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Recent Structural Changes: Reasons and Perspectives

Policy Note

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Recent Structural Changes: Reasons and Perspectives

One of the most discussed issues currently is why several institutions that deal with structural changes have merged with the Ministry of Economy. Firstly, CESD has submitted its structural reforms proposals to the government of Azerbaijan in 2012. At the same time in 2016 alongside with the strategic roadmap that was drafted, we also prepared and submitted to the government our package of proposals related to the post-oil challenges. In our offers, the unification of the Ministry of Economy with the Ministry of Taxes was not reflected.

Generally, we were not considering unification of these two institutions from the economic point of view – the unification of the Ministry of Taxes with the State Customs Committee and Ministry of Finances both sound more reasonable. The suggestions that we prepared in 2012 and 2016 included the above-mentioned unification as well as several offers related to tax administration. We suggested such changes to the managerial structure so that the Ministry of Finance would be responsible for direct tax collection. It is more reasonable from a fiscal point of view because the main function of the Ministry of Finances is fiscal function. For this reason, the Ministry of Finances could also control taxes and customs' fees. Practically, the Ministry of Finances would be responsible for tax collection on the one hand, while on the other it would monitor budget forecasting according to the level of collections.

At the same time, we did not recommended the unification of the State Service of Antimonopoly Policy and Protection of Consumers' Rights with the Ministry of Economy. The function of this agency in the market is the fight against

monopoly. At the same time, it is also obliged to determine the level of influence of state agencies in the market with relation to monopoly. There are some enterprises under the jurisdiction of the Ministry of Economy that could take a monopolistic position in the market from both a theoretical and a practical point of view.

In this regard it is more advisable for the agency to act as an independent state entity, as one of the functions of this agency includes the control of certain enterprises under the jurisdiction of the Ministry of Economy. If there is a monopoly, then it becomes clear that there is a need to strengthen anti-monopoly control. From this perspective, by being under the jurisdiction of the Ministry of Economy, it would be impossible to carry out the control. It is important to keep in mind this conflict of interests. Therefore, we propose the withdrawal of the State Service of Antimonopoly Policy and Protection of Consumers' Rights from the Ministry of Economy and support its elevation to an independent agency. Actually, a decision on the independent activity of this agency was passed some time ago. Previously, this agency operated under the Ministry of Economy and it was later decided to establish it as an independent entity. However, after a short period this organization was merged into the Ministry of Economy. We, once again, support its separation to an independent body.

It is possible to combine several political structures, rather than the Ministry of Taxes, into the Ministry of Economy and meet positive results. For example, it is more advisable to combine the Ministry of Agriculture with the Ministry of Economy.

CESD has some misgivings with regard to recent structural reforms. During the latest meetings, the President of Azerbaijan highlighted 3 important problems and tasked the government with strengthening the fight against them. The problems include: the fight against the shadow economy, the fight against

monopoly and the elimination of unfair competition. In order to comprehensively address these challenges, there is a need to create a separate body to fight monopolies and provide the Ministry of Economy with the necessary tools to fight against the shadow economy. It is assumed that its recent consolidation with the Ministry of Taxes will allow for such an expansion of its activities in this direction. So, the new Ministry of Economy will now be at the forefront of the fight against informal employment. There is a law, a Competition Code, that the Parliament has been putting off ratifying for 10 years – in order to protect competition the adoption of the Competition Code is very important. Unfair competition is more related to the state officials.

CESD supports the continuation of recent changes in officials as it seems important from the perspective of the fight against monopoly and the shadow economy. At the same time CESD proposes the continuation of personnel reforms within the government and, especially, calls for the involvement of new faces. Even though the government has recently attempted to implement new initiatives to draw in fresh, young people, most staff changes seem to be characterized by internal reshuffling. Therefore, we consider the attraction of the new faces to the government much more desirable and would like to see greater efforts made in this direction.

We hope that personnel changes will increase the share of the legal economy and, in particular, wield positive changes in Azerbaijan's talks with the WTO (World Trade Organization). The WTO means transparency and free competition. Azerbaijan has been negotiating with the WTO since 1997, yet, despite 22 years of talks there are no results. CESD has repeatedly pointed out the importance of WTO membership for Azerbaijan and we submitted our proposals based on econometric assessment to the government. Unfortunately, there are no steps forward in this procedure. Unless Azerbaijan becomes a member of the WTO, investment in the non-oil sector and the outflow of non-

oil products into the world market will be difficult. The reasons given for extending admission negotiations are suggestions of its negative impact on the agrarian and service sectors.

CESD has produced several studies relating to Azerbaijan's WTO accession and we need not go into minute detail here. We would just like to ask – have the banking and agrarian sectors in Georgia – who has been a member for 19 years – been destroyed? On the contrary, Azerbaijan imports agricultural products from Georgia and some Azerbaijani citizens have even opened bank accounts in Tbilisi. Therefore, it seems important to demonstrate a new approach to this issue. As it stands, only three countries in the CIS are not members of the WTO: Azerbaijan, Belarus and Turkmenistan.

Lastly, it is important to continue the momentum created by these structural reforms. In this vein, CESD also proposes the creation of single entities in water, energy and other sectors. At the same time we propose the privatization of public utilities, as well as 49% of AZAL's shares. CESD also submitted its proposals on the privatization of two state banks (International Bank of Azerbaijan and Azeri Turkish Bank) to the government. These processes should not be completed only with existing structural reforms.

Conclusion and recommendations

As it becomes clear both international practices and the economic policies of a country were not fully considered while planning the recent structural reforms. As a result of the reforms bodies that were supposed to check each other have been united as one entity, which could pose problems for the future. Especially the unification of the State Service of Antimonopoly Policy and Protection Consumers Rights with the Ministry of Economy may create some difficulties in terms of combating monopolies. Instead, it seems more

relevant to reform other significant sectors, such as utilities, energy and air transport. These reforms will have positive impact on the economy and trade liberalization.

Current changes in personnel illustrate that the principle of internal reshuffling is preferred to the recruitment of new personal. This means that the government is striving to use its existing staff's potential, rather than bring in fresh faces and ideas.

Recommendations:

1. There is a need to revise the latest structural reforms and separate the State Service of Antimonopoly Policy and Protection Consumers Rights from the Ministry of Economy. The agency has to operate as an independent entity in order improve the level of the fight against monopolies. There is also a need for independent monitoring, as some of the entities reviewed are under the jurisdiction of the Ministry of Economy.
2. The unification of the Ministry of Taxes and the State Customs Committee under the Ministry of Finance is a desirable reform. There's a necessity for these united entities to operate as a special department under the Ministry of Finances so that fiscal policy could be better controlled by one institution.
3. Focusing on other sectors as targets of structural reforms is very important in terms of fighting against the shadow economy. In this regard, there is a need to create a single agency for the water and energy sectors. In particular, AZAL needs to start its privatization process.

4. Reforms should not follow common processes – there is a need to put structural and personnel changes at the forefront of reform processes. Such a development would enable society to benefit from these reforms and provide for their effective implementation.
5. The government needs to recruit new staff. Developing countries' experiences show that the effectiveness of reforms depends on new personnel and on the extent that they are represented in the government.
6. There is a need to accelerate Azerbaijan's WTO accession. This is important from the perspective of the fight against monopolies and for the liberalization of the economy.
7. There is a need to minimize government officials' interference in the economy. It seems important to improve current legislation and implement it fully in order to eliminate officials' vested business interests and increase competition.