, to justify investment programs, and their participation in budget debate.	Rec (2004). No 51 Budget and accounting documents should be easily readable, providing both a clear and comprehensible overview of the budget (including main balances, issues and priorities, key data, etc.) and sufficient detail to analyse the content of the budget and make relevant comparisons (with other financial years, other authorities, etc.)
Accessibility of published documents via Internet with explanation	Rec (2004). No 52 Published documents, for example via the Internet, should be accompanied by a suitable explanation making them more easily comprehensible to a lay public.
Budgets consist both expenditure and receipts by type and function	Rec (2004). No 53 Expenditure and receipts should be presented by

The expenditure in the draft budget (within functions, groups and activities) is clearly and comprehensively presented and explained.	type and by function in budget documents, identifying as far as possible the different sectors of local and regional government involved so that the sharing of resources between fields of activity may be gauged.
Participation at public (committee, council) meetings Budget documents are open to scrutiny by the public and public comment is welcomed and taken into account.	Rec (2004). No 55 The local or regional authority should stimulate participation by citizens and social partners in public affairs by regularly consulting them and should ensure that objective information is provided on the financial aspects of the issues under consultation.
Draft council budget documents are made public and put on the website All the budgetary documents are accessible to citizens, and published before the debates	Rec (2004). No 56 The local or regional authority should make it possible for citizens to be informed of draft budgets as soon as these are forwarded to local or regional councillors for final approval. When a budget has been adopted, its outlines and consequences for the community should be made public; for example by explaining changes in taxation or priority allocation of the authority's funding, and mentioning services ready to provide the public with further details.
<i>Budget preparation</i>	
Area No.	Rec (2004). No.
Preparation of the budget is the responsibility of a specialised unit of the local or regional authority	Rec (2004). No 57 Preparation of the budget should be the responsibility of a specialised unit of the local or regional authority with a good knowledge of the authority's operational departmental costs and budget consumption so that it can propose different options to the executive and prepare internal arbitration before arbitration at a later stage.
Budget proposals are discussed by responsible persons, and those responsible for finance	Rec (2004). No 58 Budget proposals should be discussed by the authorities and persons responsible for the domain concerned and then by those responsible for finance, who should consider overall balances, overall income, borrowings and any problems raised.
<i>Financial risk management</i>	
Area No.	Rec (2004). No.

....	
<i>Budget approval</i>	
Area No.	Rec (2004). No.
<p>Both elected representatives and the public hold a discussion on the main thrusts of the budget,</p> <p>Budget preparation staff obtains useful information on the major projects to be launched, the level of services, the local or regional authority's priorities and other assumptions to be adopted for preparation of the budget.</p> <p>The practice of presenting only a finalised draft budget to the council and public is avoided.</p>	<p>Rec (2004). No 73</p> <p>A budget strategy debate should be organised at the beginning of the budgetary procedure, permitting initial discussion of the overall objectives to be adopted for the year and possibly the years to come</p>
Time allocated for councilors to read and analyse the budget documents	<p>Rec (2004). No 74</p> <p>The local or regional authority should set sufficient time limits in which councillors may read and analyse the budget documents issued.</p>
Rules should be made at local and regional authority level so that elected representatives can have access to information, especially financial, but also in order to ensure that certain elected representatives do not convert their right to information into a weapon for harassing the executive or local or regional officials.	<p>Rec (2004). No 75</p> <p>If the elected representatives consider the information received to be inadequate or unclear, they - individually or collectively (for example in the competent committees) - should be able to request further information, question the relevant officers and, where necessary, hear the experts of their choice.</p>
<i>Budget implementation</i>	
Area No.	Rec (2004). No.
Debates on the implementation of the budget are held mid-year	<p>Rec (2004). No 76</p> <p>Where appropriate, a debate on the implementation of the budget should be held mid-year, in order to put budget changes into perspective and to review the changes in the economic, budgetary and social context, and after the end of the financial year.</p>
Council receives regular updates on the monitoring of the budget	<p>Rec (2004). No 77</p> <p>The council should receive regular updates (for example, every three or four months) on the monitoring of the budget. If budget adjustments prove necessary, it would be advisable to group</p>

