

Corrupt and Flashy Events Disguised as Modernization in Azerbaijan

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One of the political effects of natural resource development is an increase in state budget resources directed at modernization. However, in Azerbaijan, infrastructure modernization has taken an odd turn: the government has been funding special interests rather than public needs. Instead of creating and updating much-needed electric, water, and gas infrastructure, the government is financing flashy sporting and cultural events and inflated entertainment infrastructure.

Azerbaijan hosts a number of over-the-top sporting and entertainment events under the guise of modernization. Instead, the events lead to spiraling corruption and whitewashing the country's global image.

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Flashy Events and Outrageous Expenses

Over the past few years, Baku has hosted a number of events: Eurovision song contest, the First European Games, Islamic Solidarity Games, Formula 1 Grand Prix, and others. All of these came with an inflated price tag.

The first relevant example is \$350 million taken from the 2011 state budget for construction of the Baku Crystal Hall, the sports-entertainment center that was intended to host the Eurovision 2012 music contest.

In 2015, Baku hosted the first European Games. Related infrastructure cost \$1.2 billion and included an Olympic stadium (\$600 million, according to initial calculations), the Centers for Water Sports and Shooting Halls, the National Gymnastics hall, the Sports village, and temporary construction to house a triathlon, basketball, and other sports.

However, an independent assessment demonstrates that over \$2 billion was spent on the event[1] because resources were allocated from the budgets of 2015 and previous years. The 2013 budget allocated \$440.6 million for the construction, reconstruction, and repair of sports facilities for the European Games: the Water Sports Hall, the Gymnastics Complex, and repairing and reconstruction of the Tofiq Bayramov Republican Stadium.[2]

In addition, the Presidential decree on the application of the Law on the 2014 state budget[3] demonstrates that \$589,45 million was allocated from the state budget for the

infrastructure, preparation, and other organizational matters for the First European Games in Baku.

Finally, \$1.134 billion was allocated from that year's budget for youth policy and construction, reconstruction and repairing of sports facilities, such as the Water Sports Hall, Gymnastics Complex, the football stadium, the European Games Park, eleven regional Olympic sports complexes, and nine regional youth houses.

Along with that, Azerbaijan paid for all transportation and living expenses of international athletes attending the event.[4]

According to a statement from Azad Rahimov, the Minister of Sports and Youth of the Republic of Azerbaijan, the budget of the Baku 2015 European Games consisted of two parts. "The first part is within the investment program approved before 2018. Along with other spheres, some allocations were made to the sports as well. The second part is the budget of the Baku 2015 European Games Operating Committee... 950 million AZN was allocated to this." The second part constituted "expenses for salaries, technological systems, temporary equipment, communication, promotion, and daily expenses," according to the statement.[5]

For comparison, Belarus hosted the European Games in 2019, which cost \$180 million, for which the president of Belarus was roundly criticized.[6]

In 2017 Azerbaijan hosted the IV Islamic Solidarity Games. The report on the implementation of the 2017 budget demonstrates that \$1,247 million was spent by the Ministry of Youth and Sports to organize and prepare for the Games.[7]

Since 2016, Azerbaijan has been hosting the Formula 1 Grand Prix. The budget for this event is not known. This prominent event is organized by the son of the Minister of Sports and Youth of Azerbaijan, Azad Rahimov. Rahimov's son owns Baku City Circuit Operation Company. No information has been provided about profits from the event. However, based on independent research by the international audit company PricewaterhouseCoopers conducted in late 2017, we can conclude that[8] the first two Formula 1 events brought \$277,3 million in profit to the country. A contract extending the Formula 1 in Baku until 2023 has been signed[9].

In 2017, it became official that the finals of the Europa League (an annual European soccer competition) would be held in Baku. While Sevilla and Istanbul were among other cities that applied to host the finals, Baku was selected as the host of the match.

Azerbaijan intends to host a number of other sporting and entertainment events in the near future, including Expo 2025[10].

Corruption and Whitewashing

There are two kinds of factors influencing Azerbaijan's interest in hosting international sporting and entertainment events: economic interests linked to corruption, and political interests.

