

THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION

ON THE TOPIC

**“ FINANCIAL ANALYSIS IN THE GOVERNMENT SECTOR –
EVIDENCE FROM AZERBAIJAN ”**

Hasanli Fidan Aghalar

BAKU – 2021

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**Head of the International Center for
Graduated Education**

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AZERBAIJAN ”**

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Elm andı

Mən, Həsənli Fidan Ağalar qızı and içirəm ki, “Financial analysis in the government sector- evidence from Azerbaijan” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

DÖVLƏT SEKTORUNDA MALİYYƏ ANALİZİ – AZƏRBAYCAN SÜBUTUNDA

XÜLASƏ

Tədqiqatın aktuallığı: Azərbaycanda yerli özünüidarə islahatları yerli maliyyəşmə də daxil olmaqla bələdiyyələrin sosial-iqtisadi inkişafının bütün aspektlərini özündə ehtiva edir. Yerli özünüidarəetmə orqanlarının əsas vəzifələri bugünlərdə maliyyəşmə mənbələri tapmaq və yerli büdcələrin tətbiqi ilə bələdiyyə iqtisadiyyatının səmərəli fəalliyətini təmin etməkdir. Hal-hazırda ölkəmizdə bələdiyyə büdcələri onlara verilən səlahiyyətlə müqayisə etdikdə uyğunsuzluq gözəçarpan dərəcədə çoxdur və maliyyəşmə problemi ilə üzləşirlər.

Tədqiqatın məqsədi: Bələdiyyələrdə yerli vergi sisteminin tətbiq edilməsinə baxmayaraq bələdiyyələrdə maliyyəşmə problemi hələ də davam edir və bələdiyyələrin müstəqil maliyyəşmə imkanları yoxdur. Burada əsas problem aşağı dərəcəli yerli vergilər, mövcud vergiləri toplamaqda üzləşdiyi çətinliklərdir. Bu araşdırmaların aparılmasının zəruriliyi mövzunun aktuallığını sübut edir.

İstifadə olunmuş tədqiqat metodları: Bu məqalə, Azərbaycan daxilində dövlət sektorundakı maliyyə hesabatına təsir göstərən fərdi amillərin təsirinin izahedici kəmiyyət araşdırması əsasında hazırlanmışdır. Məlumatlar nəticəyə əsaslanan statistikadan istifadə edilərək analiz ediləcəkdir.

Tədqiqatın informasiya bazası: Dövlət Statistika Komitəsindən əldə edilən məlumatlar əsasında, elmi araşdırmalara əsaslanan fikir və təkliflərə istinad edərək məlumat bazası toplanmışdır.

Tədqiqatın məhdudiyətləri: Bələdiyyələrdə aparılan vergi-uçot bazasındakı çatızmazlıqlar, bələdiyyələrin öz maliyyə fəalliyəti ilə bağlı hesabatları ictimaiyyətdə işıqlandırmamaları.

Tədqiqatın elmi yeniliyi və praktiki nəticələri: Yerli özünüidarə orqanlarının maliyyə təmsilçiliyinin yaxşılaşdırılması və idarəetmədə yerli özünüidarə orqanlarının rolunun artırılması bölgənin sosial-iqtisadi inkişafı ilə ölkələrdə həmişə əhəmiyyətli olmuşdur. Ölkəmizdə on səkkizildən çox müddətdə fəalliyət göstərməsinə baxmayaraq, bələdiyyələrin regional idarəetmədə rolunun artırılması dövlət siyasətinin prioritetlərindən biridir. Bələdiyyələrin idarəetmə kimi istifadəsilə yerli problemlərin həlli əhaliyə ən yaxın quruluş kimi yerli özünüidarəetmənin inkişafını tələb edir.

Nəticələrin istifadə oluna biləcəyi sahələr: Bələdiyyələrdə maliyyə təminatlılığının artırılmasında istifadə oluna bilər.

Açar sözlər: maliyyə analizi, yerli özünüidarə etmə, iqtisadi inkişaf, bələdiyyə mülkiyyəti.

FINANCIAL ANALYSIS IN THE GOVERNMENT SECTOR – EVIDENCE FROM AZERBAIJAN

SUMMARY

The actuality of the subject: For determining financial performance of government sector, we must use all available information to decide whether they work sound and safe, accountable for society. They have power and rights to tax, penalize and fine, issue licenses to act/use/access, etc., make and enforce laws and regulations, employ unique resources, issue debt as a function of the tax base, set monetary policy, and, set fiscal policy.

Purpose and tasks of the research: Despite the creation of a local tax system to strengthen local self-financing, municipalities still lack fixed financial capital. The validity of the presented thesis was also conditioned by the need for nuanced analysis.

Used research methods: This paper fashioned on the basis of exploratory quantitative research of financial reporting in government sector within boundaries of Azerbaijan. Data will be analyzed by using inferential statistics.

The information base of the research: We need balance sheet, income statement and other financial documents. We can find them in their internet sites or we can find available data in the site of State Statistical Committee of the Republic of Azerbaijan.

Restrictions of research: Lack of publicly disclosure of municipalities' financial statements and conditions.

The novelty and practical results of investigation: In democratic countries, increasing the financial representation of local self-government bodies and the role of local self-government bodies in managing the region's socio-economic growth has always been significant.

Scientific-practical significance of results: It can be used in improvement of municipalities' self-financing.

Keywords: financial analysis, local self-governence, municipal property.

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INTRODUCTION

Relevance of the research topic: All reforms in the field of local self-government in Azerbaijan include all aspects of the socio-economic development of municipalities, including local covers finance. Almost the core of local self government task is to develop the socio-economic system in the area, along with the implementation of local budgets find resources to ensure efficient operation and the municipal economy's improvement. Currently given authorities to local governments in the country municipal budgets are insufficient compared to the powers (status). Municipal incomes are related to the living standards of the population (for example, housing and communal services, economy, education, health) is not enough to finance the powers.

Increasing the role of self-government bodies in the promotion of the human factor in regional socio-economic development and independent decision-making in this area and the availability of admissions in this topic remains a topical issue. So with the population the current development and operation of the municipal system selected in terms of direct contact are not always at the desired level.

Despite the strengthening at the expense of the formation of municipalities financial support of local self-government in Azerbaijan depending on the local tax system is still not stable to have financial resources. The main reason for this is the low collection of local taxes level and lack of development of municipal entrepreneurship. In this area A comprehensive analysis of tax and non-tax revenues of local budgets should be conducted and the problems of formation must be theoretically substantiated. All recorded points give relevance to these specific issues of improving the financial security of municipalities. Also presented the need for complex research conditioned the relevance of the topic of the dissertation.

Recently, the legislation on the financial provision of municipalities changes, ie the latest changes in tax legislation are specific to the subject gives relevance. Especially the procedure for paying local taxes and fees non-cash implementation, calculation of property tax from individuals change in the rules of land and mining tax rates optimization of the financial provision of municipalities as a requirement of the day aimed at improving.

Research areas to increase local financial resources at the appropriate level has not been. That is why municipalities are facing financial difficulties there is a need to study the problems.

Monetary investigation of public area is of central worth with the goal for them to work in the long haul. To ensure that a public area's working movement is economical in the long haul, it is significant that monetary soundness is accomplished. Ongoing monetary emergency, which affect the US and European business sectors, has been quite possibly the main subjects to be explored for the academicians. Be that as it may, those investigations are for the most part related with the setting of economy, not with the comprehension of bookkeeping, particularly not with the monetary tables of the legislatures. Monetary tables are the absolute best instruments that show the monetary circumstance of an administration. Different strategies which help to break down a business have not been utilized for the public area bookkeeping. As of late, starting to utilization of the accumulation premise bookkeeping framework gives more useful, solid and similar monetary records of governments. Dependable, educational, straightforward and similar monetary tables will help government to making arrangements, choosing and foreseeing the monetary emergency. In this examination solidified fiscal summaries of government area will be inspected and dissected.

Statement of the problem and learning level: For determining financial performance of government sector, we must use all available information to decide whether they work sound and safe, accountable for society. First of all we must choose entities, which power and rights granted to them and the objective

government sector financial reporting. They have power and rights to tax, penalize and fine, issue licenses to act/use/access, etc., make and enforce laws and regulations, employ unique resources, issue debt as a function of the tax base, set monetary policy, and, set fiscal policy. The statement of the problem of this topic is how can municipalities effectively use their financial resources to improve their economic growth and financial condition.

The point is of high significance to the monetary investigation of government area for perusers. The exploration begins with the idea of government area monetary announcing and afterward proceeds onward key parts of an administration area substance's responsibility revealing and their portrayal. By and by, this is done in a similar way as the drawn out manageability of monetary announcing in assessing a movement of legislative substance should be possible by beginning with the assessment of the current circumstance and afterward fabricating estimates on the current circumstance.

Also, the examination investigates the dissecting of responsibility of public area monetary revealing in Azerbaijan which ought to be featured specifically. A comparative examination has not been found for the country to the best of the information on the analyst. Thusly, this examination enhances the current assortment of exploration by assessing monetary solidness of the greatest holding organization which has numerous auxiliaries and generously affect the monetary dependability of the nation too and the result of this examination will be imperative to assess the monetary steadiness in the nation also from the viewpoint of private organizations.

Purposes and objectives of the research: Local financial security of municipalities through the management of taxation and the efficient use of municipal property improvement is the goal of the study. Official statistics in the research analysis, comparison and mathematical-economic calculations has been used on the basis of specific tasks are identified to achieve the objectives of the study.

- To study the theoretical and legal conditions of financial provision of municipalities (to make suggestions on improving the legislation).
- Management of local taxation in the financial provision of municipalities and agrarian to assess the place and role in the development of the field.
- Directions of formation of financial resources of municipalities in Azerbaijan reveal.
- Scientifically based in the field of improving the financial provision of municipalities to prepare proposals (efficient use of municipal property in the agricultural sector).
- to form Local, which is a key element in improving the financial provision of municipalities scientific and methodological bases of organization of taxation management system.

In spite of the fact that there is comparable examination in the country, yet they are for the most part focused on oil-area impacts to government elements. Different nations have been concentrated widely in the way of government area's monetary examination. First and foremost, hypothetical establishments have been assembled and proposed by books and scholarly diaries which determine how monetary examination estimating ought to be led.

Furthermore, guaging strategies have additionally been concentrated to a huge degree and these procedures have been applied both by and by and hypothesis.

At last, experimental investigates have been done with respect with the impact of monetary soundness and its guaging.

Object and subject of the research: The subject of the study is the finance of municipalities from a set of theoretical, methodological and real practical issues related to the provision of finance relations related to the formation of reserves. Object of research is taken preparation of local budgets, application and collection

of local taxes, municipal property activities of local self-government bodies in the field of effective use.

Research methods: Theoretical and methodological bases of the research contain President of the Republic of Azerbaijan in connection with the financial provision of municipalities Decrees and Orders adopted by the Milli Majlis of the Republic of Azerbaijan Laws, as well as normative-legal adopted by the Cabinet of Ministers documents, scientific works of local and foreign economists conducting research in this field.

Research database: We need balance sheet, income statement and other financial documents. We can find them in their internet sites or we can find available data in the site of State Statistical Committee of the Republic of Azerbaijan.

