

**Azerbaijan Republic: Report on Observance of Standards and Codes—
Fiscal Transparency Module—Update**

This Update to the Report on the Observance of Standards and Codes on Fiscal Transparency Module for the **Azerbaijan Republic** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **April 30, 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the **Azerbaijan Republic** or the Executive Board of the IMF.

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**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES
FISCAL TRANSPARENCY MODULE: AZERBAIJAN REPUBLIC
AN UPDATE
APRIL 30, 2003**

I. INTRODUCTION

The original fiscal ROSC was issued November 11, 2000. During the 2003 Article IV consultation, the IMF staff reviewed developments in the areas pertaining to Azerbaijan's observance of the fiscal transparency practices assessed in 2000, with a view to updating, where relevant, changes in current practices, or describing the implementation of the earlier ROSC's recommendations. Unless indicated differently below, the recommendations made in the 2000 ROSC remain relevant.

II. DESCRIPTION OF PROGRESS

Clarity of Roles and Responsibilities

Meeting a key recommendation of the original ROSC parliament approved in 2002 a new organic budget systems law, which will be implemented with the 2004 budget. The new law meets international standards.¹ Amendments were recently submitted to parliament to strengthen the legislative foundation of the State Oil Fund and to assign the responsibility for the preparation of the consolidated budget to the Ministry of Finance.

Reforms aimed at delineating the roles of the public and private sector have moved forward, but a significant amount of work still lies ahead. During 2002 the government simplified requirements for business licensing in an effort to strengthen private sector development. Important steps were also taken towards clarifying the relationship between the government and state-owned enterprises. These include the quantification of quasi-fiscal operations carried out by the state oil company, the incorporation of off-budget fiscal operations by state owned enterprises into the budget, and the creation of energy and transport ministries. However, a more general separation of government functions (e.g. regulatory activities) from state owned enterprises remains to be addressed.

Public Availability of Information

The recently finished data ROSC concluded that fiscal data are published in a regular and timely manner, but reports are not consolidated and need to be supplemented with auxiliary information. Data on monthly budget execution are published in the Ministry of Finance's bulletin. Annual data are available on a newly established website.² Similarly, the State Oil Fund publishes quarterly statements on its website.³ No data are published on consolidated

¹ The Budget Systems law was drafted in consultation with FAD.

² Ministry of Finance <http://www.minfin-az.com/english/about/ruk.html>

³ State Oil Fund of Azerbaijan Republic: <http://www.oilfund.az>

government operations or on financing sources with the recommended breakdowns. Finally, fiscal reports lack supplementary documentation on data concepts, classifications, and methods of calculation.

Open Budget Preparation, Execution, and Reporting

The adoption of the new budget systems law has greatly improved the outlook for fiscal planning and management, but its successful implementation is still pending. The new budget calendar requires timely planning and cooperation between government agencies, which should improve the realism of budget estimates. The new budget document will also provide extensive information on fiscal plans through the preparation of a medium-term expenditure framework. A first version has been completed with World Bank assistance for the recently adopted PRSP. Budget planning does however not require a fiscal sustainability or risks analysis, despite Azerbaijan's high dependency on volatile oil revenue.

The government has adopted a new budget classification system consistent with GFS standards. Its adoption has laid the groundwork for a project on treasury computerization, which is now underway and assisted by the World Bank and USAID. Its completion, expected during 2004, will greatly enhance within year expenditure management and planning. Past problems with expenditure arrears have been largely eliminated. However minor payments delays are still registered primarily due to late tax payment by state owned enterprises.

Assurances of Integrity

In 2001 a revised Chamber of Accounts Law was approved by parliament strengthening the supreme audit institution by endowing it with far reaching competencies and independence. The Chambers of Accounts has now the authority to audit all public sector entities, including budgetary and extra-budgetary bodies and funds, and to publish its results. Operations under the revised law began during 2002 and a first work plan for 2003 has been presented to Parliament. The World Bank provides technical support through assistance in capacity building.

The annual external audit of the State Oil Fund is publicly available on its website.

III. IMF STAFF COMMENTARY

After initially slow progress, the government has taken important steps towards improving fiscal transparency. The strengthening of the budget planning process and improved information requirements for the budget document is encouraging, but its success will crucially depend on an effective implementation. Public availability of fiscal data has increased, but overall coverage needs to be extended to include consolidated government reports and auxiliary information. A new legislative foundation for the Chamber of Accounts has expanded its responsibilities and independence. An important next priority is effective implementation through capacity building. Finally, a continuing reform priority is the delineation of government activities from the private sector, which requires a clearer separation of functions between the government and state owned enterprises.