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Systemic Corruption and Mismanagement in Azerbaijan's Water Sector: The Human and Economic Toll

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Abstract

The pervasive reach of corruption extends far beyond individuals, impacting entire populations and critical infrastructure. This paper examines a tragic event that occurred on October 22, 2024 in Baku's Sabunchu district, where two drivers lost their lives, not to floodwaters, but to the consequences of systemic corruption embedded in the city's sewer infrastructure. Their deaths illustrate the tangible and fatal outcomes of financial mismanagement and the inefficiency in the allocation of public funds. This study delves into the corruption surrounding the allocation of resources to "Azersu" (Azerwater) OJSC, prior to the establishment of the Azerbaijan State Water Resources Agency. Furthermore, it analyzes the role of international financial aid, particularly from the World Bank, alongside revenue from water consumers, to expose the extent of mismanagement within Baku's water resources. The findings highlight the broader societal impact of these governance failures, emphasizing the urgent need for reform.

Keywords: Azerbaijan, Corruption, Mismanagement, Water Sector, Water Supply, Sanitation Services

It is important to recognize that the World Bank's first significant project in Azerbaijan was within the water sector. In 1995, the Bank allocated \$100 million to Azersu OJSC, under state guarantees, as part of the Greater Baku Water Supply Rehabilitation Project. This initiative laid the groundwork for subsequent projects, including the National Water Supply and Sanitation Services Projects I and II, implemented with “Azersu” OJSC. As a result, the World Bank allocated over \$700 million in total for water supply and sewerage services across these two projects¹.

According to the Ministry of Finance, as of January 1, 2023, “Azersu” OJSC had planned foreign debt of \$1.1842 billion, with actual debts amounting to \$767.7 million. Most of this credit was obtained with state guarantees and transferred to the executing body.

In addition, “Azersu” OJSC² has borrowed funds from Germany’s state bank KfW, France's corporate and investment bank Natixis, the Asian Development Bank (ADB), and the Ministry of Finance, also under state guarantees. A significant portion of the loans provided by the World Bank and other international organizations is repaid through state budget allocations, as Azersu has consistently operated at a loss since its inception. To date, “Azersu” OJSC has accumulated losses exceeding 8 billion manats, and this amount continues to grow every year. According to the company’s most recent financial report for 2022³, the joint-stock company ended the year with a net loss of 180.514 million manats. As a result, the company's accumulated losses increased by 2.3%, reaching 8.036 billion manats. It should also be noted that despite the year 2023 coming to an end in two months and one week, “Azersu” OJSC has yet to disclose its financial report for the current year.

Furthermore, the office building project carried out by “Azersu” OJSC, involving Germany’s Heerim and South Korea’s Halla companies, had a total cost of \$120 million or 204 million manats⁴.

As of January 1, 2023, “Azersu” OJSC’s assets amounted to 1.298 billion manats, representing a 27.1% increase compared to the previous year. In 2022, the joint-stock company’s liabilities increased by 15.6% to 668.881 million manats, and its equity capital grew by 42% to 629.124 million manats.

The financial report characterizing “Azersu” OJSC’s operations in 2022 shows⁵ that revenues from the sale of “drinking water and sewage services” amounted to 278.894 million manats (6.1% more than the previous year), the cost of sales was 134.225 million manats (4.3% higher than the

¹ <https://thedocs.worldbank.org/en/doc/743fec07b7ab3d42111cc0d878f9c673-0080012023/original/Brochure-World-Bank-Faktlar.pdf>

² <https://www.maliyye.gov.az/static/114/xarici-dovlet-borcu-barede-melumat>

³ <https://azersu.az/img/staticPageFile/1689419575Maliyy%C9%99%20hesabatlar%C4%B1%202022-2380864.pdf>

⁴ <https://ayna.az/ziyanla-isleyen-dovlet-sirketinin-120-milyon-dollarliq-ehisami-neye-lazim-idi>

⁵ <https://azersu.az/img/staticPageFile/1689419575Maliyy%C9%99%20hesabatlar%C4%B1%202022-2380864.pdf>

previous year), administrative expenses were 43.175 million manats (50.1% higher than the previous year), distribution and sales costs were 159.368 million manats (8.7% more than the previous year), and other operational expenses were 132.394 million manats (4.2 times less than the previous year). Income from exchange rate differences amounted to 9.705 million manats (5.9% less than the previous year), other revenues were 2.394 million manats (13.5 times less than the previous year), financial expenses were 2.27 million manats (34.2% less than the previous year), lease obligation interest expenses were 53,000 manats (11.7% less than the previous year), and profit tax payments amounted to 22,000 manats (27.2 times less than the previous year). As evident, "Azersu" OJSC's main revenue from operations, administrative expenses, and sales and distribution costs increased in 2022. One notable positive change in the report is the decreasing trend in other operating expenses, losses, and debt obligations. Specifically, "Azersu" OJSC's other operating expenses were 132.394 million manats in 2022, which is 4.2 times less than the previous year. As for losses, this figure decreased by 371.716 million manats or 67.3% compared to 2021. Additionally, "Azersu" OJSC's interest-bearing loan and debt obligations amounted to 255.329 million manats as of January 1, 2023, which is 1.8% less compared to January 1 of the previous year.

