



**Center for Support for Economic Initiatives**

**OUTCOMES OF A MONITORING PROGRAM WITHIN  
THE PROJECT TO EVALUATE THE IMPACT  
OF PARLIAMENTARY DEBATES  
ON BUDGET-RELATED DECISIONS**

**BAKI - 2008**

This study has been made on the basis of the outcomes of the monitoring within the project to evaluate the impact of parliamentary debates on budget-related decisions. The project covers the period between November 2007 and March 2008.

The project has been implemented with funding from the Open Society Institute Assistance Foundation – OSI AF.

OSI – AF assumes no responsibility whatsoever for the following content.

May 2008

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## Project Overview

This study has been sought to estimate the rate of activity of MPs, as well as parliamentary debates in Milli Mejlis as a whole and the impact of such debates on budget-related decisions during 2008 Draft Budget. The objective of this study was extended to the stage covering from introduction of the 2008 Draft Budget and budget package to the Milli Mejlis to debates around the budget, as well as analysis analysis. This analysis, which has evaluated the budget-related activity of the legislative body, is based on quality and quantity numbers. While conducting quantitative assessment of the debates, the study has used certain indicators, such as the duration of debates, the period of an average real time comment, the activity level of commissions, quantity of proposals, etc. The contents of parliamentarians' speeches and their direct or indirect binding with the document under discussion, the contents of proposals voiced during the speeches, the specificity of such proposals and their adequacy for the law, as well as justification of proposals have been considered as quality criteria for discussions.

The study has monitored the attitude of executive bodies involved in the budget process to parliamentarians' offers presented during debates with special focus on how these offers are taken into consideration in further readings on draft budget.

The monitoring outcomes are:

1. No special procedures have been shaped by the law to formulate the budget through parliamentary debates. So, the Azerbaijan legislation does not provide for special procedures for parliamentary discussions of draft state budget. Debates for draft budget are held within the single framework of procedures tailed for all draft laws passed in the country;
2. Non-compliance of the budgetary process with the law on budget system was observed while submitting to the Milli Mejlis the 2008 draft state budget as well as a package of budget documents for discussions as well as their publication in the press.
3. Due to inappropriate procedures for debates of the draft budget by the standing parliamentary committees and plenary sessions in Parliament, these debates are not diffusive and formal.
4. Parliamentary engagement with the draft budget has seen violation of the established procedure and extremely time restriction;
5. Parliamentarians' efforts and initiatives to express interests of their electors during discussion of the draft budget has resulted in incomprehensible anxiety and dissatisfaction by parliament administration;
6. Almost all parliamentarians' proposals and recommendations put forward throughout budget debates have not been considered (out of 156 proposals made by MPs, two could have impacted budget amendments).

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## Foreword

Under the Constitution of the Republic of Azerbaijan, one of the questions that falls under the competence of Milli Majlis of the Azerbaijan Republic is approval of state budget of the Azerbaijan Republic and control over its execution. The effici

The efficiency of parliamentary oversight of the state budget depends on the level of parliamentary involvement in the budget process and debates. In fact, ensuring greater accountability and transparency into the use of state funds as well as shaping an effective public oversight over these funds are somewhat attributed to the level of parliamentary involvement in the budgetary process.

Over the course of this study it has been certain that the legislative power's real impact on budget decisions is real insignificant. Parliamentary participation of budget formulation appears to be a low priority under the existing legislation. It is worth noting that budget preparation takes about nine months (starting from the last decade of January through September 25 of current year).

Parliamentary involvement in the budgetary process is followed by this stage. The facts that Parliamentary participation in a previous stage of the budget process is restricted in any form, bulky volume of budget-related package of documents presented together with the draft budget during discussions, as well as provision of a two-month period for budgetary debates bar the parliamentarians from detailed and extensive knowledge about the contents.

So, approval of state budget, including figures laid down therein in a form prior to submission to the legislative power may stem from passive parliamentary involvement in the budgetary process. Practice and observations over recent years show that amendments to the state budget during parliamentary discussions are mainly initiated by executive authorities.

Such being the case, most of the parliamentarians cannot assess the role and duties of the parliament in budgetary discussions, on one hand, they speak in favor of the legislative authorities they are impacted by, on the other hand.

All the above-mentioned points necessitate stronger public control in the parliamentary debates of state budget, the activity level of MPs in these debates as well as efficiency of such debates as a whole.

With Funding from the Open Society Institute - Assistance Foundation (OSI-AF), the Center for Economic Initiatives has implemented a project to assess the activity level of parliamentarians and efficiency of parliamentary discussions of state budget for 2008. The project also extended to monitoring of shorthand reports on budgetary debates at the level of parliamentary commissions and in parliament and interviews with parliamentarians. The monitoring has revealed: I) participation level of parliamentarians and the degree how their proposals were taken into account; II) problems connected with parliamentary discussions of the budget.

The monitoring and study outcomes carried out as part of the project were represented May 2008 at a roundtable held in the International Press Center with participation of parliamentarians, representatives of non-governmental organizations and media outlets, independent experts.

## I. Legal base for parliamentary discussions on the budget.

In accordance with Article 109.2 of **the Republic of Azerbaijan's Constitution** (Competence of the President of the Azerbaijan Republic), the President of the Azerbaijan Republic submits for approval by Milli Mejlis of the Azerbaijan Republic state budget of the Azerbaijan Republic.

According to **Article 95 of the Constitution of the Republic of Azerbaijan** (Competence of Milli Mejlis of the Azerbaijan Republic), one of the questions that fall under the competence of Milli Mejlis is approval of state budget of the Azerbaijan Republic and control over its execution based on recommendation by the President of the Azerbaijan Republic.

According to **Article 13 of the Law of Azerbaijan Republic on Budget System** (July 2, 2002 # 358-IIQ, submission of the documents to the Milli Mejlis of Azerbaijan Republic with regard to the State Budget for the next budget year), The draft law on the State Budget for the next budget year together with the other documents defined by this law shall be submitted to the Milli Mejlis of Azerbaijan Republic for discussions and approval according to paragraph 2 of article 109 of the Constitution of Azerbaijan Republic not later than October 15 of the current year.

