

## **The transition from oligarchic governance to managerial governance and assessment of the effectiveness of public administration in Azerbaijan**

**Gubad Ibadoglu, senior policy analyst of the Economic Research Center**

This article studies public administration in Azerbaijan, which is approaching the 30<sup>th</sup> anniversary of its re-independence, and characterizes its current state. Since 29 years of the last three decades have belonged to the rule of one family, there is no doubt that the effects of the transformation of power from father to son have led to different results compared to post-Soviet countries. Therefore, the mainline of the article is the structure of governance in Azerbaijan, participation in decision-making, the role of oligarchs in the establishment of the political elite and capitalism. The conclusion is that the supreme model of governance in Azerbaijan is composed of the components of monarchy<sup>1</sup>, oligarchy<sup>2</sup>, kleptocracy<sup>3</sup>, and corporate state<sup>4</sup>. The corporate state model has become more prominent in Azerbaijan, as the ruling family has superior rights and privileges in public administration. In this country, independent civil society, free press, and other democratic institutions have been "neutralized" by various means, mainly by ruling family and oligarch groups, regions have been distributed among oligarchs, arable lands among high-ranking officials and agro-parks belonging to their families<sup>5</sup>, in other words, a form of state governance has been established in Azerbaijan on the basis of modern aspects of the corporate republic model that existed in the 16<sup>th</sup> and 17<sup>th</sup> centuries. Although the controlling stake of the corporate state named Azerbaijan is concentrated in the hands of the ruling family and the remaining shares belong to oligarchs with the status of minor shareholders, their number continues to decline as the process of transformation from oligarchic management to managerial management expands. The relationship between the government and the population in this corporate state recalls the relationship between the company's managers, who do not protect the labor rights of their employees, and employees, who are dissatisfied with their managers.

---

<sup>1</sup> <https://www.britannica.com/topic/monarchy>

<sup>2</sup> <https://www.britannica.com/topic/oligarchy>

<sup>3</sup> <https://economics.mit.edu/files/4462>

<sup>4</sup> [https://en.wikipedia.org/wiki/Corporate\\_republic](https://en.wikipedia.org/wiki/Corporate_republic)

<sup>5</sup> <https://www.astna.biz/ext/news/2021/1/subsc/eco-agriculture/en/1901.htm>

As the transfer of power in Azerbaijan takes place within the ruling family, the formation of oligarchs and their role and functions in the establishment of "capitalism" are very different from the oil-rich Russia and Kazakhstan of the post-Soviet camp, and even Ukraine, which is not rich in these resources. The main difference is that the oligarchs in Azerbaijan are more dependent on the ruling family than in those countries and do not play an important role in political decision-making. For this reason, they are forced to operate in groups, not individually, in order to maintain and strengthen their capital and position. Even so, oligarchs, both individually and in groups, failed to rise above the level of servants of the ruling family in Azerbaijan. Therefore, it is incorrect to call the regime in Azerbaijan oligarchic. Because the ruling family has an exceptional position in making political decisions, at the same time, political decisions and appointments are based on personal and corporate interests within the family, not state and national interests.

Another distinguishing feature of oligarchs in Azerbaijan is that the capital and assets of oligarchs in Azerbaijan are not legal, unlike in Russia, Ukraine, and Kazakhstan. Their limited property and assets are registered in the names of themselves and their families, and most are registered in the names of members of the ruling family. The level of property and capital registered by the oligarchs in Azerbaijan cannot be expressed in a high enough amount to include their names not only in the list of billionaires but also in the list of millionaires. Therefore, in Azerbaijan, which has a high risk of grand corruption and a large monopoly, not a single citizen is included in the Forbes list of the rich. One of the reasons for this is that property, capital, and other assets belonging to the oligarchs and the ruling family are not legalized in Azerbaijan, as income and property are not officially declared.<sup>6</sup> This means that, unlike the ruling family, oligarchs can lose ownership at any time, as the accounting and reporting of capital and other assets of oligarchs in Azerbaijan is unofficial, confidential, and access to such information is restricted to the ruling family's auditors.

Another feature that distinguishes the oligarchs in Azerbaijan from others is their representation in high political positions in order to get a greater share of the "light money" distributed in the country through the budget. The oligarchs, who have won the fight to get a bigger share of the commodity money<sup>7</sup>, receive "fatty orders"<sup>8</sup> for inflated projects from the investment budget, which is a priority expenditure of the state budget.

---

<sup>6</sup> [https://www.turan.az/ext/news/2021/5/free/politics\\_news/en/4185.htm](https://www.turan.az/ext/news/2021/5/free/politics_news/en/4185.htm)

<sup>7</sup> <https://boycewire.com/types-of-money/>

<sup>8</sup> <https://oilfund.az/report-and-statistics/recent-figures>

In fact, ordering a larger amount means earning more. Because the main purpose of the distribution of the allocated funds among the companies owned by the oligarchs through "closed tenders" is to misappropriate the bulk of the funds allocated from the budget.

Thus, the economic domination over the assets held by the oligarchs in Azerbaijan continues until the end of their political posts. The oligarchs, who are well aware that they will lose everything they have gained by handing over their political posts, serve the ruling family, not the people, for being insured against this danger during the implementation of the state policy they lead and are responsible for. As a result, the reputation of Azerbaijani oligarchs among the people is low compared to other countries. On the other hand, everyone knows that the earnings of the oligarchs come from thefts from the state budget, recognizing them as thieves and servants of the government. Therefore, the removal of the oligarchs from the political positions they have long represented and their replacement by managers create hope among the people, albeit a small one, for positive change. However, later observations show that they were often mistaken. Therefore, although the people perceive the oligarchs as thieves, they react to the replacement of their positions in government by others, especially managers, with the phrase "the former are fed up, the newcomers will be even more corrupt."

The formation of oligarchic governance in Azerbaijan can be divided into two stages.

