

# AZERBAIJAN

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Azerbaijan Manat (AZN)

### POPULATION AND GEOGRAPHY

AREA: **86 600** km<sup>2</sup>

POPULATION: **9.535** million inhabitants (2014),  
an increase of 1.3 % per year (2010-14)

DENSITY: **110** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.6%** of national population

CAPITAL CITY: **Baku** (24.3% of national population)

Sources: IMF, World Bank, UNDP-HDI, ILO

### ECONOMIC DATA

GDP: **167.1** billion (current PPP international dollars)  
i.e. 17 525 dollars per inhabitant (2014)

REAL GDP GROWTH: **2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **4 430** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25.8%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.751** (high), **rank 79**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>1 607</b> MUNICIPALITIES AVERAGE MUNICIPAL SIZE: <b>5 933</b> INHABITANTS	<b>90</b> CITIES + DISTRICTS	<b>1</b> NAKHCHIVAN AUTONOMOUS REPUBLIC	<b>1 698</b>

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Azerbaijan is a unitary state, made of cities and districts, and consisting of municipalities. Local government is exercised both through local bodies of state administration and through municipal governments. • The country is divided into 10 economic regions (not an administrative division), including an autonomous Republic of Nakhichevan. According to the Azerbaijan Republic Law on «Territorial structure and administrative territorial division», municipalities are granted the status of city, settlement or village according to population and economic criteria. Municipalities can be distinguished as the only local self-government as the others are local executive bodies representing the central State at a local level. The city of Baku itself consists of 52 municipalities. Only two cities are divided into districts: Baku and Ganja. As municipalities have been created in 1999, several reforms were entrenched in the past few years, mostly to allow and promote merging of cities and municipalities. Devolution of powers also progressed over these years, although the scale of local self-governments competences remains unclear. Azerbaijan ratified the European Charter on Local Self-Government on 15 April 2002, which entered into force in its respect on 1 August 2002.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Constitution of Azerbaijan recognizes local self-government and provides for the organization and scope of responsibility of municipalities as well on guarantees of their independence. Also, the Law on the Status of Municipalities provides that “local self-government in the Republic of Azerbaijan is a system of managing the citizens’ activity that grants to its citizens the ability to resolve important local issues independently and freely.” Nonetheless, this definition still ambiguous on the scope of local powers and competences, as local governments are designated as being outside the State and the public administration. In theory, municipalities must use the power given to them in the fields of local economic development, social protection and social development, cultural and ecological issues, and to implement state programs. Yet, relations and division of powers between municipalities and local executive bodies are not governed by legal mechanisms, and capital investments are financed either from deconcentrated local executive committee budgets, directly from state budget, or through private sector.

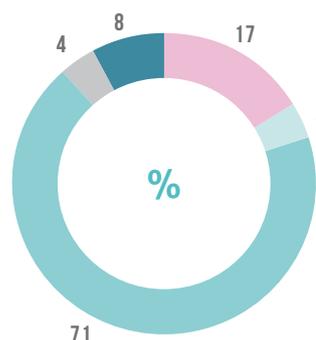
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
<b>TOTAL EXPENDITURE (2013)</b>	<b>1.1%</b>	<b>3.0%</b>	<b>100%</b>
<b>CURRENT EXPENDITURE</b>	0.6%	-	55.9%
<b>STAFF EXPENDITURE</b>	0.2%	5.8%	17.0%
<b>INVESTMENT</b>	0.5%	3.2%	44.1%

Azeri municipalities expenditures seems to be mostly used to fund operating expenditures. Yet we lack local data on investment policies and capital expenditures. They are responsible for 3% of total public expenditures, total amount reaching only 1.1% of the national GDP. These shares have increased since 2008. Yet they are responsible for 44.1% of overall subnational expenditures.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Local revenues are spent, by order of magnitude, on housing and community amenities (71% of local expenditures and 39.4% of general governments' expenditures in this sector), economic affairs (17%), social protection (8%), and environmental protection (4%) and recreation, culture and religion (4%).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	0.6%	1.5%	100%
TAX REVENUE	0.1%	0.9%	19.3%
GRANTS AND SUBSIDIES	0.5%	-	77.5%
OTHER REVENUES	0.0%	-	3.2%

Municipalities revenues in Azerbaijan appear to be relatively low in comparison to other countries of the region. In 2013, their revenues represented less than 1.5% of the State consolidated budget, putting municipalities into a weak financial position.

**TAX REVENUE.** Revenue sources are balanced between taxation and grants from the central government. Taxes which can be levied are: tax on private individuals, property tax on private individuals, mining tax on construction materials of local importance, tax on the profits of municipally owned enterprises and organisms. Municipalities also have the possibility to collect charges on street advertisements, on disposal of municipal property, on mobile businesses, on hotels and parking. This type of resources represents a 19.3% of LGs revenue, but they still very limited in terms of weight to the GDP.

**GRANTS AND SUBSIDIES.** The Law on Budget System states that municipalities can receive grants and subsidies from central government in subsidiarity of local budget to fund social-economic development programmes. Criteria used to allocate intergovernmental transfers are not included in this legal provisions and thus remain unclear. In addition to these, central government may also allocate targeted grants for specific purposes. All grants are current grants, and they compose the most (77.5%) of subnational revenues.

**OTHER REVENUES.** The figures provided show that they are the second sources of funding for the local entities. Local governments non-tax revenues include fees for advertising, hotel fees, parking fees and other local taxes or duties stipulated by the law, payment for fixed or mobile trade, revenue from privatization or lease of municipal property, income from lotteries, etc.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	-	-

There is no in theory legal restriction for the municipal borrowing, yet in practice, borrowing is not accessible for municipalities with low fiscal capacity, and the government is not responsible for municipal borrowing.

A joint study of:



Sources: IMF-GFS • Regional development center in Azerbaijan • S. Yusifov, Local government structure, functions and revenues in Azerbaijan, Committee of the Regions • Council of Europe • S. Yusifov (2015), Finance Benchmarks: areas and options for assessing local financial resources and financial management in Azerbaijan, Strengthening institutional frameworks for local governance programme 2015-2017.