**Article 12 of this Law** (documents to be prepared and submitted together with the draft State Budget) that the relevant executive authority shall prepare and submit to the Milli Mejlis of Azerbaijan Republic the following documents with regard to the State Budget for the next budget year:

- draft law on the State Budget for the next budget year and the explanation note on the draft law;
- conceptual and forecast indicators of the economic and social development of Azerbaijan Republic for the next budget year and the following three years;
- main directions of the fiscal policy;
- special purpose programs to be financed by the State Budget;
- draft budget revenue classification, draft revenues and expenditure with breakdown by functional, economic and organizational items;
- information on the state debts, state guaranteed and other liabilities;
- Draft consolidated budget of next year at paragraph level by functional and economic classification;
- according to drafts of the next year State Budget and consolidated budget, as well as the following three years consolidated budget draft state investment programs draft which reflect the important investment projects;
- consolidated financial balance sheet for the whole territory of Azerbaijan Republic;
- draft laws on budgets of extra-budgetary state funds for the next budget year if they are to be approved by the Azerbaijan Republic Milli Mejlis prepared in accordance with the legislation;
- compare of the next budget year revenues and expenditures with the actual results of the previous year and expected results of the current year (according to the revenues classification, at the paragraph level of functional, economic and organizational classification of the expenditures);
- information on the expected execution of the consolidated budget for the current year;
- summary statement with regard to the extra-budgetary operations;
- statement on the actual financial sources for the last budget year and expected sources for the current year.
- other documents that the relevant executive authority considers expedient.

According to **Article 14 of the Law** (Issue of the draft law on the State Budget), the draft budget for the next year along with other documents indicated in Articles 12.1.1 – 12.1.10 of this Law is published in media in the course of ten days after their submission to Azerbaijan Republic Milli Mejlis.

According to **Article 15 of the Law** (Discussion and approval of the State Budget for the next budget year), discussion and approval of the State Budget for the next budget year shall be conducted in accordance with the internal regulations of the Milli Mejlis of Azerbaijan Republic. By the instruction of the relevant executive authority its authorized representative shall make a speech in the meeting of the Milli Mejlis of Azerbaijan Republic dedicated to the next budget year of the State Budget. The draft law on the State Budget for the next budget year shall be approved in the Milli Mejlis of Azerbaijan Republic not later than December 20 of the current year.

According to **Article 15 of the Law** (The main indicators approved by the law on State Budget of the next year), the law on the State Budget for the next budget year shall approve the following indicators:

- total amount of revenues and expenditures;
- tax rates;
- amount of revenues by the sources of profit;
- grants and transfers by the sources;
- norms of distribution and allocation various of revenues among the budgets;
- amount of expenditures by the functional and economic breakdown on the paragraph level;
- amount of the grants, donations, subsidies and subventions delivered to the budget of the Nahchivan Autonomous Republic and local budgets;
- total amount and directions of budget loans;
- interest rates and principals' payments on the internal and foreign state debts;
- the highest level of the state liabilities to the third party;
- amount of other international liabilities;
- amount of the Reserve Funds;
- upper ceiling for the domestic and external debts of the Azerbaijan Republic (Government's borrowing capacity for current year, including amount funds attracted by state bonds) and state financial guarantees for the budget year;
- continuity of the expenditures financing;
- list of secured expenditure items of the State Budget;
- highest level of the State Budget deficit;
- upper ceiling amount of the consolidated budget deficit excluding revenues of the State Oil Fund of the Azerbaijan Republic;
- upper limit amount of the consolidated budget expenditures;
- other indicators that are considered to be approved.
- The amount of funds allocated for budget organizations and their activity shall be approved by the relative executive body according to the organizational classification within expenditures framework approved by the law.
- The State Budget for the next year after approval and signing in the order stipulated in the legislation shall be published in press.

According to **Article 14 of the Law of the Republic of Azerbaijan on Approval of the Internal Regulations of the Milli Majlis (Parliament) of the Republic of Azerbaijan** (May 17, 1996, N 74-IQ - Registration of draft laws and resolutions submitted to the Milli Majlis and their referral to standing commissions of the Milli Majlis), draft laws and resolutions submitted to the Milli Majlis are referred to the appropriate standing commissions of the Milli Majlis by the chairman of the Milli Majlis. While draft law is referred to several standing commissions, Milli Majlis chairman designates only one of them as a leading commission.

According to **Article 2 of the Law of the Republic of Azerbaijan on Standing Commissions of the Milli Majlis of the Republic of Azerbaijan** (July 10, 1998, N 521-IQ - Functions of standing commissions), a standing commission arranges primary review of draft laws and resolutions presented by the President of the Republic of Azerbaijan, Supreme Court of the Republic of Azerbaijan, Supreme Majlis of Nakhchivan Autonomous Republic in the order of legislative initiative and gives opinion on their consideration by the Milli Majlis, as well as integrates proposals received on the draft law, which was brought to the nation-wide discussion based on a resolution of the Milli Majlis, and submits them to the Milli Majlis of the Republic.