The first stage covers the period of Heydar Aliyev's rule before oil revenues entered the country. Journalist Rauf Mirgadirov believes that "at this stage, the Aliyevs, including Ramiz Mehdiyev, Artur Rasizade, Kamaladdin Heydarov, Murtuz Alasgarov, Ziya Mammadov, Baylar Ayyubov, Farhad Aliyev, Eldar Mahmudov, Ali Insanov, ruled the country as a company. The ability of the creative and intellectual elite, which we call the moral elite, to influence decision-making was declining day by day and is now at zero."<sup>9</sup>

Rauf Mirgadirov writes: "The system created by Heydar Aliyev ensured the stability of the government in terms of the social base through a number of important tools. First, we are talking about a well-known regional base, which has angered a large part of the population, i.e. the transfer of political, economic, educational, scientific, etc. management only to the people of Nakhchivan and Azerbaijanis from Armenia due to loyalty. Second, in the oligarchic system, the master-slave relationship, as strange as it may sound, also performed a social function in a sense. A large army of slaves was formed around each of the oligarchs close to or in power. As a result, the movement of

---

<sup>9</sup> <https://bakuresearchinstitute.org/az/elita-yoxlugu-problemi-haqqinda-bezi-mulahizeler/?fbclid=IwAR0ZZsOMmHqZvGYxnXAI9IjyveiL366nSPNPv8XFZ8z5d8a2zM2-peilMidw>

profits and capital was one-sided, not just bottom-up, but reciprocal. Each minister-oligarch had a small share in the army of slaves around him. This ensured their loyalty to both their masters and the regime. There was only one hope that in the second or third generation, the successors of these minister-oligarchs would become a normal political elite.”

The first stage of the formation of oligarchs in Azerbaijan coincides with the period of privatization of state property, liberalization of regulated trade and prices, carried out in order to transition from an administrative economy to a market economy.

Farhad Aliyev was one of the winners of the first privatization program in the transformation of state property<sup>10</sup> and in high positions in political power. Farhad Aliyev<sup>11</sup>, who owned a number of private companies operating in the field of tourism, trade, construction, and industry in 1990-97, was the Minister of Trade of Azerbaijan in 1997-99, the Minister of State Property in 1999-2001, and the Minister of Economic Development in 2001-2005. The Azpetrol gas stations<sup>12</sup> owned by his family were widely networked during this period and operated in Baku and other cities of the republic. Most of the private facilities belonging to the oligarch-minister, who was arrested<sup>13</sup> on the eve of the 2005 parliamentary elections, were taken out of his possession.

During his high political career, Farhad Aliyev controlled the southern region of Azerbaijan, including Jalilabad and Bilasuvar districts. Later, economic and political control over the southern zone was transferred to the President of SOCAR, Rovnag Abdullayev.

Heydar Babayev<sup>14</sup>, who replaced Farhad Aliyev as Minister of Economy, is also one of the oligarchic officials of the first stage. Heydar Babayev, who gained experience in financial markets abroad from Azerbaijan (worked as a general representative of Xariciiqtisadibank in Turkey, vice-president of Mostbank and a senior representative of that bank in the UK) was the Chairman of the State Committee for Securities under the President of the Republic of Azerbaijan in 1999-2005 and the Ministry of Economic Development in 2005-2008. However, Heydar Aydin oglu Babayev is remembered in Azerbaijan by Bank Standard and the company ABU<sup>15</sup> (“*Aydın Babayevin Uşaqları*”, which

---

<sup>10</sup> <https://www.astna.biz/ext/news/2021/4/subsc/eco-macroeco/en/2013.htm>

<sup>11</sup> [https://en.wikipedia.org/wiki/Farhad\\_Aliyev](https://en.wikipedia.org/wiki/Farhad_Aliyev)

<sup>12</sup> <https://www.azpetrol.az/>

<sup>13</sup> <https://www.azadliq.org/a/153843.html>

<sup>14</sup> [https://en.wikipedia.org/wiki/Heydar\\_Babayev](https://en.wikipedia.org/wiki/Heydar_Babayev)

<sup>15</sup> <http://www.abupetrol.az>

means "Children of Aydin Babayev"). Heydar Babayev's business empire weakened after he left office. Such that the license of the commercial bank Bank Standard was revoked on October 1, 2016.<sup>16</sup>

In the first decade of independence, the Improtex Group of Companies<sup>17</sup>, which had a multifaceted business network, was one of the leading companies in a number of markets and market segments. In particular, Fuzuli Alakbarov<sup>18</sup>, the president of the Improtex Group of Companies, who quickly gained a dominant position in terms of market share in the field of travel, can be considered one of the oligarchs of the first stage. He was appointed Minister of Labor and Social Protection of Population on February 7, 2006, and served until October 22, 2013. The Improtex Group of Companies includes Improtex Motors, Improtex Trucks & Buses, Improtex Industries, Improtex Travel, and IMEX AZ General Trading LLC (formerly IMEX Motors), which operated in Dubai for many years. In 2021, Improtex Trading LLC, part of the Improtex Group of Companies headed by him, was liquidated and it was announced that the company merged with another company of the holding, Improtex Motors LLC.

During his tenure as minister, Fuzuli Alakbarov was in charge of the Shirvan region, including Ismayilli and Shamakhi districts.

In 1998-2006, Azad Rahimov<sup>19</sup>, who was the head of Italdizain Closed Joint-Stock Company, was appointed Minister of Youth and Sports of Azerbaijan. He served in this position until his death, April 30, 2021. Italdizain<sup>20</sup> operates in areas such as retail, hotel business, and agriculture.

The oligarchs formed in the second stage are those who benefit from oil money. One of them is the former Minister of Transport, Ziya Mammadov<sup>21</sup>. Ziya Mammadov, who served as the country's Minister of Transport from 2002 to 2017, and his family's company ZQAN participated in the distribution of funds allocated from the state investment budget for the creation and development of transport infrastructure and collected a large amount of capital by obtaining direct orders from public procurement in this area. ZQAN was derived from the initials of the former minister himself and his family members. ZQAN consists of the initials of Ziya (his name), Ganira (his wife's name), Anar (his son's

---

<sup>16</sup> <https://az.trend.az/business/economy/2666980.html>

<sup>17</sup> <https://improtex.az/>

<sup>18</sup> [https://en.wikipedia.org/wiki/Fizuli\\_Alakbarov](https://en.wikipedia.org/wiki/Fizuli_Alakbarov)

<sup>19</sup> [https://en.wikipedia.org/wiki/Azad\\_Rahimov](https://en.wikipedia.org/wiki/Azad_Rahimov)

<sup>20</sup> <https://www.italdizain.az/az/holdings/o-nas/>

<sup>21</sup> [https://en.wikipedia.org/wiki/Ziya\\_Mammadov](https://en.wikipedia.org/wiki/Ziya_Mammadov)

name), Nigar (his daughter's name). Ziya Mammadov controlled Guba district in the north of Azerbaijan, another district that was attractive for tourists.