Restrictions of research: Lack of publicly disclosure of municipalities' financial statements and conditions.

The novelty and practical results of investigation: In democratic countries, increasing the financial representation of local self-government bodies and the role of local self-government bodies in managing the region's socio-economic growth has always been significant. The establishment of local self-government is needed to solve local problems by using municipalities as the governance system closest to the people.

Investigation of budget summaries in the public area is the field of study that covers the general examination of an administration's monetary circumstance and consequences of its tasks. In addition, it is likewise valuable to make forecasts about the monetary circumstance for the years ahead. Budget reports have an incredible importance for an administration, financial backers, loan bosses and different clients.

To discover any outcomes about the fiscal summaries and comprehend the monetary design of the public authority, it is fundamental for make right examination of these assertions. Monetary investigation has an impressive

significance for an administration as far as estimating its adequacy and achievement degree just as its presentation for accomplishing its objectives.

Scientific-practical significance of results: It can be used in improvement of municipalities' self-financing.

CHAPTER I. THEORY OF THE KEY CHARACTERISTICS OF GOVERNMENT SECTOR ENTITIES

1.1. The essence of government sector finance

Monetary tables of an administration are extraordinarily useful to its clients for giving analogical data in time arrangement and for its utilization to make translations with respect to the public authority's monetary circumstance. Because of globalization, the advancements of capital market exchanges and their internationalization and the expanding part of government in these business sectors make government bookkeeping huge. In this way, governments as dynamic players of these business sectors raised the significance of public area bookkeeping. Worldwide Public Sector Accounting Standards are the main advancement of public area bookkeeping. With the assistance of these principles, monetary tables of the administrations acquired the situation with more enlightening, tantamount and normalized circumstance.

Liquidity deficiency has been the significant justification the new monetary emergencies that arose in Western Countries and kept on influencing different nations. Liquidity deficiency and capacity to pay obligations or dissolvability of an administration is best perceived with the examination of its monetary tables. An all around systemized monetary announcing will assist governments with settling on better plans and choices and to anticipate any monetary emergencies.

The public money framework is getting an ever increasing number of convoluted as far as information. From one perspective, there is a major stock of accessible information of different qualities developing with specialized turn of events, even in

the public area, related with demands for greater responsibility and straightforwardness, while then again, in specific cases there some proof of developing disarray related with the developing number of made devices can be recognized because of the recently referenced information accessibility. Particularly in the new improvement of the execution of gathering bookkeeping in metropolitan monetary administration, the measure of accessible monetary information in this field has fundamentally risen. Certain creators question about the new methodology from specific viewpoints, cautions in front of monetary information clients' likely disarray. Different creators contend that accumulation bookkeeping gives the data about the monetary execution or the situation, as far as open assets or expenses, more. Yet, there are likewise restricting contentions talking about its convenience. At any rate, this issue is firmly identified with the marker issue analyzed in this paper. Starter distinguishing proof is followed or once in a while inescapable because of the choice of which of them to use for the executives.

The recorded improvement of PFM ideas in the public area is generally short. From the outset, different irregular ways to deal with tackling the issues started to show up, for example, on account of Lorig , who characterized the idea of monetary situation corresponding to region and endeavored to communicate the assurance of these situations based on the working cycles and particularity of the substance analyzed when he called attention to the latency and certainty of certain use. Among the principal pioneers managing metropolitan monetary wellbeing as an intricate issue was the Advisory Commission on Intergovernmental Relations (ACIR), which recognized a framework comprising of six notice signs or markers concerning financial trouble, in light of the exact exploration of 30 urban areas with monetary issues.

Monetary strength examination is directed by utilizing productivity, capital design (influence), liquidity and monetary influence impact evaluations. Primary markers for every class is to be remembered for the examination.

Estimating is led by organizations to shape assumptions regarding the future and plan better both operationally and monetarily. Thusly, associations ought to likewise take part in guaging to acquire bits of knowledge into the monetary dependability in both short and long haul.

A portion of the key factors that influence monetary solidness of an association are summed up beneath.

Profitability

Productivity is the most watched marker for organizations which estimates the organizations' capacity to create benefits from deals and the drawn out benefit is a fundamental part of guaranteeing that a business stays stable.

Benefit is estimated through different methods yet proportion investigation is the most often utilized device to evaluate productivity.

Productivity proportions are a class of monetary measurements that are utilized over the long haul to quantify the capacity of an organization to create income contrasted with its costs, working expenses, asset report capital, and value of financial backers, utilizing data from a particular point on schedule.

A portion of the key productivity proportions are :

Net profit margin

Return on assets

Return on equity

Operating profit

Net overall revenue is the division of total compensation of the organization by its all out income which surveys its capacity to change over incomes into benefits.

On the off chance that the proportion is little, it implies that most of the income of the business is devoured by its different expenses.

Net profit margin=Net income/Revenues

Return on resources is the estimation of the beneficial use of the resources of a firm. In the event that this proportion is high, this demonstrates that all out resources of the organization have been utilized beneficially. Consequently, this is quite possibly the most noticed marvel in business.

Return on Assets=Net income/total assets

Return on value is the estimation of the productivity of the venture of value holders of a business. This is determined as a division of net gain by complete value and if this marker is high this converts into a higher usefulness of value venture.

Return on equity=Net income/total equity

Working benefit is one more productivity marker of a business. It is the evaluation of the benefit of the tasks of a business instead of complete productivity.

Working benefit is determined as the division of working pay by absolute income of the business and a higher figure for this marker shows that tasks of a business has been high.

Operating profit=Net income/total revenue

Liquidity

Liquidity is another factor influencing monetary strength of a business and this has been demonstrated in the numerous down to earth models from the past in which liquidity emergencies prompted a further all out emergency for firms.

On the off chance that organizations can't pay their momentary obligation, this may make an emergency for the business as leasers would authorize their contracts and there would be an interest by everybody to assets of the organization because of a dread of additional illiquidity lastly, bankruptcy.

Liquidity clarifies how a resource can be exchanged for cash. These belongings, known as fluid resources, can be immediately transformed into cash. "Money resource" is most ordinarily connected with securities exchange exchanges.

These elements have just truly gone to the cutting edge over the most recent fifteen years or thereabouts. They have gotten significant because of the expanding shortage of crude materials, contamination targets, working together as a moral and reasonable organization, carbon impression targets set by governments.

Lawful components :

Wellbeing and security

Equivalent freedoms

promoting guidelines

Customer rights and laws,

Drug marking and

Item security

Examination which will be done to budget reports can be arranged differently. This grouping is made by the motivation behind investigation, substance or type of development of examination and to the individual who will do the examination.

Budget summaries which are intended to contain explicit properties are investigated by utilizing different pointers, estimations or making examinations. By profiting different dissecting procedures, the progressions that state monetary construction shows in time is examined by attempting to affirm the state's capacity to pay the obligation or not, both short-or long haul obligations will be paid on schedule or not. In spite of the fact that there are a great deal of investigating methods, in this examination as this would give more precise data in the investigation of the budget summaries of the state - pattern examination and proportion examination procedures were utilized.

Pattern investigation is the examination that is made for inspecting and deciding the patterns of things in budget reports after some time. Pattern investigation gives making a unique examination by presenting lessening and increment of specific things of budget reports and abstract significance of this change. While executing of pattern investigation, there are two sorts of approaches which are the base year estimation of the pattern and the pattern over the earlier year. Estimation of pattern as per the base year, the base sum for each record for the year were thought to be 100, in taking care of the record of different years, it generally is a level of the sums.

Proportion examination is that the pointing and assessment between two mentioned accounts in budget summaries in numerical relationship. By the proportion investigation, the issues of the viability of the state's resources, monetary construction, liquidity circumstance and having the option to pay obligations are given.

For a business, the monetary reports are vital so the State's bookkeeping after the distribution of the International Accounting Standards, at the bookkeeping of the States, Financial Statements arranged by the states get the norms. Fiscal reports' equivalence distributed inside a specific standard have become more clear. The point of the exploration in this setting is to dissect the fiscal summaries distributed by Azerbaijan.

Lately, monetary emergency particularly in western states cause prudent and social issues. For the counteraction of monetary emergency and limiting adverse consequence of it, states play it safe. Re-courses of action of the monetary design of the states come toward the start of these safety measures. While the monetary designs of states are improving, public area bookkeeping framework ought to be more useful. Also, to be more useful monetary reports ought to be set up as indicated by International Accounting Standards.

In this examination, Azerbaijan's fiscal reports were investigated by contrasting the monetary examination.

The new expansion in the significance connected to the thoughts of straightforwardness and responsibility particularly in created majority rule governments caused an increment in the interest in the monetary remaining of and utilization of assets by open organizations. Thusly the gathering based bookkeeping framework showing the monetary exercises and standings all the more completely has gotten broad in numerous nations and studies on the investigation of budget summaries created by this framework has gotten conceivable. Lately, concentrates on the advancement of investigation procedures for public foundations' budget reports have been made. The main examinations on this matter were made on nearby organizations.

In a market economy, where property has many types, it is important to establish discipline in government sector, especially in municipalities, and strengthen financial discipline. Municipality, within the territorial boundaries of the country in accordance with local legislation is a self-governing body. The history of municipalities is immemorial. The emergence of municipalities was associated with urban planning. At present, the number of municipalities of our republic is 1606. (www.stat.gov.az)

In order to solve the financial problems of municipalities, not only financial and budgetary, but also accounting system have to be improved. Municipalities must effectively organize financial control, increase efforts and services in municipalities, and prevent waste, which will lead to the development of the municipal economy and the improvement of the living standards of the local population.

As the experience of foreign countries shows, in order to build a democratic society, it is necessary to form perfect local self-government bodies. Only the development of municipalities depends on their financial provision and the powers given to them.

Municipalities are the governing body and their development depends on directly their financing. Municipalities are a socio-economic system and the standard of living of the local population must be constantly evolving to maintain.

Development management is aimed at improving the living conditions of the population, which is the main goal of municipal activities. The economic basis of local self-government in the economic literature is as follows:

1. Local finance.
2. Municipal property.
3. Other property (for example, provided by the state to local self-government to meet local needs).

The components of municipal property are local finance, property provided by the state to municipalities, and property for social security. The importance of local finance is that municipalities perform their functions when sufficient funds are available, and can also be an element of financial relations by circulating municipal property.

We can describe the financial system of the municipality as follows:

Municipal finance :

- Finance of local self-government bodies;
- Finance of market economic entities

Finance of local self-government bodies :

- Local finance
- Locally important non-budgetary funds
- Municipal loans

Finance of market economic entities :

- Finance of enterprises owned by local self-government bodies
- Financing of other enterprises allocating funds for the development of the area
- Finance of the population and households allocating funds for the development of the area

The basis of all municipal finances is the local budget. The funds of local budgets finance local needs. The size of local budgets characterizes the development of the area. Non-budgetary funds are another element of local finance. Some issues can be solved by creating funds. Thus, general purpose facilities can be created in the territories at the expense of funds collected from individuals and legal entities. However, the creation and control of funds is a difficult process.

According to Article 45 of the Law of the Republic of Azerbaijan “On the Status of Municipalities”, municipalities may establish special non-budgetary funds. (Law of the Republic of Azerbaijan “On the Status of Municipalities”, 1999)

The decentralized element of local finance is the financing of municipal enterprises. In the experience of foreign countries, the purpose of establishing municipal enterprises is to improve the social security of the population. Making money is also one of the goals of municipalities.