According to **Article 10 of the said Law** (Standing Commission on Economic Policy), the Standing Commission on Economic Policy is a leading commission for the draft laws and resolutions on formulation and implementation of the state fiscal, tax and economic policies, as well as state budget approval and execution. The Standing Commission on Economic Policy:

- develops draft laws or provides opinion on the submitted laws on state budget, budget process and structure, monetary emissions, basics of tariff policy, banking, finance, accounting, insurance, currency, credits, customs regulation, tax policy, duties and payments, domestic and foreign economic relations, property, property relations, economic activity, industry, transport, communication, trade, stock exchange, entrepreneurship, and antimonopoly policy;
- develops draft laws or provides opinion on the submitted laws on local taxes and payments, local budgets;
- based on the presentation of the President of the Republic of Azerbaijan, reviews and gives opinion on the proposed candidacies, when the members of the Management Board of the National Bank of the Republic of Azerbaijan are appointed or discharged;
- reviews and gives opinion on the proposed candidacies, when the chairman or deputy chairman of the Chamber of Auditors of the Republic of Azerbaijan, the chairman, deputy chairman or auditors of the Chamber of Accounts of the Republic of Azerbaijan are appointed or discharged;
- reviews the issues related to the state budget control and puts forward proposals to the Milli Majlis of the Republic of Azerbaijan;
- reviews the proposals by other standing commissions on the draft state budget and gives opinion on them;
- based on the instruction of the Milli Majlis of the Republic of Azerbaijan or the chairman of the Milli Majlis, gives opinion on the draft laws and resolutions, which require additional expenditures from the state budget, as well as gives opinion on the draft laws and resolutions in view of economic feasibility and economic expediency.

According to **Article 16 of the Law of the Republic of Azerbaijan on Approval of the Internal Regulations of the Milli Majlis (Parliament) of the Republic of Azerbaijan** (Readings of draft laws in the Milli Majlis), as a rule, draft laws are considered at three readings

in the Milli Majlis. With the decision of the Milli Majlis chairman or with the decision adopted by the Milli Majlis in protocol procedure, the draft law may be considered at one reading.

According to **Article 17 of the Internal Regulations** (The first reading of the draft law), during the first reading of the draft law the necessity of its adoption, its main provisions are considered and general conception of the draft law is assessed.

The consideration of the draft law begins with the reports of the initiator of the draft and representative of the leading standing commission.

Then if the dissimilarities arise among commissions while considering the draft in the commissions, the opinion of the standing commission disagreeing with the draft is read by the representative of that commission.

The Milli Mejlis takes one of the following decisions as a result of consideration of the draft at the first reading:

- 1) the draft shall be adopted at the first reading and shall be revised taking into account proposals and comments made (this decision shall be taken in protocol procedure);
- 2) the draft shall not be adopted;
- 3) the law shall be adopted.

The Milli Majlis takes decision on publishing and giving to public discussion the draft law adopted at the first reading. The leading standing commission explores and generalizes proposals and comments concerning the draft law adopted at the first reading. The revised draft law is referred to Milli Majlis chairman to be included in the agenda of meeting of the Milli Majlis in order to be considered at the second reading.

In accordance with the Republic of Azerbaijan Constitution, Article 96, part II draft laws or resolutions submitted to the consideration of the Milli Majlis in the procedure of legislative initiative by the President of the Republic of Azerbaijan, Supreme Court of the Republic of Azerbaijan, Prosecutor's Office of the Republic Azerbaijan and the Supreme Assembly of the Nakchivan Autonomous Republic shall be put into discussion in the form as they are submitted and shall be put to the vote. Changes to such draft laws or resolutions may be made only with the consent of those bodies.

According to **Article 18 of the Internal Regulations** (The second reading of the draft law), the consideration of the draft law at the second reading begins with the report of the representative of the leading standing commission. The reporter gives information on the results of the consideration of the draft in the standing commission.

The consideration of the draft at the second reading, as a rule, is continued with the speech of the initiator of the draft law or his representative.

Then a decision is taken in the protocol procedure on the adoption of the draft law considered at the second reading as a framework. If such decision is not taken, the draft law is considered as rejected.

After adopting the draft law as a framework, chairman of the Milli Majlis meeting asks members if they have any arguments against the changes made to the draft law. If there are such arguments, every member is allocated 3 minutes to briefly justify their arguments. The reporter gives short feedback to those arguments and draft law is considered article by article. The draft law or resolution is put to the consideration of the Milli Majlis together with the opinion of the legal expertise, in case the proposal made to the draft requires extra expenditures, also with the opinion of budget expertise.

Further the draft law is adopted at the second reading. The draft law adopted at the second reading is returned to the leading standing commission to eliminate internal gaps revealed during the consideration of the draft law, and to be edited.

After finishing this work, the leading standing commission refers the draft law prepared for the third reading to the Milli Majlis chairman. Milli Majlis chairman includes the consideration of the draft law at the third reading in the agenda of meeting of the Milli Majlis.

According to **Article 19 of the Internal Regulations** (The third reading of the draft law), at the third reading of the draft law the draft is wholly put to vote. Changes shall not be made in the text of the draft law at the third reading. In exceptional cases the draft law may be returned to the second reading from the third reading with the request of the majority of deputies attending the meeting of the Milli Mejlis.

According to **Article 11 of the Internal Regulations** (The time set for speeches in meetings of the Milli Mejlis), about 30 minutes are allocated for a speech in a meeting of the Milli Majlis, 20 minutes-for additional speech, 15 minutes - for closing remarks. Approximately up to 10 minutes are allocated to the persons participating in the discussions, 5 minutes-for repeated speech, 3 minutes-for speeches, statements, questions, proposals, news, references concerning the conduct of the meeting, and related to voting considerations.

The article also sets out that the person chairing the meeting may change periods set for speeches by this Internal Regulations based on the decisions taken in protocol procedure, and prolong the time envisaged for speeches.

## **Outcomes**

The Azerbaijan legislation does not provide for special procedures for parliamentary discussions of draft state budget. Debates for draft budget are held within the single framework of procedures tailed for all draft laws passed in the country. Nevertheless, most countries have worked out and approved special procedures for parliamentary discussions of state budget.

## II. Monitoring to comply with submission of the documents to the Milli Mejlis of Azerbaijan Republic with regard to the State Budget for 2008

The Draft State Budget for 2008 and the package of budget-related documents were submitted to the Milli Mejlis of Azerbaijan Republic in the form of compiled laws consisting of 6 sections through the letter #1/571 dated October 15, 2007 by the President of the Azerbaijan Republic.