Former Minister of Taxes, Fazil Mammadov, one of the oligarchs of the second stage, was the owner of ATA Holding<sup>22</sup>, established in 2003, and FM Management<sup>23</sup>, a company registered in Panama. The company's abbreviation FM means Fazil Mammadov. On June 20, 1999, Fazil Mammadov was appointed Chief of the Main State Tax Inspectorate. From February 11, 2000, to December 5, 2017, he served as Minister of Taxes. During his tenure, Fazil Mammadov controlled the western regions of Azerbaijan, including Shamkir, Gadabay, Tovuz, and Gazakh.

Kamaladdin Heydarov<sup>24</sup>, one of the oligarchs of both the first and second stages, who owned a number of private companies in the first years of the restoration of Azerbaijan's independence, was appointed Chairman of the State Customs Committee of the Republic of Azerbaijan in January 1995 and Minister of Emergency Situations of the Republic of Azerbaijan in February 2006.

Although the business empire owned by Kamaladdin Heydarov, who founded Gilan Holding<sup>25</sup> in 1987, is now weakening because he "voluntarily" relinquished his long-held dominance in lucrative markets to the ruling family's Pasha Holding<sup>26</sup>, his ministerial position is still a guarantee of his inviolability.

Kamaladdin Heydarov is responsible for Gabala district, which differs from other regions of Azerbaijan in its attractiveness for tourists.

Baylar Ayyubov, the President's bodyguard, and Ali Asadov, the former Assistant to President and current Prime Minister, are on the list of oligarchs of both the first and second stages. The business empire created by Baylar Ayyubov is mainly active in the service and trade sectors. At the same time, he has control over Ganja, the second-largest city in the central region of Azerbaijan.

The list of oligarchs in Azerbaijan includes the President of SOCAR, Rovnag Abdullayev, Chairman of the Nakhchivan Supreme Assembly, Vasif Talibov, Chairman of the State Security Service (SSS), Ali Naghiyev, former Chairman of the SSS, Eldar Mahmudov, former ministers, Heydar Asadov and Salim Muslimov, former head state property committee Karam Hasanov and former Speaker of parliament, Ogtay Asadov.

---

<sup>22</sup> <http://ataholding.az/en>

<sup>23</sup> <https://www.occrp.org/en/panamapapers/azerbaijani-first-familys-hidden-wealth/>

<sup>24</sup> [https://en.wikipedia.org/wiki/Kamaladdin\\_Heydarov](https://en.wikipedia.org/wiki/Kamaladdin_Heydarov)

<sup>25</sup> <https://www.gilanholding.com/>

<sup>26</sup> <https://pasha-holding.az/>

The establishment of the business empire of oligarchs in Azerbaijan often coincides with the period when they held political positions. The companies owned by most of them were established and developed when the oligarchs held public office, and they became rich by gaining a dominant position in the market and abusing state resources. Even when the law forbade them to engage in commercial and business activities, they not only created the company but also gave the companies names that directly confirmed their identity.

The analysis of oligarchic governance and the assessment of changes in this area showed that the right to represent in public administration is exercised by a centralized appointment, not by real choice, as there is no environment for political processes in Azerbaijan. The decision-making process in public administration was carried out with the participation of oligarchs, not political institutions. In this case, Azerbaijan has not formed a parliament that can control the executive branch, a free judiciary that can overturn unconstitutional laws, an independent Central Bank that does not allow the state treasury to go bankrupt, a free press and non-governmental organizations that exercise public control. All this did not allow the emergence of active citizens who support the independence of institutions that are important for the rule of law, open society, and public control. What kind of governance system was formed in Azerbaijan? In the previous article, I tried to answer this question through descriptions of oligarchic rule. This time I will try on the results.

Journalist Rauf Mirgadirov, describing the system of governance during the rule of father Aliyev, said: "At this stage, the Aliyevs, including Ramiz Mehdiyev, Artur Rasizade, Kamaladdin Heydarov, Murtuz Alasgarov, Ziya Mammadov, Baylar Ayyubov, Farhad Aliyev, Eldar Mahmudov, Ali Insanov, ruled the country as a company."<sup>27</sup>

If we look at those on this list, we can see that during the time of son Aliyev, only Kamaladdin Heydarov and Baylar Ayyubov retained their previous positions, while Ramiz Mehdiyev was removed from his previous important post and now serves as president of the National Academy of Sciences. Among those on the list, Murtuz Alasgarov, a former Speaker of the parliament, has died. Others, though alive, have been removed from office at various times. Two of them - former Minister of Economy, Farhad Aliyev, and former Minister of Health, Ali Insanov - have lived long prison terms since being ousted; however, only Ali Insanov continues to work for the opposition after his

---

<sup>27</sup> <https://bakuresearchinstitute.org/az/elita-yoxlugu-problemi-haqqinda-bezi-mulahizeler/?fbclid=IwAR0ZzsOMmHqZvGYxnXAI9jyveiL366nSPNPv8XFZ8z5d8a2zM2-peilMidw>

release from arrest. Former Prime Minister, Artur Rasizade, former Minister of National Security, Eldar Mahmudov, and former Minister of Transport, Ziya Mammadov, were dismissed but not punished.

Who are replacing them?

Let me note in advance that none of those who replaced them have the status of oligarchs, they are just managers. Such that Samir Nuriyev<sup>28</sup> is currently the head of the presidential administration, which plays an important role in public administration, especially in political decision-making. Unlike his predecessor, Ramiz Mehdiyev<sup>29</sup>, Samir Nuriyev, who has been in this position for almost three years, does not attract attention with his active participation in making governing decisions and political statements. The activities of neither Novruz Mammadov<sup>30</sup>, who replaced his predecessor Artur Rasizade<sup>31</sup>, nor Ali Asadov<sup>32</sup> as the Prime Minister, which is a nominal position in Azerbaijan, has not been very distinguished, especially after the appointment of Mehriban Aliyeva to the post of First Vice President. The two governing institutions, the vice presidency and the prime minister's office, remain overshadowed by the president's executive branch. Although the new prime minister is a middle-class oligarch, he performs managerial functions in the current position.

Although Kamaladdin Heydarov retained his current political post, he was neutralized and removed from political decision-making and economic governance as he lost control of his business empire in favor of the ruling family's Pasha Holding.

