

VI. Government Budgeting and Accounting

This chapter provides an overview of government budgeting and accounting arrangements. The ongoing World Bank Country Financial Accountability Assessment (CFAA) is focusing extensively on these arrangements and will provide more information, once completed. The chapter is structured as follows:

- 1 – Introduction—describes the governmental environment.
- 2 – Accounting Bases and Arrangements—describes the accounting bases for budgeting and reporting together with other arrangements.
- 3 – Azerbaijan Accounting Chamber (AAC)—describes the establishment and objectives of the AAC.
- 4 – Responses and Challenges—identifies progress that has been made towards improving public expenditure management arrangements.

1. Introduction

Although Azerbaijan government finances are in deficit, projected revenues from the oil and gas sector make the current situation sustainable (Table 5). Indeed the Government has established an Oil Fund and has indicated a medium-term intention to substantially reduce reliance on external assistance. The Oil Fund will support the competitiveness of the non-oil sectors and contribute to intergenerational fiscal stabilization.

However, public sector management arrangements have been characterized as inefficient, ineffective and nontransparent.

Table 5: Medium Term Budget Plan (State Budget): 1999–2005²⁷

	1999 Actual	2000 Actual	2001 Forecast	2002 Forecast	2003 Forecast	2004 Forecast	2005 Forecast
<i>AZM Billions:</i>							
Revenue	2,797	3,572	4,175	4,620	5,170	5,720	6,350
Expenditure	3,245	3,761	4,595	5,030	5,510	6,030	6,630
Deficit	448	189	420	410	340	310	280
<i>Percentage of GDP:</i>							
Revenue	14.8	15.1	15.8	16.1	16.9	16.9	16.4
Expenditure	17.1	16.0	17.4	17.5	18.0	17.8	17.1
Deficit	2.4	0.8	1.6	1.4	1.1	0.9	0.7

²⁷ Government of Azerbaijan. 2001 May. Poverty Reduction Strategy Paper (Interim Report).

In the past two years, the Government has prioritized public expenditure management reforms. These include: (i) the ongoing development of a Medium-Term Expenditure Framework (MTEF) for use in budget preparation. Future budget submissions will provide reference to the MTEF, as well as detailed information on expenditure classifications, contingent liabilities, extra-budgetary activities, and the consolidated and general government budgets outturns for the previous year; (ii) drafting amendments to the *Budget Systems Law* and revisions to budget regulations; (iii) beginning in 2001, the publication of quarterly reports on the consolidated government budget execution, including revenues, expenditures, expenditure arrears, stock of government and government-guaranteed debts, and new loans contracted or loan guarantees issued prepared by the MOF; (iv) integration of extra-budgetary activities into the state budget beginning with the 2002 budget; and (v) strengthening the MOF internal audit function.

2. Accounting Bases and Arrangements

Government activities are generally accounted for on an accrual accounting basis at the organizational level and on a cash basis for consolidated budgeting and reporting—the cash basis was introduced with support from international institutions, particularly the IMF and the World Bank.

Government organizations prepare monthly cash reports and quarterly accrual reports that are submitted to the MOF. In 2001, the MOF began publishing consolidated quarterly reports incorporating revenues, expenditures, expenditure arrears, stock of government and government-guaranteed debts, and new loans contracted or loan guarantees issued. A revised *Budget Systems Law* has been drafted and is currently being considered.

Although government organizations are staffed with ‘accountants’ and bookkeepers, these personnel have received little ongoing training. Moreover, concerns have been raised about the suitability of their qualifications.

3. Azerbaijan Accounting Chamber (AAC)

The Azerbaijan Accounting Chamber (AAC)—Azerbaijan’s Supreme Audit Institution—was established in 2001. The Chamber’s Head was recently appointed and the 2002 budget provides resources for the Chamber’s establishment and operations. The Chamber will audit all government bodies, including all budgetary and extra-budgetary organizations and funds, and will be obligated to make public reports of its findings.

4. Responses and Challenges

Government has stated its commitment to strengthening expenditure management and accountability. This commitment is evidenced through the following activities:

- In contrast to many other transitional and developing countries, the MOF has successfully managed to gain control of bank accounts and cash arrangements.
- The Chamber of Accounts will support efforts to improve accountability and reduce corruption.
- The MOF and the MOED are together developing a Medium-Term Expenditure Framework (MTEF) to be used in preparing future budgets.
- The MOF—with IMF support—is developing a computerized treasury system that will enable publication of monthly expenditure reports within 25 days of month-end. The implementation of the system will involve extensive training for government accounting personnel.