The budget system of Azerbaijan is as follow :

- State budget
- State budget of Autonomous Republic of Nakhchivan
- Local budgets

Budget revenues form the basis of municipal finances. Budget revenues are money that goes into centralized monetary funds to help municipalities perform their economic function.

The state provides local budgets to do the following:

1. Assists in the development of production (service) areas;
2. Allocates subsidies and subventions from the state budget in case of insufficiency of local budget revenues to finance local socio-economic projects;
3. When the executive authorities delegate additional powers to municipalities, they shall provide them with financial resources, as well as the state shall compensate them if the revenues of local budgets decrease as a result of their decisions.

Revenues of local budgets are money paid to municipalities free of charge in accordance with the legislation of the Republic of Azerbaijan. Local taxes and fees, non-tax payments belong to the special revenues of local budgets.

Local taxes are an integral part of the tax system of the Republic of Azerbaijan. Local taxes are obligatory, individual, gratuitous payments transferred to local budgets in the form of alienation of taxpayer-owned funds for the purpose of financing the activities of municipalities.

Government agencies sometimes delegate work to municipalities, which are one-time. For example, landscaping, cleaning, collection of population statistics, etc. The state provides financial support for such work. However, the main disadvantage of transfers from the budget is that the interest of municipalities in tax collection is declining.

The direction of local budget expenditures is managed independently by municipalities. Expenditures of municipalities in our republic in accordance with the legislation should be as follows:

Allocations for salaries can not exceed 50% of the budget.

Budget funds are spent according to the decision of the meeting. According to the decision, the direction and amount of expenses must be indicated.

1.2. The main directions of the establishment of municipalities and the of financial activities in Azerbaijan

Municipality is formed as a local self-government within the territorial boundaries defined by law. Municipalities operate independently.

The Constitution of the independent Republic of Azerbaijan, adopted by referendum on November 12, 1995, provides conditions for the establishment of a system of self-government in Azerbaijan and provides its legal basis. Section 4 and Chapter 9 of the Constitution are entirely devoted to municipalities. Municipalities are formed on the basis of election.

In world practice, there are 2 models of local self-government:

1. the Anglo-Saxon model (UK, USA, Canada, etc.);
2. French (continental) model (France, Turkey, Arabia, etc.)

In both models, local authorities are given high authority. Their powers include:

- Creation, planning, approval, use, control of local budgets;
- Environmental protection, social services to the population, cleaning of streets, roads,
- Construction and maintenance of schools, hospitals, libraries;
- Rules of conduct in public places, etc.

Execution of the rights and responsibilities of municipalities in our republic is determined by the Law of the Republic of Azerbaijan dated July 2, 1999 "On the status of municipalities". The implementation of issues of social development of local importance specified in paragraph 2 of Article 4 "Local social protection and social development programs" of this law is related to the status of municipalities. (Law of the Republic of Azerbaijan "On the status of municipalities", 1999)

When creating municipalities, the population, financial sources, the level of development of the population must be taken into account. In recent years, there has been a significant merger of sparsely populated rural municipalities. The table shows the indicators of some rural municipalities of Agdash.

Table 1: Indicator of municipalities

Names of municipalities	2013		2017	
	Collected land and property tax	Salary amount	Collected land and property tax	Salary amount
Kukal municipality	16452	6835	22586	8081
Nematabad municipality	7700	2379	3869	4773
Pirkeke municipality	7845	4728	5204	3960
Golgati municipality	9615	5740	31295	8252
Shamsabad municipality	4858	3975	6812	4725
Piraza municipality	2630	3960	500	3480
Yenica municipality	1895	3790	1356	3465

Source: Prepared by author

According to the table, municipalities are unable to meet their local and social obligations due to limited financial resources. Taxes collected from rural municipalities are very close to the annual salary fund. The main tax revenues of municipalities are property and land taxes.

Lack of financial resources in municipalities exists in most municipalities. Given the low financial situation of rural municipalities, it is advisable to merge them. According to the Law of the Republic of Azerbaijan “On Joint Activity, Merger, Separation and Abolition of Municipalities”, municipalities may form a new municipality in connection with the socio-economic situation, taking into account their historical and other local characteristics and the opinion of the relevant local population. (Law of the Republic of Azerbaijan “On joint activity, merger, separation and liquidation of municipalities”, 2000)

Table 2: The number of municipalities

Names of economic regions	Number of municipalities	
	2013	2017
Baku city	52	53
Absheron	30	30
Ganja-Gazax	286	265
Shaki-Zaqatala	181	145
Lankaran	182	179
Guba-Xachmaz	133	127
Aran	487	467
Upper Karabagh	74	60
Mountainous Shirvan	119	110
Nakhchivan	171	170

Source: Prepared by author

As a result of the merger, the number of municipalities decreased from 1715 to 1606 in 4 years. The number of municipalities in Azerbaijan was 2667 for the first time.

Small municipalities have difficulty building human resources, increasing administrative costs and allocating financial resources. Therefore, the process of unification of municipalities must be continued.

Every person working in the municipality must learn the essence of the municipal government, economics, management. Different experiences are needed to train qualified personnel for the municipality. Personnel for municipalities are trained in higher and secondary schools in our country. For example, in Agdash State Humanitarian College, students majoring in "Organization of Municipal Economy" are taught "Local Self-Government", "Municipal Economy", "Municipal Economy".

Municipalities must have sufficient financial resources to be able to fully exercise their powers. In order to expand the municipal budget, it is necessary to

improve the process of tax collection, which is the main source of budget revenue. Tax legislation in our country is regulated by the Tax Code and the Constitution of the Republic of Azerbaijan.

The Tax Code, which came into force on January 1, 2001, radically amended many laws, eliminated retail, and made many additions. The functions of taxes are as follows:

- fiscal;
- distributor;
- regulator;
- control.

The fiscal function reflects the formation of financial resources and budget revenues of the state and municipalities, realizing the main purpose of the tax.

The distributive function of taxes ensures the distribution of public income among different segments of the population. An example of this is the progressive tax policy on income and land taxes in our country.

The regulatory function of taxes causes the state to actively influence economic and social processes.

Adherence to value proportions in the process of formation and distribution of income of individual economic entities reflects the control function of taxes. Execution of forecast tasks for each type of tax is accelerated by the control function.

Land tax, which is both a state and local tax, is part of the country's tax system and plays a key role in the formation of the local budget. The Tax Code of the Republic of Azerbaijan, the Constitution of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan "On Local Taxes and Payments" are the legal basis of land tax.

Land tax dates back to ancient times. This tax collected by individuals and legal entities belongs to the group of real taxes.

Land tax is both social and fiscal. Land tax is a mandatory, individual, gratuitous payment transferred by landowners to the state and local budgets. Land tax is a direct tax and is divided into taxes levied on legal entities and individuals on their payers.

1.3. Features of financial policy of municipalities

The reforms implemented in our country cover different areas of the economy and society. Part of the reforms are changes in the local government system and the reorganization of local finance. Each economic reform is carried out in accordance with fiscal policy.

The state and municipalities use finance to carry out their functions and to address certain socio-economic issues. Fiscal policy plays an important role in achieving the set goals. Financial policy, which is an integral part of the state's economic policy, improves the economic and social situation of the population as a whole. Local fiscal policy includes the mobilization of financial resources of municipalities to carry out their functions, their appropriate allocation and efficient use. Thus, in accordance with the world trend today, increasing the efficiency of governance based on the transfer of some powers to the lower levels of government, strengthening the democratic institutions of local self-government, as well as providing local services and raising living standards require sufficient financial resources.

Is local self-government a "community" or part of a nationwide system of government? The answer to this question is determined by the powers of local self-government compared to other public administration bodies and the amount of special resources provided by central authorities.

Experts, economists, and public authorities discuss the nature of the powers of local governments, the level of freedom, the form and nature of control over the activities of local self-government, the relationship between local and state bodies,

the division of powers, local financial policy and the scope of local government budget law.

Sufficient financial resources are a prerequisite for municipalities to effectively exercise their powers. Proper financial policy is needed for sufficient financial potential.

Fiscal policy consists of measures related to the creation, distribution and use of financial resources of the state and municipalities. Fiscal policy reflects both economic and social relations. Municipalities are the main subject of local financial policy.

Local municipalities should use the experience of developed countries. In foreign countries, local issues are resolved by a body elected by the local population. Municipalities are free to address local issues.

The legal basis of local self-government is the constitution and current laws. In general, local self-government is the opposite of a centralized form of government. Such management plays a significant role in the mechanism of public administration in meeting public needs.

In all countries, as a rule, local self-government bodies are established on the basis of administrative-territorial units. Most municipalities perform the following functions:

1. Usage of land
2. Town-building
3. Education
4. Social services to the population: sewerage, heating system, cemeteries, roads, hospitals, water supply, etc.
5. Control functions: traffic areas, veterinary, fire and ecological cleaning, etc.

Local fiscal policy must have certain goals, or the financial security of municipalities cannot be strengthened. Two methods are used when forming local

budgets. The first is to form a budget by reducing costs. In this method, municipalities do not engage in entrepreneurial activities, but only collect taxes and minimize costs. The second method is to form a budget by maximizing revenues.

Table 3: Income and expences of municipality budgets (in thousand manats).

Names of economic regions	2014		2015		2016	
	Income	Outcome	Income	Outcome	Income	Outcome
Baku city	7368,5	7333,5	8425,6	8118,2	8887,3	8711,7
Absheron	15358,8	15499,3	6460,9	6483,1	4132,8	4150,1
Ganja-Gazax	3735	3931,5	2800,1	2764,9	3262,7	3198,6
Shaki-Zaqatala	5366	5610,8	2671,8	2955,5	3872,5	3872
Lankaran	2178,2	2215,7	1207,4	1293,3	1409,3	1454,6
Guba-Xachmaz	4328,2	4377,9	2522,7	2537,6	2809,1	2790,5
Aran	8060,9	8099,8	4633,3	4670,1	5205,1	5189,1
Upper Karabagh	468,4	467,4	288,5	294	275,6	266,6
Mountainous Shirvan	1445,7	1477,9	973,3	977,1	1073,6	1015,6
Nakhchivan	755,9	729,8	820,6	797,9	688,5	679,5

Source: Prepared by author

The table shows that municipalities did not try to increase revenues, but tried to form a budget by keeping expenditures to a minimum.

The purpose of developing the main directions of the use of financial resources is to use them more efficiently. This is achieved, first of all, by allocating resources to the priority areas and the social sphere. Achieving higher results at lower financial cost is a priority for both the state and municipalities as a whole.

In the systematic approach to local financial policy, municipalities are taken as a part of another large territorial administrative-territorial system, taking the subsystem. Therefore, local financial policy should be agreed with the territorial executive bodies. Goals (improvement of financial security) must be realistic, opportunities must be assessed.

Municipal financial resources should be spent in such a way as to bring great economic and social benefits. The most efficient system must be applied, there must be cost-effectiveness.

In order to implement the financial policy of municipalities, budgets at all levels should be balanced and control over the spending of funds allocated for socio-economic development from higher budgets should be strengthened.