Documents prepared and submitted together with the draft State Budget for 2008 are:

1. draft law on the State Budget for 2008 budget year and the explanation note on the draft law; as well as amendment to 2008 draft state budget (expenditures of the State Budget for 2008 on the paragraph level according to the functional and economic classification)(in Section I of the compiled laws);
2. conceptual and forecast indicators of the economic and social development of Azerbaijan Republic for the year 2008 and the following three years (in Section II);
3. main directions of the fiscal policy for 2008 (in Section I);
4. draft budget revenue classification, draft revenues and expenditure with breakdown by functional, economic and organizational items (in Section III);
5. information on the state debts, state guaranteed and other liabilities (in Section III);
6. Draft consolidated budget of next year at paragraph level by functional and economic classification (in Section IV);
7. the main directions of State investment programs for 2008-2011 and the list of investment projects (in Section II);
8. consolidated financial balance sheet for the whole territory of Azerbaijan Republic for the years 2007-2011;
9. the draft law on 2008 Budget of the Social Protection Fund of the of the Azerbaijan Republic (in Section VI);
10. comparison of of the 2008 budget year revenues and expenditures with the actual results of 2006 and expected results of 2007 (according to the revenues classification, at the paragraph level of functional, economic and organizational classification of the expenditures) (in Section V);
11. information on the expected execution of the consolidated budget for 2007 (in Section III);
12. summary statement with regard to the extra-budgetary operations for organizations financed from the State Budget for the years 2006-2007 (in Section III);
13. statement on the actual financial sources for the 2006 budget year and expected sources for 2007 (in Section III);
14. Information on the execution of the state budget for the first nine months of 2007 (in Section III);
15. The draft law of the Azerbaijan Republic on subsistence minimum for 2008 (in Section IV);
16. The draft law of the Azerbaijan Republic on the level of need criterion for 2008 (in Section VI);
17. The draft law on amendments to the law of the Azerbaijan Republic on the Budget System (in Section VI);
18. The draft law on amendments to the law of the Azerbaijan Republic on State Duties (in Section VI);
19. The draft law on amendments to the law of the Azerbaijan Republic on State Debts (in Section VI).

**According to** Article 12 of the Law of Azerbaijan Republic on Budget System, the item “**special purpose programs that shall be financed by the State Budget**” is among the documents to be

prepared and submitted together with the draft State Budget. However, such purpose programs were not included in the documents submitted to the Milli Mejlis. And the article also sets out that “the relevant executive authority shall prepare and submit to the Milli Mejlis of Azerbaijan Republic State Budget and consolidated budget, as well as the following three years consolidated budget draft state investment programs draft which reflect the important investment projects according to drafts of the next year.” The document “**main directions of State investment programs for 2008-2011 and the list of projects**” was attached to the documents prepared and submitted together with the draft State Budget for 2008 to the Milli Mejlis. As can be seen, although the law provides for “**state investment programs draft which reflect the important investment projects**”, the package of documents submitted by the government contains “**main directions of State investment programs and the list of projects**”.

According to **Article 14 of the Law of Azerbaijan Republic on Budget System** (Issue of the draft law on the State Budget), the draft budget for 2008 along with nine documents indicated in Articles 12.1.1 – 12.1.10 of this Law was to be published in media in the course of ten days after their submission to Azerbaijan Republic Milli Mejlis not later than October 15, 2007. The draft law on the State Budget for 2008 was published on issue #232 (4748) of state-financed “Azerbaijan” newspaper, October 17, 2007. The draft law was also issued in “Halk Qazeti” and “Vergiler” newspapers, placed on the web site of the Finances Ministry of the Azerbaijan Republic ([www.maliyye.gov.az](http://www.maliyye.gov.az)). However, other documents defined and required by the law were not published in press.

### **Outcomes**

Non-compliance of the budgetary process with the law on budget system was observed while submitting to the Milli Mejlis the 2008 draft state budget and the package of the budget-related documents for discussions as well as their publication in the press.

### III. Assessment of draft state budget debates and discussions at plenary sittings in the Milli Mejlis

The expert analysis of the activity of the legislative body in the example of parliamentary debates and discussions over 2008

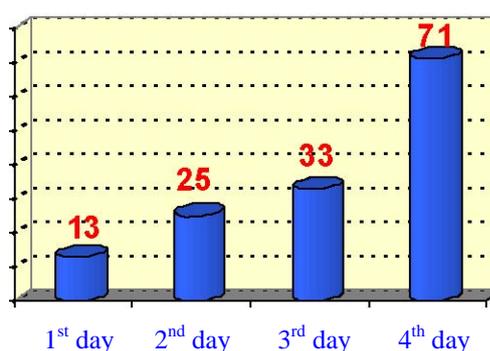
draft state budget is based on the quantity and quality indicators. Duration of debates, average period set for a speech are according to the number of those making speeches, while assessment of the activity level of each commission, the quantity of proposals encourage quantitative assessment of debates and discussions. Moreover, the contents of the speeches and their direct or indirect binding to the document tabled, the contents of proposals, their specificity, compliance with budgetary legislation (as well as related field), and justification of proposals are considered as qualitative criteria.

#### III.1. Duration of budget debates and overall statistics on average real time comment

The survey of budget debates in monitoring showed that 2008 draft state budget were discussed at four parliamentary sittings (on November 13,14, 15, 30, 2007). The draft law was debated at the first reading during the first 3 sittings, whereas the draft law was adopted during the last sitting, November 30.

A total of **12 hours 50 minutes** was spent on the debates: of this, **2 hours 45 minutes** covered explanation on budget-related documents by competent government representatives and responses to the deputies' questions asked by them during discussions. Besides, reports and explanation by the Milli Mejlis Chairman and head of the Standing Commission on Economic Policy on the draft budget and speeches around the draft took **about an hour**. All things considered, duration of budget debates in parliament totals **nine hours**. Potentially, it means 4.4 minutes per deputy.

As a whole, **71 MPs**, or **58 pct of the total deputies** were involved in budget discussions. And **13, 25, 33** MPs, accordingly, participated in budget discussions at the **first, second and third** sittings.



The real time comment for **40 MPs** was **10 minutes**, while **31** made speeches within **5 minutes**.