	them in one or two “sets” per annum, accompanied by an overview or even a debate on the state of budget spending.
<i>Budget accounts</i>	
Area No.	Rec (2004). No.
Municipal councillors receive in due time full information on the budget draft	Rec (2004). No 79 The accounts (for financial year n) should be submitted to the council within a reasonable time, and certainly before the holding of the debate on budget implementation for the following year (n + 1) and before the budget for the year after that (n + 2) is drawn up.
Both an outside technical opinion and the involvement of elected representatives in discussing and adopting budgetary accounts is obtained	Rec (2004). No 80 Approval of the accounts should be properly debated, in committee and then in the council, in the light of an outside opinion (for example an external audit).
The reports of the council and committee concerning the budget are published	Rec (2004). No 81 The executive of the local or regional authority should ensure that the reports of committees and the council concerning the budget are published (allowing public access or on-line consultation).
<i>Recovery of local authorities in financial difficulty</i>	
Area No.	Rec (2004). No.
....	
....	

Annex 5. Availability of information and data on local governments

Aggregate data of local (subnational) finances

Current expenditures – available through statistical bulletins online

Capital expenditures - available through statistical bulletins online

Expenditures by functions (service areas) - available through statistical bulletins online

Total revenues - available through statistical bulletins online

Local own source current revenues

- local taxes - available through statistical bulletins online
- dues, fees – not common
- user charges, tariff revenues – not common

Local capital revenues

Shared revenues: - not is the case for Azerbaijan

- origin based
- allocated by formula

Grants, transfers, donations, subventions, etc. - available through statistical bulletins online

Local debt (stock) - not available

Annual net borrowing – not available

Disaggregated data (by municipalities/local governments)

Total revenues (current and capital) - available through statistical bulletins online

Local own source current revenues - available through statistical bulletins online

Local own capital revenues - available through statistical bulletins online

Shared revenues – not is the case

Grants, transfers, donations, subventions, etc. - available through statistical bulletins online

Annual net borrowing – not available

Classification of local governments: - available

- administrative status (region, city, town, village, commune)
- regional position
- population number
- area, etc.

References, further readings, websites

On local governments, intergovernmental finances, local public financial management

Government statistics, Reports by NGOs, individual municipal reports, laws, regulations, a few websites reflecting some aspects of LGs

https://en.wikipedia.org/wiki/Administrative_divisions_of_Azerbaijan

<http://files.preslib.az/projects/azerbaijan/eng/gl2.pdf>

<http://abma.az/uploads/docs/bulletenbelediyye.pdf>

[http://www.venice.coe.int/webforms/documents/?pdf=CDL-REF\(2014\)018-e](http://www.venice.coe.int/webforms/documents/?pdf=CDL-REF(2014)018-e)