Municipal budgets are formed from 3 sources:

1. Special funds of municipalities.
2. State funds.
3. Raised funds.

Depending on the source of funding, municipalities are dependent on government agencies. It is widely accepted that the budgets formed from the last two sources of income depend on the state.

Municipal special funds can be divided into tax revenues and revenues from the use of municipal property.

In most countries, the basis of the municipal budget is municipal property revenues, municipal loans. If we take into account that the property of municipalities in the CIS countries today is not used mainly for entrepreneurial purposes (for profit) and municipal credit is not used, then fiscal policy reflects the creation and use of local budgets.

Today, the use of local budgets goes into the background because municipalities do not have a large enough budget, expenditures are determined based on municipal revenues. The basis of the financial policy of the existing municipalities is the tax policy, because the main revenues of local budgets are taxes. Municipalities implement tax policy within their competence. Due to the fact that local taxes are mainly non-entrepreneurial direct taxes, as well as non-investment-oriented (municipalities can not increase the tax rates provided by law and the increase of benefits does not affect entrepreneurship), municipal tax policy consists of maximizing local taxes.

The current element of the policy to strengthen the financial base of the municipality is the local tax policy. There are some unclear questions in the taxation system at the local level, as a result of which it is impossible to implement an

effective tax policy. If a heavy tax policy is applied, there will be no concessions, business activity will decrease or incomes will decrease in the near future. A soft tax policy will increase business activity and create additional financial resources.

Taxation means the forms and methods of determining taxes in the country and collecting them from taxpayers. Determination and withholding of taxes in our Republic is determined by the Tax Code of the Republic of Azerbaijan. According to the Tax Code, taxation must be general, equal and fair. The tax system formed on the basis of taxation is formed within a certain period of time, depending on the level of economic development. In this sense, the name of the tax system means the sum of taxes and mandatory payments collected in any state, as well as their organizational structure, forms and methods of collection, forms of taxation.

CHAPTER II. ANALYZING FINANCIAL CONDITION OF GOVERNMENT SECTOR ENTITIES

2.1. Management of municipal property and its economic importance

Municipal property is the economic basis of the municipality. Land and property have been placed at the disposal of state municipalities, which requires economic development of the area. Planning the development criteria of municipalities and efficient use of property is the demand of the day.

Currently, the limited financial resources of municipalities, low budget revenues relative to expenditures require increased economic efficiency. Municipalities should try to increase revenue not only through land and property taxes, but also through municipal enterprises.

One of the key issues of economic reforms in Azerbaijani society was the change of property relations and the creation of a new economic mechanism based on the diversity of forms of ownership, independence and initiative of economic entities. As the market economy developed, state property was divided into private, state and municipal property. (Constitution of the Republic of Azerbaijan, 1995.) In order to meet the interests of the population living within administrative-territorial bodies, it is expedient to establish municipalities.

The interests of the population living in the municipality coincide in local issues. Municipal property serves the social protection of the local population. At present, some issues related to the social welfare of the local population have been entrusted to municipalities. Municipalities have been provided with financial and other resources for this purpose. Municipal property reflects the socio-economic basis of economic activity of municipalities.

Municipal property is similar to state property in terms of its economic structure and purpose. However, there are some differences that have led to the free formation of municipal property. According to the Law of the Republic of Azerbaijan on “Status of Municipalities”, municipal property consists of local budgets, extra-budgetary funds, municipal property, as well as municipal lands, municipal enterprises and organizations, municipal housing funds and non-residential buildings, state and private property. roads, municipal education, health, cultural and sports institutions, and other movable and immovable property. (Law of the Republic of Azerbaijan “On the Status of Municipalities”, 1999) If we look at the municipal laws of foreign countries, we see that the structure of municipal property is similar. Municipalities manage municipal property. The right of ownership over the property belonging to the municipal property is exercised by the municipalities, and in cases stipulated by the legislation of the Azerbaijan Republic, directly by the population. Municipalities may transfer, lease and alienate municipal property to individuals and legal entities, as well as enter into other deals on property owned by the municipality. Municipalities can independently determine the conditions of use of lands within their territorial boundaries. Revenues from the privatization of municipal property go directly to local budgets.

The state supports municipal property, creates conditions for its growth by providing loans and subsidies. Municipalities can create independent individuals and legal entities, solve their financing and liquidation issues. Municipalities determine the activities of municipal enterprises, regulate the prices and tariffs of products and services, elect and control their heads.

Objects of municipal property, land plots, natural resources, municipal enterprises, housing stock of municipalities, education, medicine, culture, sports institutions, passenger transport, cultural monuments and other movable and immovable property, etc.

Municipal property can be divided into two parts: active and passive. The active part brings income to local budgets. Leasing of municipal enterprises and land

plots, provision of paid services, etc. part belongs here. The passive part, in contrast to the active part, not only brings income, but also reduces the local budget. The passive part is the expenditures on social welfare of the population, maintenance of municipal property. The living standards of the population are paid by the passive part. Therefore, the main objects of municipal property are socially oriented.

Just as the main direction of municipal property is social, on the other hand, it performs an economic function in terms of organizing the economic base of municipalities. Municipal property must bring revenue to the local budget and be efficient. The social welfare of the population living in the municipality depends on the efficient use of municipal property.

The primary subject of municipal property is the population living in the municipality. It is the municipal population that acts as the subject of property at the first level. Although the municipal population is the main owner of the municipal property, the rights to use and dispose of the property are exercised by the representative of their choice.

In a market economy, efficiency is achieved not only by saving, but also by setting the right goals. The concepts of "efficiency" and "effectiveness" are used in economics to achieve the goal. According to researcher Peter Drucker, "for long-term success, the organization must be efficient and effective."

Revenues from municipal property go to local budgets and are used to pay for municipal social expenditures. Increases investment in municipal property.

A large part of municipal property in our country is lands. Land is considered real estate and is the object of property relations. Land is a means of production and is directly involved in generating income. Most of the land fund of municipalities consists of agricultural lands. Land fund (fund is a French word meaning the main foundation) is the sum of a certain area, all lands located within the country. The land fund of the Republic of Azerbaijan consists of agricultural lands, transport,

communication, defense and other lands, lands of specially protected areas, forest fund lands, water fund lands and reserve fund lands. (Mammadov G., 2007)

It is considered that the economic efficiency of the use of municipal property can be determined by the ratio of income from the sale of property, collected rent and profit tax to expenses:

$$E_{ee} = (R + IS + PT) / E$$

R-Rent fee.

IS- income from municipality's property.

PT-profit tax of municipally owned entity.

E-operation expenses of municipally owned entity .(Mammadli V.A.,2016)

The table shows the efficiency coefficient based on the indicators of Mingachevir municipality by years was calculated and analyzed over the years.

Table 4: Indicator of economic efficiency of property of Mingachevir municipality.

Indicators	2013	2014	2015	2016	2017
Income from rent of municipal property	73208	94862	122099	119700	131580
Income from sales of municipal property	52405	161090	3360	-	41896
Cost of municipal property management	139838	125658	125435	121358	128666
Economic efficiency of municipal property	0.898	2.0369	1.00	0.986	1.348

Source: Prepared by author

If the efficiency indicator is $E_{ee} < 1$, the management is considered economically inefficient, and if $E_{ee} \geq 1$ is effective.

According to the Tax Code of the Republic of Azerbaijan, profit tax of municipal enterprises and organizations is paid to local budgets. Very few municipalities in our

country have created a legal entity. Thus, municipalities are not actively involved in the business environment of the country.

It is necessary to develop a mechanism for providing soft loans to municipalities by government agencies, to increase the credit capacity of municipal enterprises and make them participants in the financial market. For this purpose, with the help of the relevant authorities, programs on "Effective Property Management" should be developed at the level of specific municipalities. Programs should cover the following key issues:

- To develop a management strategy aimed at increasing the role of municipal property in solving socio-economic issues of the area.
- The process of creating commercial legal entities by the process of establishing municipal enterprises. Because these enterprises pay 20% profit tax to local budgets, the remaining net profit is directed to the social problems of the area.
- Increase the structure of property to increase the efficiency of municipal enterprises, to ensure the development of the area.

2.2. Evaluation of modern condition of government finance

Local finance is a set of socio-economic relations related to the formation, distribution and use of financial resources aimed at addressing issues of local importance. These relations arise between municipal bodies and the municipal population and economic entities operating there. A municipality is a form of local self-government within the territorial boundaries in accordance with the legislation of the country.

The formation and development of efficient and strong municipalities is an important condition of a market economy. According to the experience of foreign countries, it is almost impossible to achieve a democratic society in the country without the creation of a perfect municipal structure. The development of municipalities depends on their financial security. Their main function is to serve the population living in the municipality and they need sufficient funds to perform

their duties. Lack or weakness of municipal funding is a very serious factor affecting the activities of municipalities.

The main component of municipal property is local funds. Municipal funds are the sum of all types of funds belonging to municipalities. To understand the concept of local finance, we must first understand the term "finance". "Finance" is an economic category that reflects the creation and use of monetary funds in the distribution and redistribution of gross domestic product and national income.

Finance is derived from the Latin word "financia", which means money, money circulation. Finance is a means of controlling the creation and use of cash funds. (Huseynov H.A, 2007) The main purpose of finance is to meet the cash needs of the state, municipalities and enterprises through the creation of cash income and funds and to control the expenditure of financial resources. Finance has two main functions in society: distribution and control.

The essence of the distribution function of finance is the distribution and redistribution of national income and gross domestic product.

The control function reflects the economic control over the formation, distribution and use of cash funds.

The financial system is divided into local finance, public finance and corporate finance.

Public finance is the sum of monetary funds formed by the state and local financial municipalities to perform their functions and responsibilities and the mechanism of their use.

The main components of local finance are:

- Non-budgetary funds of the municipality;
- Local budget funds;
- Financial resources of the enterprise and organization included in the municipal property;

- Mobile funds in the financial market (securities, loans, bonds, etc.).

The budget is the main financial base of individual municipalities. The budget, being a cash fund, is created to carry out the functions of local self-government. Local budgets are important in ensuring the integrated development of the area.

Municipalities may establish extra-budgetary funds on the terms and in accordance with the procedure established by the legislation of the Republic of Azerbaijan. for the purpose of road repair, etc. (Mammadli V.A., 2016)

Although municipalities can create legal entities to engage in farming, a limited number of municipal enterprises have been established in the country.

As municipal entities are separate legal entities, they have an independent budget that reflects their financial independence. While the state budget is a law, municipal budgets are a decision. This decision allows municipalities to collect revenues independently. The formation and use of budget funds of municipal bodies is carried out independently by them. Most of the financial resources of municipalities are concentrated in the local budget, which serves the implementation of a unified financial policy in the area. The municipal budget plays a key role in the financial resources of municipalities. The fulfillment of the main tasks of municipalities and the improvement of the social welfare of the local population, the integrated development of the territory largely depend on the state of local budgets. The local budget is a municipal budget and is approved, organized and implemented by municipal bodies.

In Azerbaijan, the local budget is understood as funds allocated for the regions from the state budget to the municipalities. After the establishment of municipalities, the concept of local budget was adopted as a municipal budget with a specific meaning.