As of July 1, 2023, "Azersu" OJSC, which is now part of the Azerbaijan State Water Resources Agency, had 1,792,731 subscribers⁶. This is a 4.5% increase compared to July 1 of the previous year. Of the subscribers, 1,721,644 (96%) were households, and 71,087 (4%) were non-household groups. As we can see, the number of "Azersu" OJSC subscribers is increasing, which has a positive impact on its service fee revenue.

It is also worth noting that "Azersu" OJSC is one of the largest public service providers that receives substantial subsidies and investments from the state budget. In 2013, the former chairman of "Azersu" OJSC, Gorkhmaz Huseynov, stated that from 2003 to 2013, more than 2.8 billion manats were allocated to the water supply and sewage sector from various sources. 1.8 billion belongs to the state budget, 779 million manats to the State Oil Fund, and 196 million manats to foreign financial institutions. According to official statistics, including additional paid-in capital, the total amount of state investments provided to "Azersu" OJSC by the end of 2015 was 4.3 billion manats, and by the end of 2019, this amount had reached 6.9 billion manats. In 2022, "Azersu" OJSC received 4.3 million manats from the state budget⁷ to meet its financial obligations to the "Suez Group." According to the Accounts Chamber⁸, while "Azersu" OJSC contributed 10.6 million manats to the state budget in 2020, the expenditures from the state budget for that year

⁶ <https://report.az/infrastruktur/azersu-abonentlerinini-sayini-5-artirib/>

⁷ https://sai.gov.az/files/R%C9%99y-2022_final-834655659.pdf

⁸ [https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20\(3\)-188749903.pdf](https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20(3)-188749903.pdf)

amounted to 401.7 million manats, meaning that "Azersu" received nearly 40 times more from the state budget than it contributed.

Data on the execution of the 2023 state budget show⁹ that "Azersu" OJSC was allocated 192.8 million manats for capital expenditures, of which 48.7%, or 93.9 million manats, was spent in the fourth quarter. Research indicates that a portion of the funds spent at the end of the fiscal year, in the fourth quarter, is documented through paperwork and then written off.

In conclusion, it should be noted that since its establishment, "Azersu" OJSC has spent more than 10 billion manats from the state budget, over 1 billion dollars in loans, and more than 1 billion manats in service fees on projects to improve and develop the water supply and sewerage systems. Currently, "Azersu" OJSC is responsible for preparing and implementing the necessary investment programs for improving and developing the water supply and sewerage systems under the Azerbaijan State Water Resources Agency. "Azersu" OJSC has been involved in the execution of state programs such as the "State Programs on Socio-Economic Development of Baku and Its Suburbs for 2011-2013 and 2014-2016," managing billions of manats in state investments. However, many villages in the Absheron region still lack proper sewerage systems and outlets for wastewater. This is because a significant portion of the funds has been embezzled through fake tenders, leaving Baku's water supply and sewerage systems in a dire state, where even light rain causes fatal consequences.

The "Master Plan for the Development of Baku Until 2040"¹⁰ was approved by Prime Minister Ali Asadov on December 30, 2023. The Master Plan was prepared by the German company "AS+P Albert Speer + Partner GmbH," the winner of an international tender, commissioned by the State Committee on Urban Planning and Architecture. The local project organization, the Baku State Design Institute, along with "Ramboll UK" (Great Britain) and "EY Advisory" (France), were also involved in the preparation, focusing on engineering communication systems, transport, and economic aspects. The total amount allocated for the implementation of the Master Plan is 93.6 billion manats. According to the plan, 60.5 billion manats will come from the state budget funded by oil revenues, and 33.1 billion manats will be provided by the private sector. Of the total 47.6 billion manats to be spent on territorial development by 2040, 30.9 billion manats will be contributed by the private sector, and 16.7 billion manats will come from the state sector.

At the beginning of 2024, the Chairman of the State Water Resources Agency of Azerbaijan, Zaur Mikayilov, said during a public hearing on "Water management of the country: problems and new challenges" in the Milli Majlis¹¹, that the amount of ongoing projects in the country only in

⁹ https://sai.gov.az/files/2023_icra_rey-227333293.pdf

¹⁰ <https://www.arxkom.gov.az/bakinin-bas-plani>

¹¹ <https://meclis.gov.az/news.php?id=5360&lang=az>

drinking water and sewage systems is 2.7 billion manats. . According to him, 10.5 billion manats are needed to bring the water and sewage systems to normal condition in Baku and Absheron Peninsula alone.

The master plan for the development of Baku until 2040 also states that 9.2 billion manats are required for the construction of water and sewage systems in the capital in 2020-2040. Of them, 487.9 million manats are needed for the construction of rain sewerage lines.

Despite the tens of billions already spent, an additional 9.2 billion manats are expected to be spent on the construction of water and sewage systems in the capital until 2040. Undoubtedly, much of this money will be directed toward infrastructure projects and, given the current lack of transparency and accountability, embezzled. Therefore, the following reforms should be implemented:

1. Anti-corruption efforts should be strengthened by increasing transparency and accountability, and tenders should be conducted open and competitively.
2. The private sector should be involved in the management of public utilities, including water supply and sewerage systems, through investment competitions.
3. Through free and fair elections, institutions such as the Greater Baku Municipality and the office of the Mayor of Baku should be established, and the management of public services should be entrusted to them with increased exclusive powers for municipalities.