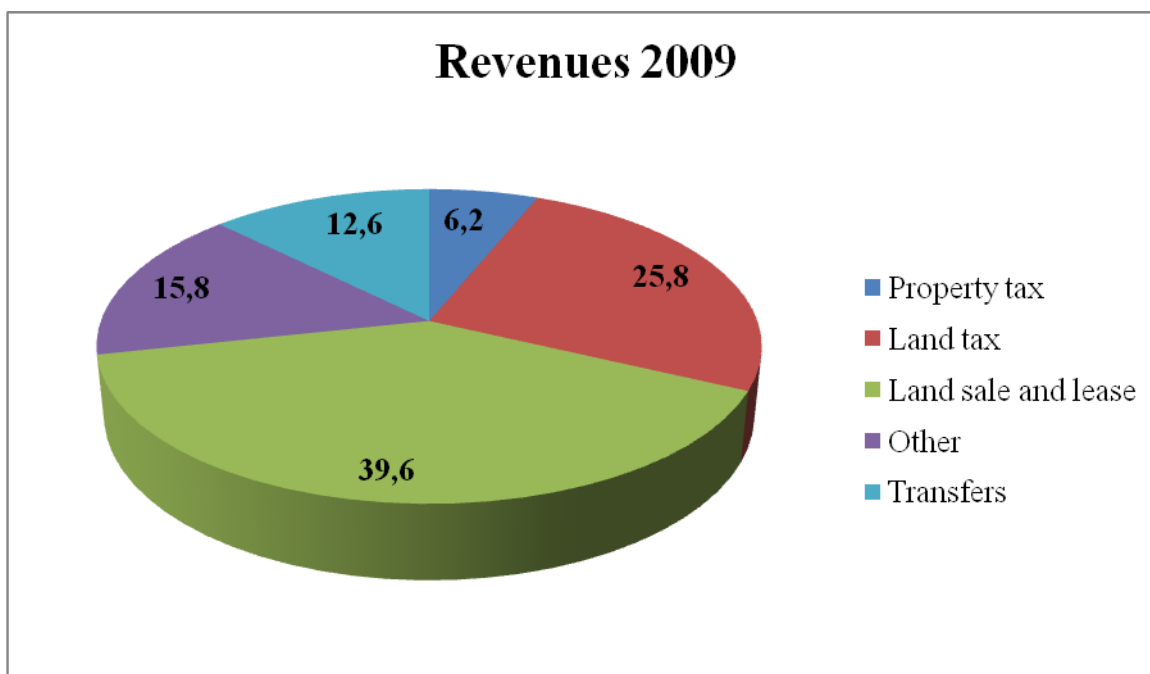
RECENT TRENDS

Volume of transfers to LGs (mln manats)

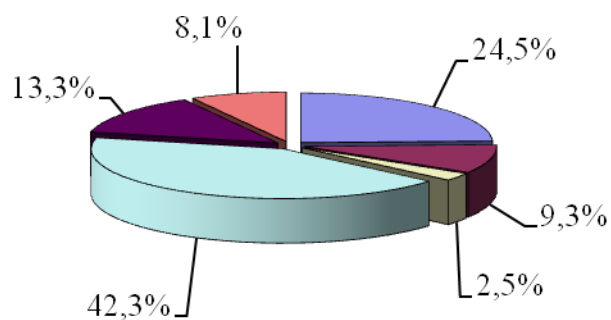
Years	Transfers to LGs	Share of transfers in total budget expenditure %	Share of transfers in GDP, %
2000	3,6	0,47	0,07
2001	2,1	0,26	0,07
2002	5,0	0,54	0,06
2003	1,0	0,30	0,05
2004	2,0	0,13	0,04
2005	2,0	0,10	0,03
2006	3,0	0,08	0,02
2007	3,5	0,06	0,01
2008	3,5	0,03	0,01
2009	3,5	0,03	0,01
2010	3,5	0,03	0,01
2011	3,5	0,03	0,01
2012	4,7	0,028	0,02
2013	5,3	0,03	0,02

Share of Local Government budget revenues and expenditures in total state budget revenues and expenditures, in %

<i>Years</i>	Share of LG budget revenues in total state budget revenues, in %	Share of LG budget expenditure in total state budget expenditure, in %
2002	1.4	1.37
2003	0.91	0.90
2004	1.16	1.17
2005	1.18	1.13
2006	0.85	0.87
2007	0.83	0.82
2008	0.40	0.40
2009	0.26	0.25
2010	0.25	0.24
2011	0.22	0.22
2012	0.21	0.21
2013	0.24	0.25



Local Revenues 2010



■ Land tax
 ■ Property tax
 ■ Mine tax
 ■ Land and asset sale and lease
 ■ Transfers
 ■ Others

Revenues 2012: (Aggregate)

Tax - 36,1 %		Non tax 61,3 %	
Land tax:	55,1 %	Land and asset sale	55,8 %
Property tax:	31,3 %	Land and asset lease	20,3 %
Mine tax:	5,4 %	Aids	2,5 %
Enterprise profit tax:	0 %	Transfers	21,6 %
AD tax:	0 %	Others	2,6 %
Others	8,2 %	Land and asset sale	55,8 %