The independence of the local budget is ensured by:

- There must be its own sources of income;

- Independent determination of the use of budget funds;
- The right to claim compensation for damage caused to local authorities by decisions made by government agencies;
- Responsibility of municipalities for the use of the local budget.

Expenditures of local budgets are the sum of financial resources spent by municipalities in the production or service of certain products to the population. In international practice, determining the amount and scope of municipal expenditures creates some problems. Because other aspects of the population are implemented by other government agencies. Therefore, researchers in this area argue for the rational distribution of costs between the state and municipalities in terms of financial services.

In our country, most of these services are provided by government agencies, only the Law of the Republic of Azerbaijan "On the Status of Municipalities" states that local social protection and social development, local economic development and environmental programs must be implemented by municipalities. Local social protection programs should define municipal social security. The purpose of these programs is to address issues of social development of local significance that are not provided for in the socio-economic and environmental programs implemented by the state or in addition to them. Therefore, there is peace in the municipalities. Thus, the expenditures of municipalities in our country today are not noticeable. This is due to the fact that many municipalities do not have the experience to collect taxes, and they see it as a law, not an obligation to collect taxes.

According to world experience, in modern times, local governments derive their income from the following sources: property income, taxes, municipal enterprises, state aid, payments and duties, borrowing. (Abdullayev T.E.,2003)

The local budget is a financial instrument created and used to implement the principles of self-government in accordance with the status of a municipality, to exercise the municipal powers defined by the Constitution and laws of the Republic

of Azerbaijan. Each municipality has a special budget that forms the economic basis of the local municipality. Issues of local importance should be addressed using municipal resources. Municipalities must have sufficient financial resources to improve living standards, and municipalities have the right to receive funds from the state budget in the process of regulating the local budget in accordance with the law.

In our country, local budget revenues can be divided into two parts, special revenues and regulated revenues. Special revenues are divided into taxable and non-taxable revenues. Taxable income includes local taxes and fees. Non-tax revenues include revenues from the sale, use and lease of municipal property. Regulated revenues include subsidies, grants and subventions from the state budget. Borrowed funds can also be classified as regulated income.

Several groups of indicators are used to assess the financial condition of enterprises. For example, tax solvency, liquidity, capital investment, profitability, financial freedom, etc. We are interested in the financial sustainability of municipalities, ie indicators of financial freedom (payment of local expenditures from special revenues).

One of the main issues of modern governance in the country is to ensure the financial freedom of the municipality. Strengthening municipalities and developing their financial base is the demand of the day. If we look at the experience of foreign countries, the distribution of tax and budgetary powers, the methods of inter-budgetary communication are different. Thus, the distribution of funds is determined by the amount of work entrusted to municipalities. In some countries, municipalities receive a share of the state budget or a substantial subsidy.

The development of municipalities depends on their financial situation. Municipal finance is the main driving force of municipalities, and the lack or weakness of such resources is one of the factors that seriously affect the activities of municipalities.

Local budgets are an integral part of the country's budget system and accumulate the main financial resources of municipalities. Today, local budgets are based on the alignment of expenditures with revenues, so the analysis of the financial condition of municipalities is based on the grouping of local budget revenues. The fact that the indicators reflecting the financial condition of municipalities do not change from year to year is due to the implementation of local budget expenditures in line with revenues. That is, municipalities have not achieved the necessary results in increasing revenues.

It is believed that instead of allocating part of state taxes to local budgets, as in some countries today, it is necessary to increase the collection of local taxes and fees established by the country's legislation. Thus, some municipalities do not consider the collection and application of taxes from the population as an obligation imposed on them by law.

2.3. Improvement of financial resources of municipalities

With the creation of municipalities, which are a new stage in the state building of the country, these bodies were given independence. Municipalities have been given responsibilities and powers for the socio-economic development of the area. Certain conditions are required to fulfill these responsibilities, and these conditions are based on the fact that municipalities have sufficient financial potential. Addressing issues of local importance

Municipalities need to mobilize financial resources and spend them wisely, which is a key principle of municipal finance. Any municipality must have an economic base to carry out its functions, which consists of property (owned by the municipality, as well as state-owned but transferred to local self-government) and financial resources. The financial resources of municipalities belong to the financial resources of the country's economy.

In the economic literature, "resource" (French *ressources*) means cash, valuables, reserves and receipts. Financial resources are the material carrier of

financial relations. Because finance is expressed in monetary terms, financial resources are resources that are in the form of money, as opposed to material, labor, natural and other resources.

In the economic literature, "resource" (French *ressources*) means cash, valuables, reserves and receipts. Financial resources are the material carrier of financial relations. Because finance is expressed in monetary terms, financial resources are resources that are in the form of money, as opposed to material, labor, natural and other resources.

Financial resources include a depreciation fund, but not a salary fund. In the national income, on the contrary, the salary fund belongs, and the depreciation fund does not. Revenues from the foreign economy, VAT, corporate profits, property, depreciation, personal insurance funds, social insurance funds are included in the financial resources. Most of the financial resources are mobilized through the state budget and extra-budgetary funds, the rest remains at the disposal of the business entity.

The distribution of national income or newly created value is financed and the process is divided into new components. Cash income and savings of individual enterprises, citizens, organizations, as well as municipalities involved in the creation of new value are created. This is reflected in the concept of financial resources. Financial resources act as a concrete expression, a form of the main features of financial relations. Financial resources are the sum of savings or, in other words, monetary funds created in the process of distribution and redistribution of gross domestic product, national income and at the disposal of enterprises, individual citizens, the state and municipalities. (Atashov B., 2014)

When we study economists who study the concept of financial resources of municipalities, we come to the conclusion that there is no consensus on the composition of financial resources.

According to the Constitution of the Republic of Azerbaijan, the municipality is a legal entity separate from the state power, based on the principle of realization of people's power. (Constitution of the Republic of Azerbaijan, 1995.) local taxes "is separate from the state budget and taxes. Municipalities are not included in the system of state power. Their financial activity is not the same as the financial activity of the state.

It also differs from the financial activities of individuals and public organizations. This is confirmed by the Law of the Republic of Azerbaijan "On the Status of Municipalities". According to this law, local budgets and municipal extra-budgetary funds are not state-owned and belong to municipal property. (Law of the Republic of Azerbaijan "On the Status of Municipalities", 1999) Also, the goals and objectives of the state and municipal finances do not always coincide. The state is interested in attracting the maximum level of financial resources to solve national problems, and municipalities are interested in receiving more funds from the local budget to solve special problems.

In world practice, there are two positions in determining the financial resources of municipalities. In the first position, based on the traditional scheme of administrative management, the funds controlled by local self-government are referred to the financial resources of municipalities. This includes local budget funds, local extra-budgetary funds and funds at the disposal of municipalities. The main criterion here is direct management.

According to another argument, the main criterion is the financial security of the area. This includes the financial provision of the local population, the financial resources of economic entities in the area. This includes financial resources of legal entities in the municipality, deposits of the population, funds of non-profit organizations. Of course, municipalities cannot manage those financial resources. However, local budget revenues depend on the amount of these funds. The solution of many social problems depends on these funds.

In the world practice, municipal enterprises engaged in economic accounting and direct property management are interrelated and dependent on the financial resources of the municipality. Because just as the free profits of such enterprises belong to the municipalities, the losses belong to the municipalities.

Municipal institutions are established mainly to meet the needs of the population for social services (education, health). Financial resources are mandatory and voluntary due to the allocation of funds. Mandatory funds include taxes and levies established by law in the budget and extra-budgetary funds. Voluntary funds are grants paid by individuals to extra-budgetary funds or funds obtained by municipalities through the issuance of securities.

The lack of financial resources in the budget requires the involvement of financial resources from the population and enterprises to address various issues. Extra-budgetary funds for social and economic development are created to pool the attracted and budget funds. This is allowed by law. Extra-budgetary funds of municipalities are created at the expense of voluntary payments of legal entities and individuals and fines for violations of local rules. Such funds may be managed by collegial bodies. Representatives of local bodies and enterprises may participate in collegial bodies. Extra-budgetary funds can be used for social and communal construction, as well as the maintenance of public buildings. Thus, the level of service to the population in the area will increase. Some economists recommend issuing municipal bonds to implement investment programs, given the lack of financial resources.

When examining the financial resources of municipalities, it can be concluded that the financial resources can be grouped on the basis of the following criteria:

- compulsory and voluntary due to the nature of creation.
- by source: funds allocated by higher authorities, special funds and funds raised from the financial market.

- The fund is divided into local budgets, extra-budgetary funds and financial resources of municipal enterprises.

In our country, the financial resources of municipalities are formed mainly at the expense of local budgets. In the process of creating and using local budgets, all economic relations of municipalities are collected. All municipalities have a special budget, which forms the financial and economic basis of local self-government. First of all, the municipality must solve the problems related to the normal life of the people. Municipalities must have sufficient financial resources to improve living standards. Each municipality receives funds from the state budget to finance its expenditures. In the experience of foreign countries, along with the special revenues of municipalities, the share of state aid is also high. The role of state aid in balancing the revenues and expenditures of local budgets is significant.

Funds allocated from the state budget to local budgets can be divided into two parts: non-targeted (subsidy) and targeted (subsidy, subvention). According to the Law of the Republic of Azerbaijan “On Budget System”, subsidies are provided to local budgets free of charge in order to regulate their revenues and expenditures. (Law of the Republic of Azerbaijan “On Budget System”, 2002) 50% of revenues. In the Scandinavian countries, in the post-Soviet country of Estonia, this figure is more than 50%.

The following table shows the local budgets in our country for years, subsidies allocated to local budgets, the share of subsidies in local budget revenues.

Table 5: Summary of subsidies of local budgets (In thousand manats).

No	Indicators	2013	2014	2015	2016
1	Local self-government bodies budget revenues	47223,9	49065,7	30803,9	16,88%
2	Allocated subsidies to municipalities	5200	5200	5200	5200
3	Rate of subsidies in local budgets	11,01%	10,60%	16,88%	16,45%

Source: Prepared by author

The table shows that the amount of subsidies allocated to local budgets in 2013-2016 has not changed. Another reason for the increase in the share of subsidies over the years is the decrease in local budget revenues. Until recent years, all municipalities, regardless of size, received the same amount of subsidies, which led to a decline in municipal initiatives to increase financial resources. Thus, although the legislation provided for certain conditions (factors) for the allocation of funds, in reality it was not observed. Article 34.4 of the Law of the Republic of Azerbaijan “On Budget System” dated June 20, 2014 was amended. This article defines the criteria for calculating the subsidy limit, not the upper limit. These include their share in the formation of the country's financial resources, the number of municipal population, municipal revenues and expenditures, the proximity of settlements to the front line, the border zone, the location of high mountainous areas, the living standards of the municipal population, socio-economic projects. (Law of the Republic of Azerbaijan on Amendments to the Law of the Republic of Azerbaijan “On the system of municipalities”, 2014.) It is important to take into account the revenues and expenditures of municipalities within these criteria.

In the practice of foreign countries, credit relations, like tax-budget relations, form the basis of municipal finance. The essence of the diversity and flexibility of the financial systems of municipalities is that part of the financial resources of these bodies should be local taxes and duties, another part - balancing transfers allocated by the state, and the rest should be funds from the capital market.

In Western countries, municipalities raise funds from the debt market in two ways: by issuing securities and by borrowing from credit institutions.