Former Speaker of the parliament, Murtuz Alasgarov<sup>33</sup>, has never been on the list of oligarchs because he belongs to the academic community. His successor, Rasul Guliyev<sup>34</sup>, is currently in exile. Rasul Guliyev's successor, Ogtay Asadov<sup>35</sup>, continues to serve as a member of parliament because he was not "re-elected" in the last election. The current Speaker Sahiba Gafarova<sup>36</sup> is a manager, her participation in public policy and decision-making is almost non-existent and her business opportunities are weak.

Former Minister of Transport, Ziya Mammadov, lost his 15-year post in 2017 as a result of merging his ministry with another ministry. Ziya Mammadov has since been removed

---

<sup>28</sup> <https://en.president.az/administration/head>

<sup>29</sup> [https://en.wikipedia.org/wiki/Ramiz\\_Mehdiyev](https://en.wikipedia.org/wiki/Ramiz_Mehdiyev)

<sup>30</sup> [https://en.wikipedia.org/wiki/Novruz\\_Mammadov](https://en.wikipedia.org/wiki/Novruz_Mammadov)

<sup>31</sup> [https://en.wikipedia.org/wiki/Artur\\_Rasizade](https://en.wikipedia.org/wiki/Artur_Rasizade)

<sup>32</sup> [https://en.wikipedia.org/wiki/Ali\\_Asadov](https://en.wikipedia.org/wiki/Ali_Asadov)

<sup>33</sup> [https://en.wikipedia.org/wiki/Murtuz\\_Alasgarov](https://en.wikipedia.org/wiki/Murtuz_Alasgarov)

<sup>34</sup> [https://en.wikipedia.org/wiki/Rasul\\_Guliyev](https://en.wikipedia.org/wiki/Rasul_Guliyev)

<sup>35</sup> [https://en.wikipedia.org/wiki/Ogtay\\_Asadov](https://en.wikipedia.org/wiki/Ogtay_Asadov)

<sup>36</sup> [https://en.wikipedia.org/wiki/Sahiba\\_Gafarova](https://en.wikipedia.org/wiki/Sahiba_Gafarova)



from public administration, decision-making, and the ownership of businesses he previously controlled. His capital and business structures are also concentrated in the property of the ruling family. The Ministry of Communications and High Communications, to which the transport sector was merged, has also had a management system since then.

Baylar Ayyubov<sup>37</sup>, the head of the Security Service of the President, still holds the same position. Although articles have been published in the local press, saying his ability to influence business and political governance was restricted, it has not yet been officially confirmed.

Although Farhad Aliyev, the former Minister of Economic Development, was replaced by another oligarch, Heydar Babayev, the ministry later underwent changes to move from oligarchic governance to managerial governance. After Heydar Babayev's successor Shahin Mustafayev<sup>38</sup> was appointed Deputy Prime Minister, he was replaced by Mikayil Jabbarov<sup>39</sup>, who was the first on the basis of managerial governance. Prior to his appointment as Minister of Economy in 2019, Mikayil Jabbarov served as Minister of Education in 2013-2017 and Minister of Taxes in 2017-2019.

In the modern history of Azerbaijan, the history of managerial governance is very young compared to oligarchic governance, and this history began with the appointment of Mikayil Jabbarov as Minister of Education and was a pilot until 2018. The list of pilot ministries also includes the Ministry of Communications and High Communications, the Ministry of Energy, and the Ministry of Taxes. After the presidential elections<sup>40</sup> on April 11, 2018, the expansion of managerial governance of line ministries implementing state policy has begun. By presidential decrees, the Ministry of Agriculture, the Ministry of Labor and Social Protection of Population, and the Ministry of Ecology and Natural Resources have been transferred to the managerial governance system in 2018, the Ministry of Economy - in 2019, the Ministry of Culture - in 2020, and the Ministry of Health - in 2021. It is expected that in the near future, the Ministry of Sports and Youth will be transferred to the managerial governance system.

Apparently, to date, the oligarchs have been removed from the management of all remaining ministries, except for the Minister of Finance, law enforcement, and defense. At present, the oligarchs are being removed from state-owned companies (SOCs). The

---

<sup>37</sup> [https://az.wikipedia.org/wiki/B%C9%99v%C9%99r\\_Eyyubov](https://az.wikipedia.org/wiki/B%C9%99v%C9%99r_Eyyubov)

<sup>38</sup> [https://en.wikipedia.org/wiki/Shahin\\_Mustafayev](https://en.wikipedia.org/wiki/Shahin_Mustafayev)

<sup>39</sup> [https://en.wikipedia.org/wiki/Mikayil\\_Jabbarov](https://en.wikipedia.org/wiki/Mikayil_Jabbarov)

<sup>40</sup> [https://en.wikipedia.org/wiki/2018\\_Azerbaijani\\_presidential\\_election](https://en.wikipedia.org/wiki/2018_Azerbaijani_presidential_election)

current government, which wants to achieve this through the transition to a corporate governance system, is currently working to establish a Supervisory Board and improve the management structure of large SOCs. One of the goals of this approach is to involve managers in the management of SOCs.

During the initial period of the transition from oligarchic governance to managerial governance in Azerbaijan, the subject of this transformation included the central executive bodies implementing the state policy, line ministries. Over the past three decades, the Soviet-era model of single-handed management and administration in large state-owned companies engaged in the provision of public (gas, water, electricity, etc.), transport (air, rail, water, road, metro), and communications (internet, telecommunications, etc.) services resulted in inefficient spending of budgets, loans, and funds collected from customers. Although state-owned companies (SOCs) operating in this area were registered as large taxpayers, in the end, it turned out that they received more than they paid to the budget<sup>41</sup> and used foreign loans guaranteed by the state inefficiently. The leaders of SOCs, who spend their special, budget, and debt funds in a non-transparent manner and without accountability, also joined the ranks of the oligarchs. The leaders of the State Oil Company of the Republic of Azerbaijan (SOCAR), Azerbaijan Airlines (AZAL), Azersu, Azerenergy, Azerishig, Azerbaijan Railways, Amelioration and Water Management took the leading position among them.