Expenditure 2012: (Aggregate)

Operational\ Maintenance	47,7 %
Social protection	6,1 %
Communal services	27,5 %
Transportation and road maintenance	10,4 %
Others	8,3 %

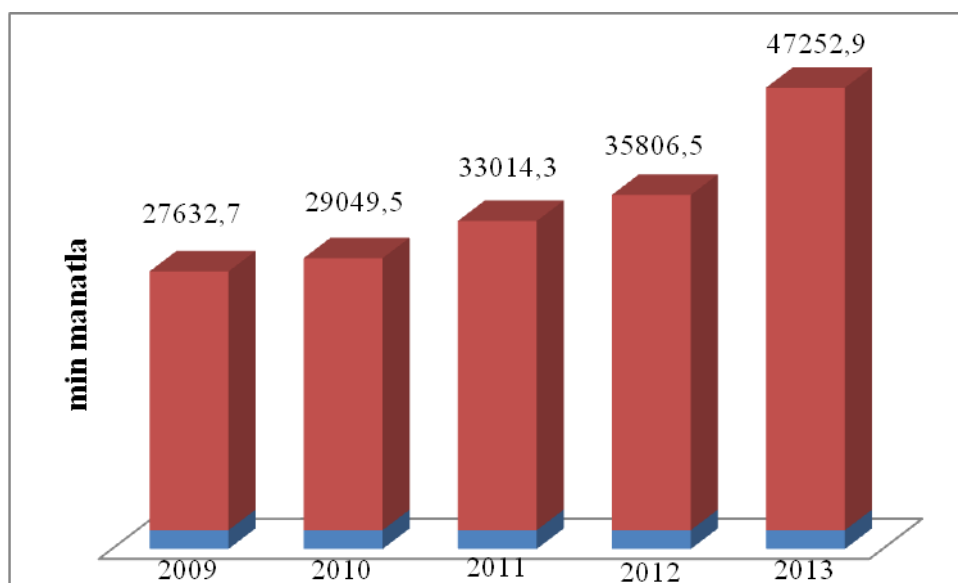
Revenues 2013: (Aggregate)

Tax - 26,8 %		Non tax 71,1 %		Others
Land tax:	14.1 %	Land and asset sale	48,8 %	2.1 %
Property tax:	9.1 %	Land and asset lease	8,8 %	
Mine tax:	1.1 %	Aids	2,2 %	
Enterprise profit tax:	0 %	Transfers	11,2 %	
AD tax:	0.5 %			

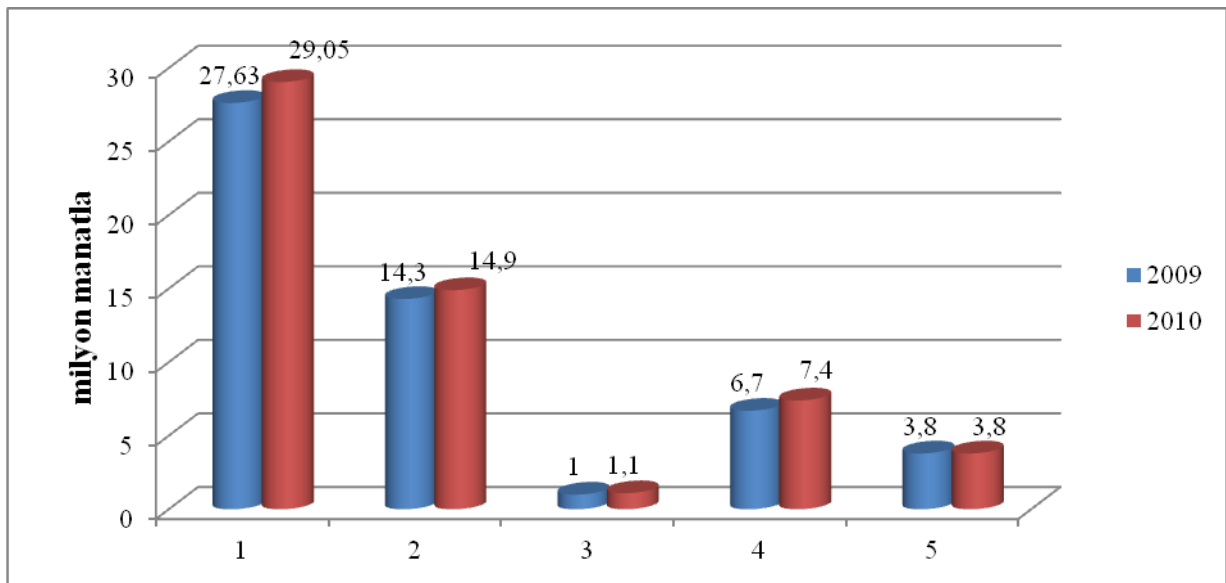
Expenditure 2013: (Aggregate)