Special programs should be adopted for the development of the municipal lending system. In particular, the competent state bodies subsidize the percentage of bank loans of municipalities. Even in developed countries, lending to municipalities is developing with state support.

There are no restrictions on lending to municipalities in the existing credit and banking legislation in our country. Only in our country, municipalities do not seem to use credit resources. Loans taken by municipalities are used in the short term only to cover current expenses. Municipalities cannot be participants in credit relations because they do not have property. Thus, the property is collateral. Also, the process of providing municipal lands with legal documents has not been completed. One of the main reasons preventing municipalities from entering the credit market is the lack of qualified specialists in municipalities. In particular, municipalities do not have the necessary strategies to work with credit instruments. Thus, it is very important for municipalities to have a strategic program to finance capital expenditures. Such a program should reflect the real needs for capital expenditures for a particular period, the direction of capital investment, the different options for financing each project.

Despite changes in the legislation on state support to municipalities, there has been no increase in the amount of subsidies over the years. Almost no municipalities have taken the initiative to receive subsidies from the state budget.

These problems cannot be attributed only to legislation. Financial and credit issues are often reflected in municipal laws. It is true that in the world practice it is considered expedient to make some additions to the laws on credit relations and financial support of the state in this area. Although borrowed funds, especially bank loans, make municipalities dependent on financial institutions, they can increase municipal revenues through business projects.

CHAPTER I I I. THE WAYS OF IMPROVEMENT OF GOVERNMENT SECTOR ENTITIES' FINANCIAL CONDITION

3.1. The role of agrarian reforms in improving the financial provision of municipalities

Control over the calculation and payment of local taxes and fees in our country is carried out by the tax authorities of municipalities. Rules of payment and collection of local taxes and fees, forms and methods of tax control, measures of responsibility are determined by the Regulation “On Municipal Tax Service” (“Municipal Audit Program”, Council of Auditors of the Republic of Azerbaijan, 2005). This Regulation gives the following powers to the tax service bodies:

- to calculate and control the payment of payments;
- to ensure the collection of debts, interest and financial sanctions;
- to keep records of taxpayers, to send them payment notices for payment of the assessed tax amount;
- prepare proposals to municipalities for the application of discounts to payers;

In our country, as in other countries, the object of local taxes is real estate. In all countries, real estate has been assigned to municipalities as a stable source of income because it is evenly distributed across the territory, immovable, and easier to record.

Taxes on land and wealth are one of the oldest and most widespread forms of taxation. Although property taxes are usually a relatively small source of income at the state level, they can significantly contribute to the financing of public services provided at the local level.

The main advantage of land and property tax is the stability of the tax base, the fact that it is subject to small changes during the tax period, ie does not depend on the results of financial and economic activities of land and property owners and users. That is, land and property taxes can be considered as stable revenues of the respective budgets. That is why, as in some countries around the world, it is possible to improve the financial security of municipalities by considering land and property taxes as a whole local tax.

One of the stable sources of municipal income is the land tax. The tax period for land tax is a calendar year. One of the distinguishing features of the land tax from other taxes is that tax rates vary across agricultural, industrial or residential lands. With the change of June 20, 2014, the tax rate on more than 10,000 square meters of land for a group of lands has been doubled. Land plots with increased tax rates include industrial, residential and garden plots.

Land tax is paid in equal amounts no later than August 15 and November 15. According to the certificate issued by the relevant executive authority (Ministry of Agriculture of the Republic of Azerbaijan, Ministry of Emergency Situations of the Republic of Azerbaijan, Water Resources Open Joint-Stock Company) due to the change that came into force on 01.01.2017, irrigation, land reclamation and other agro-technical reasons The rate of land tax on agricultural lands that cannot be used for their intended purpose is set at 0.06 manat for 1 conditional point. Otherwise, the rate of land tax on agricultural lands is set at 2 manat for every 100 square meters of land. is determined on the basis of. Conditional points are determined by the relevant executive authority taking into account the purpose, geographical location and quality of agricultural lands in cadastral price districts and administrative districts included in them. That is, the land is graded (lat. Bonitas-quality). Soil grading is a comparative assessment of soil fertility based on its chemical and mechanical composition and productivity. Soil quality is a quantitative indicator of its fertility, ie quality, expressed in points.

Land cadastre is a set of substantiated reliable information about the natural quality of land, its economic and legal status. Land cadastre is divided into four stages:

1. Registration and state registration of land use rights;
2. Accounting of soils according to indicators of species diversity, relief, degree of erosion, degree of nutrient supply;
3. Qualitative classification and evaluation of the main properties and characteristics of soils that reflect the natural fertility;
4. Establishment of economic relations between the state and land users.

In most countries, the main tax base is the value of the land. The study shows that there are 3 alternative mechanisms of land tax base in the world.

These mechanisms are as follows:

- Taxation on the cadastral value of the land.
- Taxation on the basis of the market value of the land or for the increasing value of the land.
- No taxation according to the size of the land area.

According to international experience, the land tax differs from other taxes in terms of the scale of exemptions and privileges. In general, exemptions and privileges can be classified into 3 areas:

- Some lands are not taxed. For example: state and public lands, state border strips and defensive lands.
- Persons of war veterans, labor heroes, invalids, etc.
- Land plots used in some production areas are not subject to land tax on a temporary basis. In particular, according to the changes that came into force in the Republic on 01.01.2013, legal entities that are residents of industrial or technology parks and

individuals engaged in entrepreneurial activities without establishing a legal entity are exempt from paying land tax for 7 years from the reporting year.

Taxes can be divided into 3 groups according to the subject: taxes levied on individuals, taxes levied on legal entities, taxes levied on both legal entities and individuals (mixed taxes). It is the land tax that is considered a mixed tax, as it is levied on both legal entities and individuals.

According to the level of the budget paid, taxes can be divided into 2 groups: fixed taxes and regulatory taxes. Fixed taxes are transferred directly or in full to the specific budget. Regulatory taxes are transferred to a certain extent to both state and value budgets. In our country, taxes are divided into state and local taxes according to the level of the budget paid. Land tax is related to both state and value taxes (Tax Code of the Republic of Azerbaijan. Law of the Republic of Azerbaijan, 2000)

The rates of local taxes are determined within the limits established by the tax legislation. Individuals must register with the municipalities within 1 month after receiving the documents confirming their ownership and use rights to land plots. Unfortunately, the landowner avoids registration for some time because he is not aware of it. Municipalities also face problems in this area due to the lack of liability for late registration.

In some cases, municipalities view the application of the land tax, the application of progressive tax rates, and the collection of that tax from the population as a right given to them, rather than as an obligation imposed by law. In addition, a number of municipalities do not deliver written payment notices to taxpayers.

The survey (based on an oral survey) shows that the level of collection is low due to late delivery of payment notices, and that interest rates are generally not calculated by municipalities.

The purpose of increasing the tax on agricultural lands not used for their intended purpose from 01.01.2017 is to use land efficiently, increase agricultural production, increase the role of land as a means of production.

The relevant decree of the President was issued on the formation of a database on agricultural lands. The Decree dated 01.06.2016 envisages the creation of an electronic database on such lands, including lands that cannot be used for their intended purpose. Tax authorities and municipalities now have unlimited access to information. We believe that the formation of such a database is an important step in the return of the land's black gold name, ie in the field of efficient use of land.

A number of economic programs have been developed for the development of the non-oil sector in our country. Serious measures are being taken to ensure development, especially in the agricultural sector. For many years, agricultural producers in our country are exempt from all taxes except land tax.

From January 1, 2014 for a period of five years, the income of legal entities that are producers of agricultural products (including industrial methods) from this activity is subject to profit tax, turnovers on sales of agricultural products produced by agricultural producers from VAT , as well as property tax for legal entities and individuals engaged in this activity (used in the process of such activity) and the amount of production obtained from the sale of agricultural products produced by them is exempt from the simplified tax. Also, according to Article 102.1.11 of the Tax Code, income of individuals directly from the production of agricultural products is exempt from income tax.

3.2. Directions to increase the role of property tax paid by individuals in strengthening the tax base

Property tax from individuals is a mandatory, individual, gratuitous payment transferred to local budgets in the form of alienation of taxpayers' funds for the purpose of financing the activities of municipalities. (Tax Code of the Republic of Azerbaijan, 2000) The availability of sufficient financial potential of local self-government is one of the main conditions for the effective exercise of their powers by these bodies. The research analyzes the impact of improving the tax base of

property tax, which is one of the main sources of local government revenue, on the collection. The study shows that there were many problems with the collection of this tax.

Amendments to the tax legislation remove restrictions on municipalities' ability to make adequate use of the financial resources provided to them.

The object of the tax is buildings privately owned by resident and non-resident individuals. If the building is located in the territory of the Republic of Azerbaijan, it is subject to property tax. According to the Tax Code, such buildings are called buildings. Along with buildings, water and air vehicles belonging to resident individuals are subject to property tax. Such vehicles are taxed regardless of their location and use (Tax Code of the Republic of Azerbaijan, 2000).

The rates of local taxes are determined within the limits reflected in the tax legislation. Rates are applied in absolute terms per square meter of the area of buildings privately owned by individuals. According to the Tax Code of the Republic of Azerbaijan, rates vary by city, district center, settlement and village. The building is in Baku coefficients not lower than 0.7 and not higher than 1.5 set by the Cabinet of Ministers shall be applied to those rates. A tax was set at 0.02 manat per 1 cubic centimeter of the engine of water and air vehicles, and 1 percent of their market price for non-engine water and air vehicles.

According to the social status of the population, property tax exemptions and exemptions are applied. Property tax benefits cover a wider segment of the population. Discounts and exemptions apply only to the living quarters of individuals. 30 square meters of living space is exempt from property tax. According to Article 199.2 of the Tax Code, in order to preserve ancient folk art, the buildings of individuals engaged in certain activities are exempt from tax. Local self-government bodies may, if necessary, reduce tax rates by applying concessions to certain categories of taxpayers (Tax Code of the Republic of Azerbaijan, 2000).

Property tax is applied in about 130 countries around the world. In most countries, the main tax base is the market value of the property. The study shows that there are 3 alternative mechanisms of the property tax base in the world.

These mechanisms are as follows:

- 1) Based on that value by determining the inventory value.
- 2) By determining the market value.
- 3) According to the size of the property area.

In all post-Soviet countries, including the former USSR, property taxes on individuals were previously calculated at inventory value. Due to market relations, the tax base in most of these countries has been changed by law.

In the United Kingdom, a Western European country, property taxes are the main source of tax revenue for local budgets. It is levied on owners and users of real estate, residential buildings, shops, factories and plants. Payers of this tax also include persons who rent a residential building and pay rent.

Until 01.01.2015, property tax from individuals was calculated at 0.1% of the inventory value of buildings in their private ownership. The lack of inventory value of the vast majority of buildings, or the fact that this value was many times lower than the market value, created a problem in the collection of property taxes. The lack of inventory value of the vast majority of property in the country, especially in rural areas, did not allow that property to be taxed.

According to the change made on June 20, 2014, the property tax of individuals in our country is already determined by the size of the property. After this change, some of the problems arising from the legislation in the field of property tax collection have been eliminated.