Excluding the Milli Mejlis Chairman and head of the Standing Commission on Economic Policy, almost **two MPs** had opportunity to make repeated speeches, or ask questions.

The last debates on state budget at the sitting **on November 30,2007** only took **51 minutes**. Finance Minister **Samir Sharifov** brought to the attention final amendments to the draft budget

and expressed final attitude to the proposals put forward by MPs. Later on, 2 MPs asked questions, which were responded by the minister and Speaker. Later on, Chair of the Parliamentary Standing Commission Commission on Economic Policy Ziyad Samadzade took comments on amendments and called on the members to vote for the budget. The draft budget was adopted with 103 MPs who voted in favor, while 7 abstained.

### III.2. Activity level of standing commissions in budget discussions

The activity level of standing commissions in 2008 draft budget debates and discussions was assessed to one indicator only – based on the share/number of standing commission members making speeches in proportion to total number of MPs in each commission. According to assessment outcomes, the activity rating of standing commissions in the Milli Mejlis was revealed as following:

<sup>1</sup> Activity rating of standing commissions in budget discussions	Number of commission members (person)	Number of those making speeches (person)	Participation share of members in debates (in %)	Share in total number of those making speeches (in %)
Standing Commission on Human Rights	11	10	90,8	14,3
Standing Commission on Agrarian Policy	10	8	80,0	11,4
Standing Commission on Science and Education	14	9	64,3	12,9
Standing Commission on Economic Policy	11	7	63,6	10,0
Standing Commission on Security and Defense	10	6	60,0	8,6
Standing Commission on Natural Resources, Energy and Ecology	12	7	58,3	10,0
Standing Commission on Social Policy	10	5	50,0	7,1
Standing Commission on Cultural Issues	8	4	50,0	5,7
Standing Commission on Legal Policy and State Building	14	6	42,8	8,6
Standing Commission on Regional Issues	7	3	42,8	4,3
Standing Commission on International and Interparliamentary Relations	13	5	38,4	7,1

<sup>1</sup> Note: The analysis does not contain speeches and comments made by Milli Mejlis Chairman

### III.3. Assessment of budget discussions according the contents of speeches

The assessment of contents of the speeches is based on **two criteria** below:

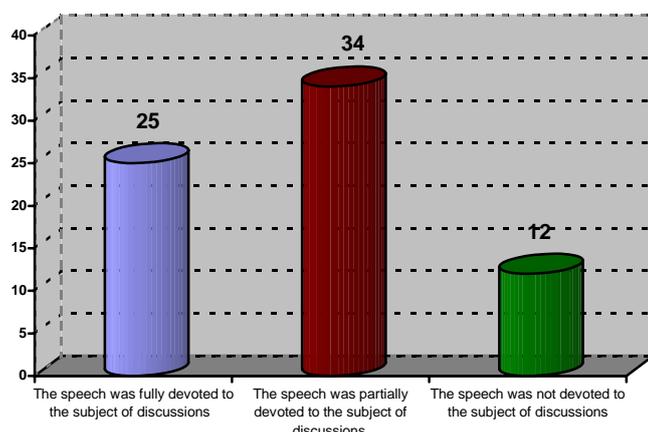
1. Are speeches made by MPs related with the 2008 draft budget, or improvement of government's fiscal policy?
2. Do speeches made by MPs target the relation between the fiscal policy and social economic development policy?

During the analysis each speech was assessed according to shorthand reports. While studying the relation between the speeches and the 2008 draft budget, it became clear that three typical cases had been observed here:

- a) the speech was fully devoted to the documents under debates – **25 speeches**;
- b) the speech was partially devoted to the documents under debates – **34 speeches**;
- c) the speech was not devoted to a document under debates – **12 speeches**.

Regarding the relation between the speeches and the 2008 draft budget, or government's fiscal policy as a whole, the majority of the speeches consist of proposals to amend the structure the budget receipts and expenditures.

### Grouping of speeches according to their contents



Only six speeches casually focused, in addition to budgetary structure, on amendments to fiscal policy (for example, they believe in the necessity of reconsidering the relation between the State Oil Fund (SOFAZ) and State Budget, restricting SOFAZ transfers, developing mechanisms to increase efficiency for expenditures on science and education, building stronger mechanisms for oversight over budgetary expenditures, restricting tax and duty privileges, prioritizing lack of fiscal deficit).

The assessment of shorthand reports in terms of the period spent on speeches showed that **2.7 hours** (one third) of total period of the speeches in parliament (**9 hours**) were devoted to items and problems out of agenda.

### III.4. Assessment of budget discussions according the stance of proposals

Although the contents of speeches represents the interest in terms of general assessment of parliamentary discussions, we can probably assess the efficiency of budgetary debates and discussions in parliament as well as competence level of deputies related to the state budget on the basis of proposals voiced by them.

Out of 71 members of the Milli Mejlis, the speeches and comments made by **15** were general and they contained no proposals. The rest **56 MPs** directly put forward **156 proposals** at three sessions devoted to budgetary discussions.

In order to assess the efficiency of proposals, the project experts used the following criteria:

1) **Contents of proposals** – provides for assessment based on the binding between the proposals voiced and items on the agenda.