The Opinion<sup>42</sup> of the Chamber of Accounts on the Draft Law of the Republic of Azerbaijan On Execution of the State Budget of the Republic of Azerbaijan for 2019 and the Annual Report on Execution of the State Budget states that a comparison of the funds executed from the state budget for six large state taxpayers and their payments to the state budget (receipts by tax authorities) showed that the amount of taxes and other payments paid to the state budget by five other large taxpayers, except for Azerbaijan Airlines CJSC, was less than the funds executed by these enterprises from the state budget. Such that Azerbaijan Railways CJSC paid 10.8 million manats to the budget and received a subsidy of 652 million manats from the budget, Azersu OJSC paid 24.6 million manats and received 483.7 million manats, SOCAR Azerigas CJSC paid 34.2 million manats and received 462.3 million manats, Azerenergy OJSC paid 90.8 million manats and received

---

<sup>41</sup> Large taxpayers received more than they paid to the budget, [https://maide.az/rivergid\\_h452579.html](https://maide.az/rivergid_h452579.html)

<sup>42</sup> Opinion of the Chamber of Accounts on the Draft Law of the Republic of Azerbaijan On Execution of the State Budget of the Republic of Azerbaijan for 2019 and the Annual Report on Execution of the State Budget, [https://sai.gov.az/files/2019-REY\\_%C4%B0CRA.pdf](https://sai.gov.az/files/2019-REY_%C4%B0CRA.pdf)

403 million manats, Caspian Shipping CJSC paid 24.5 million manats and received 44.5 million manats, Azerbaijan Airlines CJSC paid 35.9 million manats and received 10 million manats. The subsidies received by these large companies from the budget are more than 2 billion manats. While state-owned companies received 4 billion manats in subsidies from the budget, they paid only 1.847 billion manats to the budget. 1.411 billion manats of this payment were paid by SOCAR. 436 million manats fell to the share of other companies. This amount was paid to each of the above companies. In 2019, the share of state-owned enterprises in the structure of revenues provided to the state budget through the State Tax Service amounted to 24.1%, decreased by 36,780.1 thousand manats or 2.0% compared to 2018.

Foreign debts arising from the activities of state-owned enterprises are also increasing. Such that at the beginning of 2020, the foreign debt of the Azerbaijani state amounted to \$ 9.091 billion, of which \$ 390 million fell to Amelioration and Water Management OJSC, \$ 970.3 million to Azersu, \$ 885.8 million to Azerbaijan Railways. According to the agreements signed, additional debt of \$ 627.1 million will be attracted for Amelioration and Water Management OJSC, \$ 1.269 billion for Azersu, and \$ 1.368 billion for Azerbaijan Railways.

The abovementioned facts show that state-owned companies are a heavy burden on the state budget. It is not known from what sources the companies' expenses increased and for what purpose the allocated subsidies were used. Because companies do not have accountability and transparency in their activities, access to necessary information is limited. Heavy financial security resulting from the management of companies stems from poor management. Therefore, by the Presidential Decree dated August 7, 2020<sup>43</sup>, in order to manage state-owned companies and enterprises, as well as economic societies with state share, on the basis of unified principles, improve their activities, as well as increase the transparency and economic efficiency of their investment programs, increase competitiveness, improve financial health and sustainability, the Azerbaijan Investment Holding was established and its Supervisory Board was formed. State companies and enterprises, as well as economic societies with state share, to be rehabilitated were transferred to the management of the Azerbaijan Investment Holding by the Presidential

---

<sup>43</sup> Decree of the President of the Republic of Azerbaijan on the establishment of the Azerbaijan Investment Holding, August 7, 2020, <https://www.taxes.gov.az/az/post/1129>

Decree dated November 5, 2020<sup>44</sup>, a total of 22 companies, 5 of which are subordinated to the Ministry of Transport, Communications, and High Technologies of the Republic of Azerbaijan, have been transferred to the management of the Azerbaijan Investment Holding.

Thus, starting from 2020, a number of steps are being taken to implement a modern corporate governance model in large state-owned companies. For this purpose, the legal framework and institutions are being formed, which creates the basis for replacing oligarchs, who are the leaders of the SOCs, with managers. Such that by the Decree<sup>45</sup> of President Ilham Aliyev dated January 23, 2021, on measures to improve the management of the State Oil Company of the Republic of Azerbaijan, the Supervisory Board of SOCAR was established to exercise general management and control over the activities of the State Oil Company. On March 30, 2021, the Presidential Decree approved the composition of the Supervisory Board of Azerbaijan Airlines Closed Joint-Stock Company<sup>46</sup>, BakuBus Limited Liability Company<sup>47</sup>, Azerbaijan Railways Closed Joint-Stock Company<sup>48</sup>, and Baku Metro Closed Joint-Stock Company<sup>49</sup>.

On May 8, 2021, the Decree of the President of the Republic of Azerbaijan No. 844 dated January 24, 2003, on improving the structure of the State Oil Company of the Republic of Azerbaijan was amended.<sup>50</sup> The management structures provided for in the Charter of the State Oil Company of the Republic of Azerbaijan approved by this decree were abolished and new ones were established. With this decree, the approval of the Company's structure in coordination with the President of the Republic of Azerbaijan

---

<sup>44</sup> List of state companies and enterprises, as well as economic societies with state share, to be transferred to the management of the Azerbaijan Investment Holding, November 5, 2020, <https://president.az/articles/45523>

<sup>45</sup> SOCAR's Supervisory Board was established, January 23, 2021, [https://apa.az/az/daxili\\_siyaset/SOCAR-in-Musahid-Surasi-yaradilib-625876](https://apa.az/az/daxili_siyaset/SOCAR-in-Musahid-Surasi-yaradilib-625876)

<sup>46</sup> Order of the President of the Republic of Azerbaijan on approval of the composition of the Supervisory Board of Azerbaijan Airlines Closed Joint-Stock Company, March 30, 2021, <https://president.az/articles/50966>

<sup>47</sup> Order of the President of the Republic of Azerbaijan on approval of the composition of the Supervisory Board of BakuBus Limited Liability Company, March 30, 2021, <https://president.az/articles/50965>

<sup>48</sup> Order of the President of the Republic of Azerbaijan on approval of the composition of the Supervisory Board of Azerbaijan Railways Closed Joint-Stock Company, March 30, 2021, <https://president.az/articles/50963>

<sup>49</sup> Order of the President of the Republic of Azerbaijan on approval of the composition of the Supervisory Board of Baku Metro Closed Joint-Stock Company, March 30, 2021, <https://president.az/articles/50964>

<sup>50</sup> Decree of the President of the Republic of Azerbaijan on Amendments to the Decree of the President of the Republic of Azerbaijan dated January 24, 2003, No. 844 on improving the structure of the State Oil Company of the Republic of Azerbaijan, <https://president.az/articles/51420>

was entrusted to the Azerbaijan Investment Holding (AIH). At the same time, the decree stipulates that the decisions on the establishment, reorganization, and liquidation of the bodies included in the structure of the company, as well as subsidiaries and affiliates, are made by the Supervisory Board of the Company. The decree states that the company applies advanced corporate governance standards in its activities and management. The company's corporate governance standards are approved by the AIH.