Operational\ Maintenance	39,5 %
Health	0,1
Social protection	3,4 %
Culture, art, sport	1,3 %
Agriculture and environmental	1,4 %
Communal services	36,3 %
Transportation and communication	7,4 %
Others	10,7 %

Local government expenditure 2009 – 2013 (in AZN) – 1,08 AZN = 1 Euro

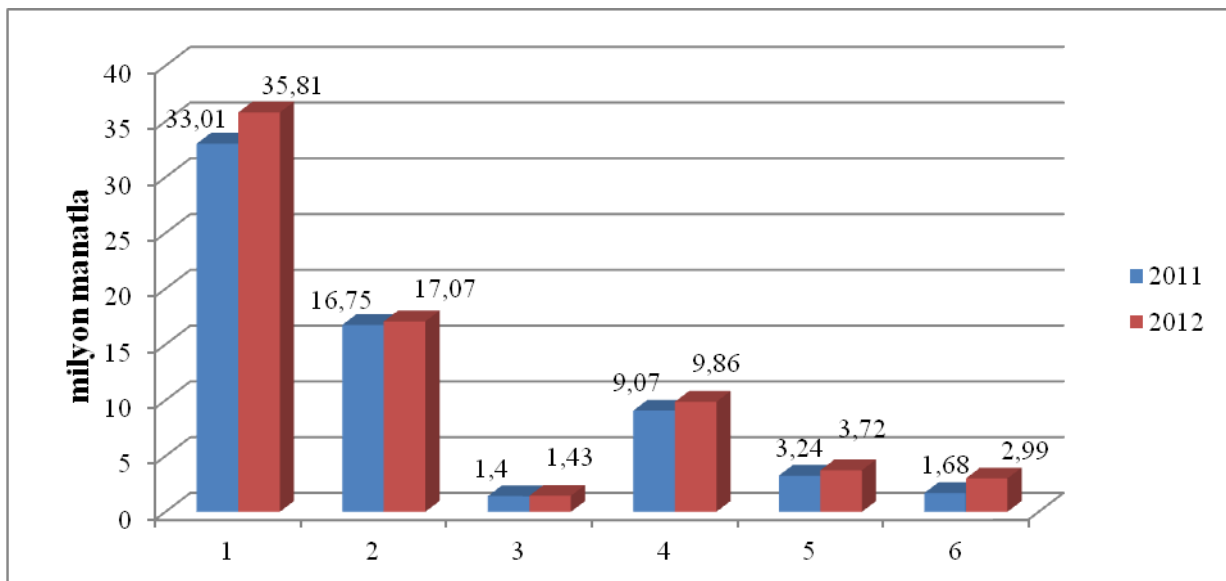


Local expenditure by source 2009-2010 (mln AZN)



1.Total expenditure; 2. Current; 3. Social protection; 4. Communal services; 5. Transportation and communication

Local expenditure by source 2011-2012



1.Total expenditure; 2. Current expenditure; 3. Social protection; 4. Communal services; 5. Transportation and communication 6. Other expenditure