Table 6: Collected property tax by municipalities (manat).**Mingachevir**

Indicators	2013	2014	2015	2016	2017
Tax revenues	48274	60294	68008	71800	61620
Property tax		5658	13969	14711	18310
Rate of property tax in tax revenues		9,40%	20,50%	20,50%	29,70%

Upper Gasil village

Indicators	2013	2014	2015	2016	2017
Tax revenues	5962	6378	5672	7921	10466
Property tax	311	193	242	914	2411
Rate of property tax in tax revenues	5,20%	3,00%	4,30%	11,50%	23,00%

Dahnakhilil village

Indicators	2013	2014	2015	2016	2017
Tax revenues	7355	3950	8369	10734	8920
Property tax	-	-	1291	1901	1715
Rate of property tax in tax revenues	-	-	15,40%	17,70%	19,20%

Source: Mammadli V.A. (2018)

According to the table, the analysis (comparison) shows that Dahnakhilil village municipality has many shortcomings related to property tax. Property tax collection did not increase in Orta Laki village municipality, Mingachevir

municipality increased 3.2 times, Agdash municipality 80%, Yukhari Gasil village municipality 7 times.

As can be seen, the determination of the tax base in Azerbaijan by the size of the property area has led to an increase in property tax collection in some municipalities. The change in the tax base, ie the introduction of a new mechanism, has created conditions for the taxation of non-residential areas. However, in some cases, those who do not have a certificate for real estate refuse to pay property taxes.

Municipalities have difficulty determining the area of buildings, especially apartments. The problem of taxation of housing, especially in urban municipalities, is obvious.

The calculation of the tax according to the size of the area of buildings and structures owned by individuals is currently used in a number of countries around the world. In those countries, different rates and ratios apply to residential and commercial buildings. In some countries, the tax rate rises sharply when real estate is used for business purposes. Unfortunately, in our country, the calculation of property tax from individuals by area of property is an incentive to tax buildings and structures used for commercial purposes, but different rates are not applied to commercial real estate.

According to the area of property, the tax covers the following property of individuals (according to the definition of the building in Article 13.2.54 of the Tax Code of the Republic of Azerbaijan) (Tax Code of the Republic of Azerbaijan, 2000):

1. Property used for residential purposes (individual houses, apartments and cottages).
2. Garages.
3. Any building or structure used for commercial purposes.

The calculation of property tax by area of land simplifies tax administration as a simple rule. Information on the area of the buildings is indicated in the documents confirming the ownership of the property. This rule is more socially acceptable for low-income people. Low-income people have the opportunity to pay property taxes according to their means by building small apartments.

Although the change in the property tax base for individuals has had a positive effect on collection in some municipalities, there are still many reasons for the problems. This is due to the fact that municipalities do not work properly, as well as the legislation. Thus, some municipalities generally have no experience in collecting property taxes. In some cases, municipalities view the application of the property tax and the collection of that tax from the population as a right given to them, rather than as an obligation imposed on them by law.

It is possible to increase the collection of taxes, which are the main source of funding for municipalities, by applying special coefficients to the property tax on buildings used by businesses for business (as well as leased) compared to residential buildings. It is also possible to minimize the shortcomings of the mechanism of taxation of property by area of property by applying ratios to apartments in tourist regions.

3.3. Setting at the efficient level of taxes on locally important construction materials

The mining tax is a form of mountain rent. mountain rent issues subsoil provides a basis for consideration at the same time as property issues. Also, the unbreakable connection of the earth's surface with the earth's crust is the joint of land and mountain rents creates conditions for consideration. Mining tax on natural resources and resources, beneficial paid for excavations. Even paid for by users of natural resources taxes have different characteristics. Such taxes, along with the fiscal nature has a regulatory character. Thus, natural resources are not renewable. Tax here regulates the use of natural resources, as well as prevents harmful effects, nature (environment) is applied for protection measures. Use of natural resources licensing creates liability for its owners. This tax is state and beneficial regulates relations between legal entities and individuals extracting excavations.

From an economic point of view, it is difficult to distinguish taxes from other payments is complex. A common aspect for tax and non-tax payments is their

withholding in the manner prescribed by law, mandatory nature, budget and is related to extra-budgetary funds. But you have to take into account that taxes look at it as a category that has not only economic but also legal meaning needed. To determine the legal nature of the mining tax, its direct and or to determine whether there is an indirect tax. In modern tax theory taxes are divided into two main groups according to the method of withholding: direct and indirect taxes.

In a direct tax, the source of payment is determined by the taxpayer. Live When we say taxes, we mean the income of taxpayers in the process of collecting material wealth and or taxes levied directly on property. Transport to direct taxes tax levied on vehicle owners, land tax, property tax, individuals income tax levied, corporate income tax. This is the mining tax, according to its characteristics, it can be considered a direct tax:

1. The subject of this tax property (minerals), ie not cash, so indirect taxes are a commodity and taxes are levied on the cost of services. Indirect taxes are also consumption taxes is called.

2. Not related to sales, ie from the sale of extracted minerals paid regardless.

3. The source of payment is formed in the taxpayer.

4. Tax payment is not entrusted to third parties.

As can be seen, the direct taxpayer is the person who receives the income, indirectly the taxpayer is the consumer of the goods. Although the mining tax is a direct tax, it is useful as a special tax the cost is calculated from the wholesale price of the excavations. In modern times, minerals are the basis for sustainable economic development of the country including rent, which allows economic entities to extract and use them to collect their income and redistribute part of it to the benefit of the state. The mining tax is a different tax depending on the type of minerals rates apply. 26% of the wholesale price of crude oil, 20% of natural gas, ore 3% was determined for minerals. Extracted non-metallic minerals The tax is set at 1-10 manat per cubic meter (Tax Code of the Republic of Azerbaijan, 2000).

Legal entities and individuals of the Republic of Azerbaijan, as well as foreign countries subsoil in the Republic of Azerbaijan in accordance with the legislation users can be. The rights and responsibilities of subsoil users determined by the relevant executive authority for subsoil use the procedure begins from the moment of obtaining a special consent or permission. Minerals the permit authorizing the right to extract mining in the subsoil area accordingly is given in the form of separation.

Subsoil use is based on the following principles:

- Ensuring efficient and safe use of the subsoil;
- Ensuring environmental protection;
- Subsoil use in a transparent manner;
- Paid use of the subsoil ("On the subsoil" Azerbaijan Law of the Republic).

Depending on the subject, the mining tax is both legal and depending on the producer refers to mixed taxes levied on individuals. Taxes are fixed according to the level of the budget paid and Regulatory taxes can be divided into state and local taxes in our country separated. Mining tax on locally important building materials river and foothills applied by municipalities located in the area. Concerning local taxes and fees mining tax on construction materials of local importance in some municipalities it is applied. Construction sands of local importance in the territory of Mingachevir municipality analysis based on the last five-year statistical indicators of that municipality for removal conducted.

Another issue is the maps that reflect the territories of municipalities is completely unprepared that municipalities are in the process of approving property rights face certain difficulties.

We believe that mining tax rates should be re-optimized, because the market price of 1 cubic meter of sand is 20-25 manats, while 1 manat Mining tax is paid.

The main feature of the mining tax is a portion of the payer's income alienation in favor of the state and municipalities. That is, when taxes are paid a certain part of the producer's income belongs to the state or municipalities pass.

3.4. Prospects for expanding the financial provision of municipalities

The economic activity of municipalities reflects the municipal economy and serves to improve the material well-being of the local population. An indicator of the economic activity of municipalities is the formation of the municipal economy, the creation of local budgets and non-budgetary funds.

Municipal economy in the broadest sense of the word reflects the municipal economy. Municipal economy is a set of all means, material and moral values used by local self-government in order to improve the living conditions of the local population. Economic activity is a relationship that occurs when the economy and related human activities, the use of various and mostly limited resources to meet the needs of people and society. Reflects the relationships that occur between people in the economic process.

Under the conditions of the market system of the economy, it becomes its main link in municipal enterprises. Thus, not only products and services are produced in municipal enterprises, but also the population is provided with jobs, ie value is created. The economic activity of municipalities, including the establishment of municipal enterprises, begins with the adoption of economic programs. By law, municipalities can address issues of social security and economic development in addition to state social security on the basis of local social protection, socio-economic development and environmental programs. Economic programs can cover different areas of the economy. The efficient use of municipal lands and other property should be reflected in the programs. The municipality leases its lands to individuals and legal entities on the basis of a lease agreement, for which it must make a decision. Municipalities may lease land for various purposes, as well as use

it for various purposes, which are carried out in accordance with the relevant regulations.

The economic activity of municipalities can be divided into 2 groups:

1. Relations arising from the creation and use of budget and extra-budgetary funds.
2. Relations arising on the management of municipal property.

Formation of budgets Collection of local taxes and fees on the basis of local taxation work on a basis. Collection of local taxes given to municipalities. The tax service is applied in all municipalities. That is taxpayers are municipal residents.

On municipal lands, buildings and other facilities (open in space) due to the placement and distribution of advertisements applied for the placement of street advertising in municipal lands, buildings. The amount of this payment is advertising according to the relevant decision of the Cabinet of Ministers to allow the broadcaster to place an advertisement on that advertising medium determined in the amount of 10% of the amount of state duty paid (to be paid) (“A number of issues related to the regulation of outdoor advertising activities”, 2017). This amount is paid once during the validity of the permit. Permission not exceeding 1 year for the period by paying a state fee in accordance with the needs of the broadcaster. State According to the law, the fee is set from 5 to 100 manats (“State Law of the Republic of Azerbaijan “On duty”, 2001).

A car belonging to legal entities and individuals in the territory of the municipality parking lots or all in places determined by the decision of the municipalities Payment for parking of different types of vehicles for each vehicle can be applied not more than 0.1 manat per day. Dated 15.12.2017 Amendments to the Law on the Fundamentals of Municipal Finance to the local budget from the funds received from the parking places organized on the roads. It has been added that this also solves some problems aimed at. (“On the Fundamentals of Municipal Finance” Azerbaijan Amendment No. 951-VQD to the Law of the Republic of Azerbaijan, 2017). So that to date, parking fees are a service that is part of the executive collected by structures.

Municipal enterprises, unlike other enterprises, are only in the market should not only maintain its position but also provide social services. Each municipality the enterprise cannot operate alone, ie with the market and the economy as a whole is related.

Types of activities of legal entities created by municipalities, their production regulates the prices of its products and tariffs for services. Also approves its charters, appoints and dismisses its leaders.

The creation and use of local budgets, which is the main tool in improving the lifestyle of the municipal population is carried out by local governments . All municipalities in the process of creating and using local budgets economic relations are concentrated. Each of the municipalities is a local self-government has a special budget that forms the economic basis. Local self-government bodies ensure the creation, approval and execution of local budgets. Local importance issues should be resolved using the financial resources of municipalities. A mature budget is a guarantee of socio-economic stability of municipalities.