As for the management structure, this decree defines the supreme governing body of the company as its General Meeting. The governing bodies of the company are the Supervisory Board and the collegial executive body is the Management Board. The general management and control of the company's activities are carried out by the Supervisory Board of the Company. The Supervisory Board consists of 7 (seven) members who are appointed and dismissed by the President of the Republic of Azerbaijan. Members of the Management Board of the Company may not be appointed members of the Supervisory Board. The term of office of the members of the Supervisory Board is 3 (three) years.

The current management of the company's activities is carried out by the Management Board of the Company. The Management Board consists of 14 (fourteen) members - President of the Company, First Vice President of the Company, Vice President for Geology and Geophysics, Vice President for Field Development, Vice President for Economic Issues, Vice President for Refining, Vice President for Investments and Marketing, Vice President for Social Issues, Vice President for Ecology, Vice President for HR, IT, and Regulations, Vice President for Strategic Development, Vice President for Oil and Gas Transportation and Gas Facilities, and Vice President - who are appointed and dismissed by the President of the Republic of Azerbaijan.

In the previous structure, SOCAR was governed by its president and vice presidents. According to this structure, SOCAR has 12 vice-presidents, 12 deputy vice-presidents, 12 administrative assistants, and 34 advisers. Apparently, the new system serves to redistribute management powers in SOCAR and put an end to single-handed management. After that, the newly formed Management Board of SOCAR will be engaged in current affairs, and the Supervisory Board will monitor their activities. However, all this is now reflected in the decrees. SOCAR, AZAL, and other SOCs are still run by oligarchs under the old rules. However, I think that starting from the second half of this year, the process of replacing the oligarchs with managers will begin in these SOCs. Effective implementation of this process and leading to qualitative changes in the

SOCs will be possible only after the privatization and the emergence of a real class of shareholders. This still requires a lot of work. We are still at the beginning of a long journey aimed at the transition from oligarchic governance to managerial governance in the SOCs.

The rule of communist-minded fathers and oligarchic-minded sons, who were appointed to high positions in the government during the rule of Heydar Aliyev in Azerbaijan, continued in the first decade of Ilham Aliyev's rule. As a result of some steps taken in connection with the implementation of the Decree of the President of the Republic of Azerbaijan on some measures in the field of organization of e-services of state bodies and public legal entities established by the President of the Republic of Azerbaijan<sup>51</sup> in 2011 and measures taken to increase transparency and promote open government in the Development Concept "Azerbaijan 2020: Look into the Future"<sup>52</sup> adopted in 2012 and in the National Action Plan for the Promotion of Open Government for 2012-2015<sup>53</sup> approved by the Order of the President of the Republic of Azerbaijan No. 2421 dated September 5, 2012, the start of the process of replacing old staff with new ones and oligarchs with managers has led to some changes in public administration. On November 24, 2016, the President signed a Decree on some measures to improve public administration in the Republic of Azerbaijan<sup>54</sup> as the fall in oil prices<sup>55</sup> on the world market since the third quarter of 2014 and the new economic situation created by the devaluation in 2015 increased the importance of these changes. The Presidential Decree dated December 6, 2016, approved the Strategic Roadmap for the National Economic Prospects of the Republic of Azerbaijan<sup>56</sup> and the strategic roadmaps for 10 additional sectors. The Strategic Roadmap identified four key strategic objectives for the prospects of the Azerbaijani economy. Four strategic goals were selected to achieve these objectives. The first goal was to ensure fiscal durability and stability and consistently implement monetary policy, the second goal was to carry out reforms and consistently

---

<sup>51</sup> Decree of the President of the Republic of Azerbaijan on some measures in the field of organization of e-services of state bodies and public legal entities established by the President of the Republic of Azerbaijan, <http://www.e-qanun.az/framework/21716>

<sup>52</sup> Development Concept "Azerbaijan 2020: Look into the Future", December 29, 2012, [https://president.az/files/future\\_az.pdf](https://president.az/files/future_az.pdf)

<sup>53</sup> National Action Plan for the Promotion of Open Government for 2012-2015, September 5, 2012, <http://www.e-qanun.az/framework/24193>

<sup>54</sup> Decree of the President of the Republic of Azerbaijan on some measures to improve public administration in the Republic of Azerbaijan, November 24, 2016, <http://e-qanun.az/framework/34171>

<sup>55</sup> Crude oil prices down sharply in fourth quarter of 2014, U.S. Energy Information Administration, <https://www.eia.gov/todayinenergy/detail.php?id=19451>

<sup>56</sup> Strategic Roadmap for the National Economic Prospects of the Republic of Azerbaijan, <http://iqtisadiislahat.org/store/media/documents/38542.pdf>

implement privatization of state-owned enterprises, the third goal was to increase and comprehensively develop human capital, which is the most valuable capital of modern times, and the fourth goal was to create a favorable environment for any sphere and area of business in the country and further develop and improve the existing business environment. However, the stabilization and re-rise of oil prices on the world market since 2017 has pushed the policy towards structural reforms and personnel changes back into the background.

Thus, since the steps taken to create a civil service institution that meets professional and modern requirements have not been systematic, since the changes in governance have become dependent on world oil prices, with the establishment of the vice-presidential institution and its office, the duplication of the prime minister's institution and its office led to the increase of the staff in the administration.

Although President Ilham Aliyev said in his closing remarks at a meeting of the Cabinet of Ministers on the results of socio-economic development in 2018 and the tasks ahead<sup>57</sup>: “Structural reform is expected now. Because the structure in governance is outdated now. There must be a new governance structure - more flexible, more concise, more purposeful. Because new institutions are created over the years. When they are created, it is not so noticeable. One is there, one is here, agencies and services were established. Then we see that the number of the staff has been greatly increased in our governance structure.”