Low transparency and accountability standards, combined with the high potential for corruption in the country, encourage economic interest in these lucrative projects.

Azerbaijan scores low on the global corruption, transparency, and accountability scale. On Corruption Perception Index, it scores only 25 out of 100 points and is currently ranked 152nd among 190 countries[11]. In the Open Budget Index[12] the country scored 34 points out of 100, and is currently ranked 78th among 115 countries. In the Resource Governance Index,[13] Azerbaijan scored 47 points out of 100, and was placed in 47th position out of 87. Azerbaijan's membership in the Open Government Partnership was suspended;[14] its membership in EITI was first suspended[15] and later the country refused to take part in the organization's work.

Under the disguise of modernization, more budget money was allocated to the construction sector, which has historically had a high corruption risk since the Soviet era.

Table 1. Expenditure from the state budget of Azerbaijan to industry, construction, and minerals extraction, 2008-2019[16]

Years	Expenditure for industry, construction, and minerals extraction, in million USD	Percentage of state budget expenditure
2008	5347.5	39,83
2009	4543.9	33,96
2010	5222.9	34,84
2011	7457.3	38,01
2012	8867.1	39,96
2013	8808.9	36,12
2014	7973.2	33,45
2015	3202.7	28,08
2016	1502.6	15,25
2017	1592.5	15,42
2018 ¹	2844.8	21,32
2019 ²	4076.8	25,56

Source: the author's calculations are based on the information of the Ministry of Finances and the Central Bank of the Republic of Azerbaijan.

It is evident from the data in the *Figure 1* that at least 1 AZN out of every 3 from the 2008-2015 state budgets was allocated to industry, construction, and minerals extraction, while up to 99% of the investment budget was directed into construction sector.

¹ prediction

² prediction

The drop in oil prices in the world market in 2015 negatively affected the budget expenditure in the construction sector. The rise of oil prices in 2018 made the construction sector a budgetary priority. It is expected that 1 in 4 AZN will be spent in the construction sector in 2019.

This sector is leading in misappropriation of budget funds. The money allocated to the construction sector is mainly directed at financing infrastructure projects with significantly inflated costs. The final authority for allocation of funds in this sector lies is the executive authority or the presidential administration, rather than with the Parliament. Further, contracts are not won in open and competitive tenders, but rather are given to companies owned by high-ranking officials. Thus, billions of dollars are misappropriated every year under the guise of modernization and with corrupt interests. In terms of politics, the government tries to whitewash its damaged image in the international arena by “paying attention to modernization” and by creating connections with global leaders in the sphere of sports and culture.

However, reports from international human rights organizations demonstrate the opposite: rather than varnishing Azerbaijan’s image, sporting and entertainment events highlight Azerbaijan’s democratic failures in the world media.

[1] https://musavat.com/news/olimpiya-oyunlarina-budceden-3-5-milyard-manat-ayrilib_262520.html

[2] <http://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/5ae9becbeda88.pdf>

[3] <http://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/5ae9d1d8ae562.pdf>

[4] <https://www.theguardian.com/sport/2015/feb/26/azerbaijan-european-games-baku-athletes-bill-human-rights>

[5] https://www.bbc.com/azeri/azerbaijan/2015/06/150625_european_games_budget

[6] <https://www.fairobserver.com/region/europe/european-games-2019-minsk-belarus-human-rights-sport-europe-news-12221/>

[7] <http://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/5b1f722f85964.pdf>

[8] <http://marja.az/news/41482>

[9] http://cbc.az/az/az/v_story/2023-c-l-qdr-baki-formula-1-yarilarina-ev-sahbly-edck

[10] <https://www.azernews.az/business/141486.html>

[11] <https://www.transparency.org/country/AZE>

[12] <https://www.internationalbudget.org/open-budget-survey/results-by-country/country-info/?country=az>

[13] <https://resourcegovernance.org/analysis-tools/publications/2017-resource-governance-index>

[14] <https://www.opengovpartnership.org/members/azerbaijan/>

[15] <https://eiti.org/azerbaijan>

[16] <https://www.cbar.az/page-41/macroeconomic-indicators>

[17] prediction

[18] prediction