Table 7: Income of municipalities

Mingachevir

Income of municipalities	Years				
	2013	2014	2015	2016	2017
Total	357971	456235	348467	415853	429502
Specific income	177971	316235	193467	245853	259502
Income from tax	48272	60284	68008	71800	61620
Incom from non-tax	129697	255951	125459	174053	197882
Regulated income	180000	140000	155000	170000	170000

Upper Gasil village

Income of municipalities	Years				
	2013	2014	2015	2016	2017
Total	7480	18903	17133	10381	15032
Specific income	6130	17543	15333	7921	12572
Income from tax	5962	6378	5672	7921	10466
Incom from non-tax	168	11165	9661	-	2106
Regulated income	1350	1360	1800	2460	2460

Middle Laki village

Income of municipalities	Years				
	2013	2014	2015	2016	2017
Total	20751	25870	14904	14090	16144
Specific income	18331	23250	12284	11470	13524
Income from tax	13756	10880	7952	7480	9121
Incom from non-tax	4575	12370	4332	3990	4403
Regulated income	2420	2620	2620	2620	2620

Dahlakhalil village

Income of municipalities	Years				
	2013	2014	2015	2016	2017
Total	21815	22154	14519	18004	27159
Specific income	20455	20354	12369	15854	25009
Income from tax	7355	3950	8369	10734	8920
Incom from non-tax	13100	16404	4000	5120	16089
Regulated income	1360	1800	2150	2150	2150

Source: Mammadli V.A. (2018)

According to the table, the analysis (comparison) shows that Mingachevir due to an increase in municipal tax revenues by 28% and non-tax revenues by 52% budget revenues increased by 20%. 52% increase in tax revenues of Agdash municipality, budget revenues decreased by 15% due to a 41% decrease in non-tax revenues. Budget due to 75% increase in tax revenues of Yukhari Gasil village municipality revenues doubled. 33% of tax revenues of Orta Laki village municipality Due to the decrease, budget revenues decreased by 28%, Dahnakhalil

village municipality budget revenues increased by 24% due to a 23% increase in non-tax revenues. In the regulated revenues of every 10 municipalities belonging to the scope of the Aran economic region there has been no serious change.

Municipalities as a continuation of the process of creating local budgets in the last 10 years. This is also done by consolidating local budgets for the purpose of financial stability requires an investigation into the problems of increasing incomes. So lately municipalities in articles published on the financial provision of municipalities. The reasons for the merger, the legislation related to the collection of local taxes to make changes in acts, to improve administrative control has been.

The local budget is a municipal budget and is not part of the state budget. Local budget revenues are gratuitous in accordance with the legislation of the Republic of Azerbaijan are funds at the disposal of local self-government bodies. Local taxes and fees, as well as non-tax payments are specific to local budgets income. In other words, the special revenues of local budgets are governed by the laws of the country are tax and non-tax payments that are fully or partially fixed on a permanent basis. Local taxes are an integral part of the tax system of the Republic of Azerbaijan. Local taxes - of the taxpayer for the purpose of financial maintenance of activity of municipalities to local budgets in the form of alienation of funds owned by them are mandatory, individual, gratuitous payments transferred.

Municipal finances due to insufficient revenues of local budgets. In some countries, part of the state taxes are local in order to ensure freedom allocated to budgets. In European countries, local budgets are the most common revenue. One of the categories is deductions from taxes paid to the Central Budget. Basically such deductions apply to personal income tax. These funds are special income not considered. Deductions from state taxes are mainly in accordance with the budget law for the current year is determined. Specifically, the work to be done by municipalities in those countries is displayed. Municipalities cannot apply exemptions to those taxes, as well as taxes they cannot change rates. However, in accordance with the Tax Code of the Republic of Azerbaijan, the maximum amount

of local taxes by municipalities. Rates may be changed and a discount may be applied without exceeding the rates. Also, the work to be performed by municipalities in our country is “Municipalities status ”is defined by the Law of the Republic of Azerbaijan. Those according to the law, municipalities have been given broad powers to carry out these tasks. Revenues of local budgets are not enough for its implementation. But those powers most of it is done by the state. We think that local budgets are enough as much financial resources are directed.

Municipal finance management system without information provision cannot be arranged. Information flows are not only between management entities, as well as between management entities and taxpayers. Exactly depending on the information, the payer fulfills tax obligations or taxes avoids paying. In establishing an objective link between taxes and expenditures ignorance arises. Thus, some taxpayers pay less tax, while municipalities tends to eliminate some costs. So what amount of tax the taxpayer he must know where he will pay and where the money raised will be spent.

Financial security of municipalities at the expense of non-tax revenues Property should play an important role in improving. Effective use of municipality property can be a new reserve in the implementation of local budgets.

Municipal property should be increased at the expense of the state and each municipality a program for property management in accordance with financial policy must prepare.

Control and accounting market, which is one of the most important elements of economic management is more active in their relationships. Attempt to give up administrative control, each farm manager considers the possibility of avoiding economic mistakes should hold. Study and balance accounting and reporting data in such circumstances, it is important to refer to the audit service when using the figures. The need for auditing is based on a number of theoretical principles and has deep roots. In modern times, between municipal servants and voters (the public) and

the state It is a responsible job that should be a guarantor of trust and responsibility in the economic-financial process also can only be performed through an audit.

According to the Civil Code of the Republic of Azerbaijan and other laws one a number of economic entities must have a mandatory audit. Mandatory audit in cases directly determined by the legislation or state bodies carried out by assignment. Legislation on the scope and procedure of mandatory audit regulated by norms. Organization and implementation of auditing in municipalities in scientific work, compulsion, reasons for audit evasion and ways to eliminate evasion investigated.

Audit is financial control. Although the audit has the quality of an independent audit, its activities are limited to auditing accounting and financial statements cannot be limited.

“On the Fundamentals of Municipal Finance” of the Republic of Azerbaijan Approval of funds spent, including the implementation of the local budget in accordance with the law. The municipality monitors compliance with the budget indicators and for this purpose annually attracts independent auditors at least once.

2 types of audit for the use of information in the existing economic literature. There are: external and internal audit (Hajiyev F.Sh.,2011).

External audit is a higher level of economic and legal control over municipalities. The main task of the newly emerging economic relations is illegal entrepreneurship in addition to protecting and preventing economic violations and to form a higher level of public legal consciousness.

To the Order of the President of the Republic of Azerbaijan dated July 28, 2007 according to the existing legislation of municipalities, including a number of economic entities mainly the accuracy of the financial (accounting) statements is confirmed by the auditor's opinion should be done. The Chamber of Auditors, taking into account the specific features of the management and activities of municipalities,

has developed a program for conducting (“On conducting audits in municipalities” program”, Council of Auditors of the Republic of Azerbaijan, 2005).

Activity of the Chamber of Auditors of the Republic of Azerbaijan for 2015 64958 subjects of compulsory audit in the republic according to the report on the results 39 independent auditors and 56 audit organizations had the right to inspect. 2016 67522 mandatory audit subjects were audited by 37 independent auditors and 67 auditors had the right to inspect the organization (<https://audit.az/>)

However, the staffing capacity of the municipal institute is low and municipal servants with no financial expertise at a low interest rate perform and cannot benefit from the advice of independent auditors. Observe in the local balance of revenues and expenditures during the preparation and use of budgets ,this ultimately leads to lower costs. As a result, budget revenues is enough for the salaries of municipal servants and utilities. Municipalities are increasingly dependent on subsidies from higher budgets. Their reduces responsibility (in solving local issues).

The table below shows the percentage of municipalities subject to mandatory audit has been:

Table 8: Information about municipalities mandatory audit

Years	Number of municipalities	Number of mandatory audited municipalities	%
2013	1607	1269	79,00%
2014	1607	913	56,80%
2015	1607	599	37,30%
2016	1606	661	41,10%

Source: Prepared by author

Today, the main problem of municipalities in our country is defined by law is the low level of revenue collection, especially taxes. Finance in this area control is very weak. Thus, "On local (municipal) taxes and fees" according to Article 12 of

the Law of the Republic of Azerbaijan, local taxes and control over the collection, transfer and use of payments to local budgets in the relevant commissions of municipalities, as well as in municipal service in elected bodies working, proposed at meetings of local neighborhood committees and citizens, is carried out by the control commissions approved at the municipal meeting. Also collect and use local taxes and fees if necessary relevant inspections in accordance with the decision of municipalities in order to control the implementation of independent auditors may be involved. But the collection process is regular should be monitored.

Management auditing, which is a type of internal audit in the economic literature special attention is paid. The main responsibilities of those audit activities are managed by municipalities exploration of ways to increase revenue, efficient ownership use, determine financial resources, efficiency of financial resources is evaluating.

This type of audit activity in municipalities has three main objectives:

- Evaluate the effectiveness of management;
- Identify opportunities for municipalities to improve their economic performance take out
- To make recommendations on increasing local budget revenues.

As a result of the financial policy of the state and municipalities, local authorities own create financial and economic resources, the share of special sources in local budgets should be increased. The principle of adequacy of special funds is the principle of local self-government is a condition of existence. It should be noted that “Villages in the Republic of Azerbaijan Strategic Roadmap for Production and Processing of Agricultural Products ” activities of local self-government bodies related to the socio-economic conditions of the territory supported. A plan has been prepared in accordance with this work. In some municipalities promotion to other municipalities by developing a model for the development of the area designed. This work has been entrusted to the Ministry of Justice. Economy implementation with

the assistance of the Ministry and local executive authorities is intended to hold. Jobs of municipalities in the village during 2017-2020 especially rural women and youth.

CONCLUSIONS AND RECOMMENDATIONS

Studies show that the policy of unification of municipalities in the last decade, there are still municipalities with very poor financial situation. We believe that small municipalities are not able to form human resources, administrative costs are rising, and financial resources are being allocated in the area. Therefore, the process of unification of municipalities should be continued, taking into account the possibilities financial conditions.

Despite the right fiscal policy, tax revenues are lower than expected gives the result. The reason for the unsatisfactory collection of local taxes is the local tax ignorance of payers. Thus, payment notices by municipalities is not delivered on time and payment is delayed due to taxpayers' ignorance. Balancing revenues and expenditures during the preparation and use of local budgets is observed that this ultimately leads to lower costs. As a result budget revenues only to the salaries of municipal servants, utilities is enough. As a result of the financial policy of municipalities, local authorities have their own financial and economic create reserves, increase the share of special sources in local budgets. The principle of sufficient funds is a special prerequisite for the existence of local self-government.

According to the world experience, it is advisable to increase the objects of property tax at the expense of vehicles, in order to improve the financial security of local self-government. By applying the road tax on vehicles It is possible to support the establishment of extra-budgetary funds in municipalities. In our country motor vehicles are not subject to property tax. The financial security of local self-government can be improved by taxation in the territory of Azerbaijan Republic property of persons owning and using vehicles. For example, if the property tax is paid annually to the engine of vehicles for 0.01 manat is calculated for each cubic centimeter of the volume, the municipalities are reasonable will have a source of funding. This is because the probability of collecting this payment is very high and vehicles are not inspected without paying taxes. Statistics according to the

information, as of 01.01.2017, there are 1330551 units in our republic. Due to the lack of funds, majority of municipalities can not do to spend on the improvement of municipal roads, given that it so, such amounts can be accumulated in local extra-budgetary funds and spent in that direction. Construction and maintenance of municipal roads belongs to the powers of municipalities along with the state.

We believe that one of the state taxes, as in some countries today determined in accordance with the legislation of the country, rather than allocating part of it to local budgets, it is necessary to increase the collection of local taxes.

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5. <https://www.taxes.gov.az/modul.php?name=statistika>

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