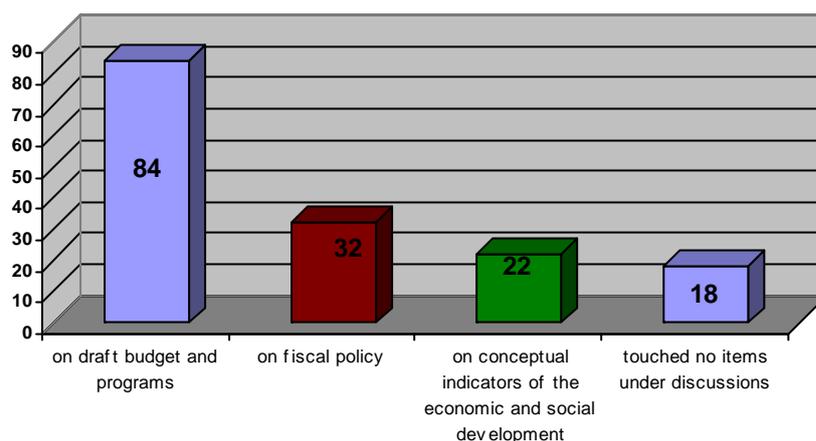
Here, four assessment elements below added to the “binding between the proposals voiced and items on the agenda”:

- a) **proposals concern the draft law on budget of next year and budgetary programs that shall be financed by the State Budget;**
- b) **proposals concern the government’s fiscal policy;**
- a) **proposals concern binding between conceptual indicators of the economic and social development and budgetary policy;**
- b) **proposals do not concern items under discussions.**

According to survey outcomes:

- **84 proposals** were related with the draft law on budget of next year and budgetary programs that shall be financed by the State Budget,
- **32 proposals** were related with the government’s fiscal policy,
- **22 proposals** were related with the provision of binding between conceptual indicators of the economic and social development and budgetary policy;
- **18 proposals** were not related with the items under discussions at the parliamentary level.

Grouping of proposals according to their stance



The main proposals on the 2008 draft state budget and investment programs reflected in the budgetary package can be grouped as following:

The main proposals on the 2008 draft state budget and investment programs reflected in the budgetary package can be grouped as following:

- expenditures by various functional categories (for example, land improvement and agriculture, military, management, etc.);

- diverse social programs (mortgage, deposits, housing construction for low-income social groups, Targeted Social Assistance, investment programs, etc);
- improvement of living standards of low-income citizens (for example, salaries paid to teachers, doctors, diplomats and military personnel, pensions and study bursaries, etc);
- Improvement of social, production and transport infrastructures, including in regions in particular, (for example, maintenance and reconstruction of roads in regions, drinkable and irrigation water supply, construction of public facilities and refurbishment of existing ones, heating supply).

Proposals on fiscal policy according to their stance can be classified as following. Proposals on:

- regulation of interbudgetary relations (for example, application of restriction to SOFAZ – state budget relations);
- increasing the efficiency of the budget costs (actions should be taken in the direction of improvement of the structures of expenditures in science and education, the established standards and allocation mechanisms related to identification of the expenditure needs should be improved);
- increasing the transparency of budget costs (the control mechanisms over the expenditures, in particular over the investment expenditures should be stipulated, a special parliamentary group supervising the defence expenditures should be established, etc.);
- improvement of the tax policy (to restrict the tax and duty allowances on the customs system, to strengthen the control over the proceeds obtained via privatization, etc.);

The proposals related to provision of correlation between the conception of socio-economic development and the state budget may be grouped as follows. Proposals on:

- provision of operative connection between the economic policy and budget policy (for instance, along with the budget law, the order on anti-monopoly actions should also be approved for the next year).
- supporting the economic and social development via the budget (for instance, to allocate funds from the budget for funding the scholarships and grants in the science and education systems, to allocate the funds from the budget for development of tourism, seed-growing, vine-growing, tobacco-cultivation, etc.);

The proposals that are not related directly to the matters (or documents) to be discussed are as follows:

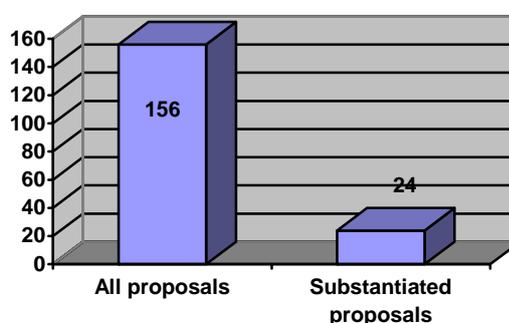
- to increase the efforts for expansion of potato and citrus plantations;
- to provide the substitution of old teachers in the secondary schools with the young staff;
- the persons graduated from the secondary technical schools should be admitted to the 3<sup>rd</sup> course of the higher schools;
- the reforms on management of education should be implemented;
- the points for selling the agricultural products should be established on the ground floors of the buildings which are being constructed in the capital;
- to adopt new law on construction activity;
- to draw up tough mechanisms for combating the monopolism;
- to separate the administration of secondary and higher education;
- to improve the inflation calculation methodology;
- to eliminate the obstacles in exporting the local carpets;
- to create favorable conditions for the peasants to sell their products freely;
- to increase the attention for reviving the work of industrial enterprises in Mingachevir;
- to distribute the lands of agrarian enterprises held and possessed by the state sector;
- the government should take a great interest in opening tourist bases in the regions.

2) **Clarity of the Proposals** – this criterion reflects the clarity of the proposal content and addressing it within the concrete period of time to change or improve the budget decisions or budget-tax policy. For instance, “the health expenditures are proposed to be increased by 15 per cent in the state budget project for 2008”, or “it is proposed to allocate the funds for construction of secondary school in the Aran settlement of Aghjabady region in the State Investment Program for 2008-2010”, “it is necessary to allocate the funds for purchasing the building for Embassy of Azerbaijan to Greece in the budget project for next year”, etc.

The proposal analysis showed that **115 of 156 proposals** made by the parliament in connection with the draft law on the state budget for 2008, or **73,7 per cent** of all proposals were related to the settlement of the said issues. In its turn, 80 of those 115 proposals, or 51 per cent of all proposals consider the settlement of the issues in the year (2008) concerning the draft project which is directly discussed, or within the period (2008-2010) covered by the middle-term budget programs, or realization of any actions by the state executive authorities.

**The level of substantiation of the proposals** – it considers why (in what necessity) the issue reflected in the proposal should be settled, and the way and the means of settlement of the issue to be indicated (i.e. the settlement necessity of the issue and the specific mechanisms of the settlement are specified in the proposal). For instance, it is necessary to eliminate 150 per cent difference between the average monthly salary of the education establishments’ employees and similar indicators on the country. It is proposed to increase the education expenditures from 1 billion manats as proposed in the project to 1,2 billion manats in 2008 for decreasing the said difference by 100 per cent. Owing to decreasing the expenditures for management of court, law-enforcement authorities and procurator’s office by 15 per cent, construction expenditures by 5 per cent, it is possible to ensure the increase proposed for the education sector.