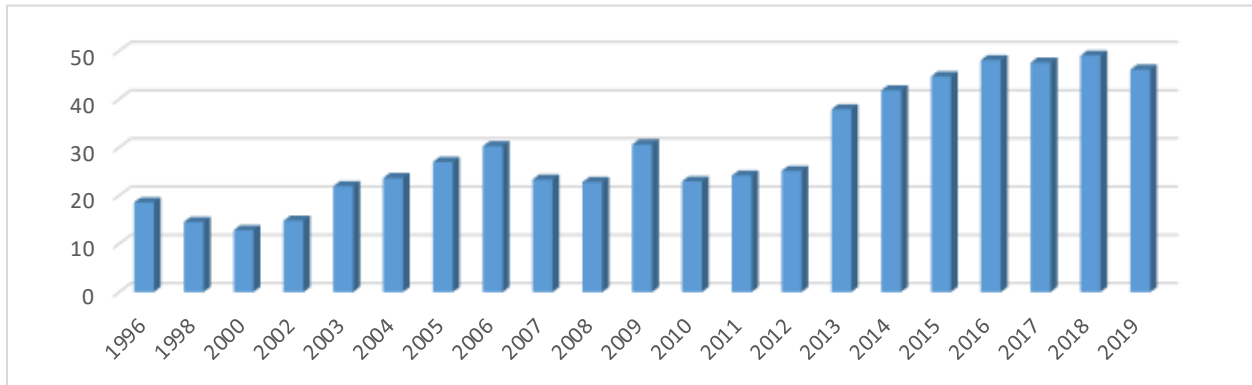
After that, in 2019, in order to further improve public administration, optimize the activities of state bodies and agencies, and ensure the efficient use of state budget funds, the President, who signed a Decree on additional measures to improve public administration in the Republic of Azerbaijan<sup>58</sup>, decided to reorganize the activities of the Science Development Foundation under the President of the Republic of Azerbaijan and the Baku International Center for Multiculturalism on the basis of self-financing, to abolish the State Agency for Alternative and Renewable Energy Sources of the Republic of Azerbaijan, the Knowledge Fund under the President of the Republic of Azerbaijan, and the Center for Strategic Studies under the President of the Republic of Azerbaijan, as well as to abolish the Secretariat of the Tariff (Price) Council of the Republic of Azerbaijan and reorganize its activities on a voluntary basis. However, in spite of all this, the situation in Azerbaijan has worsened compared to 2018 in the Government Effectiveness index of the World Bank's Worldwide Governance Indicators. This can be seen in the figure below.

---

<sup>57</sup> Meeting of the Cabinet of Ministers chaired by Ilham Aliyev on the results of socio-economic development in 2018 and the tasks ahead, January 11, 2019, <https://president.az/articles/31504>

<sup>58</sup> Decree of the President of the Republic of Azerbaijan on additional measures to improve public administration in the Republic of Azerbaijan, January 14, 2019, <http://www.e-qanun.az/framework/41202>

Figure 1. Government Effectiveness<sup>59</sup>, 1996-2018



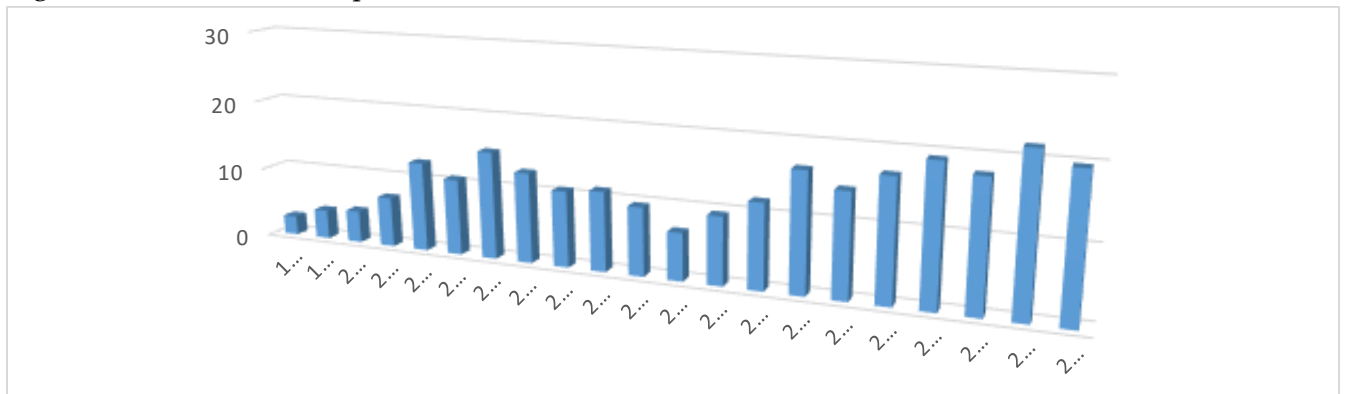
Source: World Bank, The Worldwide Governance Indicators (WGI) 2020

Government effectiveness refers to the perception of the quality of public services, the quality of the civil service and its degree of dependence on political pressure, the quality of the formation and implementation of public policy, as well as the reliability of the government's commitment to such policies.<sup>60</sup> Being close to 100 is good here, and being close to 0 is bad.

As can be seen from the figure, the dynamics of this indicator from 1996 to 2018 were positive but the situation began to deteriorate in 2019.

To get acquainted with the situation with the Control of Corruption index of the World Bank's Worldwide Governance Indicators, let's look at the figure below.

Figure 2. Control of Corruption<sup>61</sup>, 1996-2018



Source: World Bank, The Worldwide Governance Indicators (WGI) 2020

<sup>59</sup> The Worldwide Governance Indicators (WGI), World Bank Institute, <https://info.worldbank.org/governance/wgi/>

<sup>60</sup> Kaufmann, Daniel and Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430, Available at SSRN: <https://ssrn.com/abstract=1682130>

<sup>61</sup> The Worldwide Governance Indicators (WGI), World Bank Institute, <https://info.worldbank.org/governance/wgi/>



Control of corruption includes the degree to which petty and large forms of corruption are used for personal gain, the elite (oligarch) and individual interests, as well as the seizure of the "state" in these ways. Being close to 100 is good here, and being close to 0 is bad.

As can be seen from the figure, the situation in this area in Azerbaijan is deteriorating. The same trend can be observed in such indexes as the Regulatory Quality, the Rule of Law, and the Voice and Accountability. In our opinion, this can be explained by the fact that the steps taken by the Azerbaijani government, which was concerned about the fall in oil prices in 2014, to improve the governance structure in 2016 slowed down after 2018. In short, the government has failed to demonstrate its loyalty to its commitments.

The COVID-19 pandemic has exacerbated the negative trend in the quality of governance. Such that the new governance methods and initiatives used until then during the pandemic immediately revealed the weaknesses of the existing e-government. Electronic systems could not stand against the mass appeals during the sale of affordable apartments on preferential terms by the relevant government agencies, the rental of apartments, the allocation of one-time assistance of 190 manats, in short, e-government collapsed.

The pandemic showed that not only companies but also states need to improve their management and governance structures and bring them into line with modern requirements. At the same time, it is necessary to constantly innovate in public administration to ensure financial efficiency, transparency in terms of service to citizens, and satisfaction.

Daron Acemoglu and James Robinson argue in their book "Why Nations Fail"<sup>62</sup> that, "society has the opportunity to develop when it has inclusive, that is, pluralistic political institutions that treat everyone's interests equally and fairly. Institutions that do the opposite are exploitative political institutions that serve the interests of a small group or elite." Exploiting political institutions concentrate power in the hands of a small elite group and are structured appropriately to exploit rent-seeking resources, especially in resource-rich countries. In many post-Soviet countries, including Azerbaijan, this function was initially taken over by Communist Party leaders and later by oligarchs.

Recently, there has been a transition from oligarchic governance to managerial governance in Azerbaijan. However, since the transformation from oligarchic governance to managerial governance in Azerbaijan has not been accompanied by structural reforms, since an economic system based on pluralism and free competition has not been established, it only creates the image of personnel changes and has a short-term effect on the quality of public administration, while in the medium and long term, the administration returns to its previous bad state.

---

<sup>62</sup> Acemoglu and Robinson 2012, *Why nations fail: the origins of power, prosperity, and poverty* page 81, <http://norayr.am/collections/books/Why-Nations-Fail-Daron-Acemoglu.pdf>

In order to achieve a qualitative change in governance and the effective functioning of structures, government agencies must provide transparent and accountable services to citizens, and constantly innovate public services to ensure citizen satisfaction. This can be done only by creating a free and competitive environment in all areas, i.e. through reforms. In our opinion, the concept of public administration reform should aim at the establishment of professional civil service institutions, and the functions of policy definition and regulation in the central executive bodies implementing public policy should be separated. In addition, parallel structures, especially in the central executive power, must be eliminated, administrative and fiscal centralization must be started, innovations must be introduced in public administration, and the rule of law must be ensured.

First of all, structural reforms must be started. Such that despite the fact that the number of public legal entities established in Azerbaijan after 2015 exceeds 50<sup>63</sup>, the number of ministries currently performing the functions of the central executive power in Azerbaijan is 17, the number of state committees is 7, and the number of state services and agencies is 7.<sup>64</sup>

The list of ministries and state committees from the central executive authorities is presented in Table 1.

Table 1. Existing ministries, state committees, state services and agencies in Azerbaijan

<b>Ministries</b>
1. Ministry of Internal Affairs
2. Ministry of Ecology and Natural Resources
3. Ministry of Energy
4. Ministry of Justice
5. Ministry of Labor and Social Protection of Population
6. Ministry of Emergency Situations
7. Ministry of Youth and Sports

<sup>63</sup> List of public legal entities established in Azerbaijan after devaluation, <https://banker.az/az%C9%99rbaycanda-devalvasiyadan-sonra-yaradilan-publik-huquqi-s%C9%99xsl%C9%99rin-siyahisi/>

<sup>64</sup> Mərkəzi icra hakimiyyəti orqanları, <https://nk.gov.az/az/page/57/>

8. Ministry of Foreign Affairs
9. Ministry of Economy
10. Ministry of Agriculture
11. Ministry of Finance
12. Ministry of Culture
13. Ministry of Defense
14. Ministry of Defense Industry
15. Ministry of Transport, Communications and High Technologies
16. Ministry of Health
17. Ministry of Education
<b>State Committees</b>
1. State Committee for Family, Women and Children Affairs
2. State Committee on Work with the Diaspora
3. State Committee for Work with Religious Associations
4. State Customs Committee
5. State Statistical Committee
6. State Committee on Urban Planning and Architecture
7. State Committee on Affairs of Refugees and Internally Displaced Persons

Source: Cabinet of Ministers

In our opinion, by transforming the Ministry of Emergency Situations into the state service, transforming the Ministry of Defense Industry into the state concern, merging the Ministry of Health, the State Committee for Family, Women and Children Affairs, and the State Committee on Affairs of Refugees and Internally Displaced Persons with the Ministry of Labor and Social Protection of Population, merging the Ministry of Sports and Youth with the Ministry of Culture, merging the Ministry of Ecology and Natural

Resources with the Ministry of Agriculture, merging the Ministry of Energy with the Ministry of Economy, merging the State Customs Committee and the State Tax Service with the Ministry of Finance, it is possible to reduce the number of ministries in the country to 11, and by transforming the State Committee on Work with the Diaspora and the State Committee for Work with Religious Associations into public legal entities, it is possible to reduce the number of state committees to 2.

In this case, it would be appropriate to call the Ministry of Labor and Social Protection of Population, which unites the Ministry of Health, the State Committee for Family, Women and Children Affairs, and the State Committee on Affairs of Refugees and Internally Displaced Persons, the Ministry of Labor and Welfare.

Following these structural changes, a list of new ministries and state committees in Azerbaijan is proposed as in Table 2.

<b>Ministries</b>
1. Ministry of Internal Affairs
2. Ministry of Justice
3. Ministry of Labor and Welfare
4. Ministry of Culture, Youth and Sports
5. Ministry of Foreign Affairs
6. Ministry of Economy
7. Ministry of Agriculture, Natural Resources and Ecology
8. Ministry of Finance
9. Ministry of Defense
10. Ministry of Transport, Communications and High Technologies
11. Ministry of Education
<b>State Committees</b>
1. State Statistical Committee

## 2. State Committee on Urban Planning and Architecture

Source: Author's proposals

Structural reforms can not only create new opportunities for more flexible and efficient administrative decision-making but also have a positive impact on the rationalization of state budget management costs. At the same time, this structure can accelerate the transition from oligarchic governance to managerial governance. Therefore, there is a need for a new and conceptual approach to improving the governance system. The new approach should also serve to eliminate the parallelism between the institution of the First Vice President and the institution of the Prime Minister.