The diagram: Substantiation of the Proposals



Only **14 of 156** proposals or **9 per cent** of all proposals made at the parliament in connection with the draft project on the state budget for 2008 may be assessed as the proposals substantiated on the above-mentioned parameters.

4) **Compliance of the proposals with the requirements of the budget and applicable legislation** – it considers lack of legal contradiction between the made proposals and budget-tax legislation, as well as legislation on the sectors (education, health, construction, etc.) addressed by the budget expenditures.

The carried out analyses indicated the compliance of the proposals with applicable legislation, there was not made any proposal contradicting the requirements of the legislative acts.

**5) Expression of the voters' interests in the parliamentarians' speeches and proposals – *For analyzing the activities of the parliamentarians in the direction of expression of the interests of their voters the following indicators have been used as assessment criterion:***

1. *How many parliamentarians have shown initiative for directly protection of their voters (the territory where he/she has been elected) during discussion of the budget (made speech or made a specific proposal for settlement of the specific issue)?*

The monitoring showed that 18 parliamentarians (15 per cent of all parliamentarians and 27 per cent of the parliamentarians making speech) have made proposals related to the settlement of the issues of the territory where they have been elected.

2. *How much percentage of the proposals made in the course of the budget discussions was related to the interests of the territory where the parliamentarians have been elected?*

As a result of the monitoring, it was obvious that 34 proposals or 22 per cent of proposals of all ones made by the parliamentarians were related directly to their voters' issues.

However, during the discussion of the budget by the individual parliamentarians, the raised questions on the issues of the territories where they have been elected, or they represent were met by the management of the parliament with anxiety and dissatisfaction.

**Quotation from the speech by Oktay Asadov, Chairman of the Milli Mejlis (Parliament) dated November 15, 2007:**

*“The Budget is a supreme economic document. We should speak here about the global issues. If every parliamentarian speaks about the region represented by him/her then it will not be a budget discussion. There are 88 regions in our country. It is impossible to settle all their issues at once”.*

### **III.5. Prioritization of the Proposals**

In the course of reviewing the budget discussions the proposals made by the parliamentarians have been grouped according to their repetition. The rating of the proposals for the number of repetition was as follows:

- 1) to increase the state support to the agriculture – 11 times;
- 2) to increase the wages of the servicemen and to improve their apartment conditions – 9 times;
- 3) to increase the wages of the teachers – 7 times;
- 4) to widen the control over the budget costs – 6 times;
- 5) to increase the wages of the health service employees – 6 times;
- 6) to return the savings dated back to the Soviet period – 5 times;
- 7) to increase the wages of the employees working in the field of science – 4 times;
- 8) to increase the mortgage funds – 3 times;
- 9) to increase the wages of diplomats – 3 times;
- 10) to increase the funds for improvement of the infrastructure of the villages located in the war and border zones – 3 times;
- 11) the struggle against the monopoly should be stipulated – 3 times;
- 12) to increase the health expenditures – twice;
- 13) to increase the pension benefits – twice;
- 14) to increase the financial investments allocated to the municipalities – twice;
- 15) to apply limit to the transfers of the SOFAR to the budget – twice;

- 16) to increase the funds considered for melioration measures – twice;
- 17) to take into consideration the efficiency of the funds allocated to the science and the state should only finance the projects having scientific meaning – twice;
- 18) to increase the expenditures for science – twice;
- 19) to allocate the funds from the state budget for establishment of industrial fields – twice;
- 20) the economic classification of the investment expenditures should be disclosed – twice;
- 21) all other proposals have been made by each parliamentarians separately.

### **III.6. Final Attitude of the Government to the Parliamentarians' Proposals**

At the meeting where the draft budget was discussed (November 30) the head of the government authority who developed the draft budget – Ministry of Finance S.Sharifov passed the government opinion on the comments and proposals made by the parliamentarians. Extract from his speech:

- The positive activities carried out by the government in the direction of strengthening the legislative base, improving the budget process, increasing the state and public control over utilization of the budget, have been stated in the speeches during the discussions.
- The distinguished parliamentarians have made several valuable proposals and recommendations on improvement of the population welfare, strengthening the scientific, education, health, defence, industrial and agrarian potential of the country, development of the non-oil sector, entrepreneurship and such other duties of national important;
- Some issues have been raised before the government, and asked questions in relation to the legislation acts and budget indicators submitted to the MM with Law “On State Budget”, and asked to give more detailed information on them;
- I would also like to state that some critical comments were made during the discussions: we think that some of them are constructive and useful for the government, but some are preconceived, groundless and far from the truth.
- The issues raised during the discussions have been reviewed by the government in detail and attentively, their methods and mechanisms have been investigated and the comprehensive report has been made to the President. The positive settlement of those issues which are more important and essential has been considered by Mr. President expedient within the state budget resources.

In his speech the minister showed a special attitude to some issues raised by the parliamentarians:

1. The issue on reimbursement of the savings frozen in the saving banks of the former USSR was discussed by dear parliamentarians again and was discussed in detail. Thus issue is being investigated by the government seriously. We think that the certain contributions made by Milli Mejlis to this issue and the proposals provided in connection with foregoing, will be useful to and cause positive settlement of this issue.
2. The issue of increasing the wages of servicemen has been considered essential as well. This issue is also in the centre of I.Aliyev, the country president's attention. The defence expenditures will be significantly increased in the draft budget for 2008. However, as you know our budget has been developed with very conservative basis. When the incomes of the state budget were calculated the oil price was considered 50 USD per barrel. If we take into account the conjuncture of the existing international markets, the state budget has opportunity to obtain a lot amount of extra incomes. I am completely sure that by taking into account the said issues the president can take the duly actions in the direction of settlement of that raised question.

3. The other raised question was strengthening the social protection. I would like to state again that the extra incomes of the state budget can be used for establishment of the additional financial guarantee. I think that adoption of these decisions is possible during execution of the state budget for 2008.

4. By taking into consideration the proposals of some parliamentarians it is considered to allocate 1,6 billion manats for increasing the number of MM employees, the business expenditures and costs for receiving the guests, purchasing the fixed assets and vehicles, increasing other necessary expenditures.

### III.7. Amendments to the Draft Budget

When the state's draft budget is submitted to the parliament for approval, the incomes part of the budget has been increased 9,9 million manats, and the expenditures have been increased accordingly.

The changes in the budget incomes mainly related to the discussion of the draft budget by the MM, and adoption of the discussed draft laws.

Some replacements have been done within the expenditures of the state budget. 62 million manats of the Reserve Fund of the state budget, and 18,5 million manats of the state investment expenditures – totally 80,5 million manats – have been decreased and directed to the financial guarantee of the issues prescribed by decrees and orders signed by the president. So, it is proposed to direct 50 million manats to the Guarantee Fund of the debts obtained by the State Guarantee established in accordance with the addendums and amendments to Law "On State Budget". In connection with establishment of the new territorial representative offices the settlement of the issues on financial guarantee is reflected in the budget changes. Additionally, the allocation of 1,6 million manats is considered in connection with management of the MM Administration and working activity of the parliamentarians.

During discussions on amendments to the taxation laws, the proposal to increase the tax level to AZN 2,000 from AZN 1,500 had been unanimously adopted.

### III.8. Problems related to the course and format of budget discussions

1. The draft law on the 2008 state budget was considered at one reading and adopted at the second reading, yet draft laws are considered at three readings in the Milli Mejlis by the law. According to shorthand reports, the Milli Mejlis failed to comply with the protocol procedures to consider adoption of the draft law at the second reading.

This issue was touched by MP Panah Huseyn at the 30 November sitting: **This issue was touched by MP Panah Huseyn at the 30 November sitting: "We are unaware and we don't know at what reading we consider the draft law on the state budget. Under the Law on the Budget System, discussion and approval of the State Budget for the next budget year shall be conducted in accordance with the internal regulations of the Milli Mejlis of Azerbaijan Republic. Of course, with the decision of the Milli Mejlis chairman in protocol procedure, the draft law may be considered at one reading. But the issue had not been announced, I mean there is misunderstanding here," he said.**

2. The analysis of short reports shows that the period of comments by MPs was reduced to 5 minutes from 10 minutes. Some members of the Milli

Mejlis voiced dissatisfaction with the comment period cut at the 15 November sitting. MPs **Arif Rehimzade, Malahat Hasanova and Elmira Akhundova** protested the five-minute period comment. In fact, according to calculations, the Milli Mejlis would have to hold an additional sitting in one day in case of maintaining 10-minute comments.

3. When introducing amendments to the draft law, the Milli Mejlis did not comply with protocol procedures: Members of the Parliament were unaware of the items of amendments - neither the text, nor the electronic version were available to them. They got unaware when the finance minister submitted a report and they adopted the law based on the report.

## Outcomes

1. Parliamentary engagement with the draft budget has seen violation of the established procedure and extremely time restriction;
2. Due to inappropriate procedures for debates of the draft budget in Parliament, these debates are not diffusive and formal;
3. Parliamentarians' efforts and initiatives to express interests of their electors during discussion of the draft budget has resulted in incomprehensible anxiety and dissatisfaction by parliament administration;
4. Almost all parliamentarians' proposals and recommendations put forward throughout budget debates have not been considered. (Out of 156 proposals made by MPs, two could have impacted budget amendments).

## V. Assessment of deputies' awareness on the state budget

Professionalism and efficiency of budget-related discussions depend on the competence level of deputies related to the state budget, the level of "reading" of the budget documents. Therefore, the monitoring has also assessed deputies' awareness on the state budget. To that end, project team members interviewed 23 randomly selected members of the Milli Mejlis on the day, when debates of the draft budget by plenary sessions in Parliament started. The interviews consisted of two questions:

1. In reply to the question **"Which items are more funds directed at and is it possible to call certain figures?"** 23 deputies responded "Positively", yet only nine (39.1 percent of the surveyed) had extensive information about the amount of expenditures on education, social protection and construction, their dynamics compared to prior year, their specific weight in the budget submitted.

2. Responses to the question **"What amendments would you make to the existing budget?"** are as following:

- a) salaries of the education and health care system's employees must be increased – 3 persons;
- b) there is a need to increase expenditures on science – 1 person;
- c) expenditures on culture must be increased – 1 person;
- d) expenditures on strengthening of the social protection of the disabled persons and low-income families must be increased – 1 person;
- e) I will put forward my proposals during discussions – 3 persons
- f) There is nothing left: the budget has recovered all – 14 persons.

## Monitoring outcomes

With the project implementation, the following outcomes have been obtained:

1. The Azerbaijan legislation does not provide for special procedures for parliamentary discussions of draft state budget. Debates for draft budget are held within the single framework of procedures tailed for all draft laws passed in the country;
2. Non-compliance of the budgetary process with the law on budget system was observed while submitting to the Milli Mejlis the 2008 draft state budget and the package of the budget-related documents for discussions as well as their publication in the press;
3. Due to inappropriate procedures for debates of the draft budget by the standing parliamentary committees in Parliament, these debates are not diffusive and formal;
4. Parliamentary engagement with the draft budget has seen violation of the established procedure and extremely time restriction;
5. Due to inappropriate procedures for debates of the draft budget by at plenary sessions in Parliament, these debates are not diffusive and formal;
6. Parliamentarians' efforts and initiatives to express interests of their electors during discussion of the draft budget has resulted in incomprehensible anxiety and dissatisfaction by parliament administration;
7. Almost all parliamentarians' proposals and recommendations put forward throughout budget debates have not been considered. (Out of 156 proposals made by MPs, two could have impacted budget amendments).