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## Urban Planning in Baku: Who is Involved and How It Works

By Farid Guliyev, Baku

### Abstract

This article examines the urban governance system of Baku City with a focus on recent urban reconstruction projects. First, I outline the mechanism of oil surplus recycling that underlies Baku's recent construction boom. Second, I explore the regulatory regime and the roles of different government agencies engaged in "implementation games". City politics has thus turned into an arena for the neopatrimonial scramble for public resources. Baku's urban policy decisions reflect the confluence of interests of bureaucratic patronage networks and oligarchic-business groups. What is good (profitable) policy for these rent-seeking groups can harm social welfare, the quality of undersupplied social services (such as education and health care), and other public goods needed by ordinary residents, fueling the growing tendency toward urban segregation by class and income.

### Urban Redevelopment: A Two-Level Game

Baku's recent urban redevelopment is an outcome of the interaction of actors and interests operating at two levels: planning and implementation. First, there is the political leadership level, where elites are pursuing the strategy of "diversification light" by prioritizing the types of projects that will not threaten the political status quo in the future. In practical terms, this means that economic diversification should meet two criteria: a) maximize the economic payoffs, and b) avoid political costs (i.e., do not "rock the boat"). The petroleum-based rentier state model of the 2004–2014 period secured the elite's hold on power, but it may no longer be viable. Resource dependence and associated vulnerabilities, certain structural shifts in global energy markets, and the Caspian region's loss of "geopolitical significance" for the West, especially the U.S., all call for measures to promote growth in the non-oil sector. Diversifying into real estate and tourism, a strategy that seems to be favored by Azerbaijan, meets both criteria: if implemented prudently, this strategy has the potential to spur non-oil growth; it does not require major technical know-how (which is in short supply locally); and the tourism, services and "entertainment" sectors do not threaten—but rather serve—the position and wealth of the vested interests.

Urban projects fit these calculations rather well. In view of the elite's interests, the prioritization of urban redevelopment is articulated in the government's policy meta-frame, which is a series of strategic roadmaps, long-term plans and a new city master plan (currently under review) in which urban beautification is expected to transform Baku into a megacity and a regional transportation and logistics hub along a new Silk Road, indeed "the hub of hubs".<sup>1</sup> This vision is based on two assump-

tions. Azerbaijani policymakers and planners believe that Baku has the business-friendly regulatory environment and all the necessary ingredients to jumpstart its non-oil sectors, and if Dubai "did it", Baku can do it too. This would justify large public investments in hardware infrastructure (roads, ports, railways and buildings). A second assumption is that foreign capital follows a city's grandiosity; in other words, once a city builds high-rise buildings, sports arenas, shopping malls and convention centers, foreign businesses will be willing to invest money, and tourists will flock in. Skeptics question these assumptions as being unrealistic and costly.

At another level, there is policy implementation. As in other post-Soviet countries, where political power is maintained through the exchange of material resources for personal loyalty within and among patron-client networks, publicly funded projects feed into the rivalry among multiple patronage groups inside and outside the state bureaucracy. In the case of construction planning in Azerbaijan, licenses and permits are administered by as many as six different government agencies. Each government agency is legally entitled to approve or reject a license; this is a formal right that gives government office-holders public jurisdiction that they can use to dole out informal benefits, if they want to. In other words, holding public office provides officials with access to spoils and unofficial perks. Subsequently, even though the elite's plans might be arguably seen as benign, implementation of this vision in practice at the bureaucratic level acquires a logic of neopatrimonial scramble for a share of the lucrative oil pie, with consequences that hurt ordinary residents. There is an opportunity cost to heavy investments in large urban infrastructure projects. The money invested in bricks and concrete blocks could have been invested in improving the provision of services, such as better schools and hospitals. Another downside has been a series of massive evictions of less well-to-do households from centrally located habitats and their

1 "Baku Will Become a Dubai-like Hub in Eurasia", *Euractiv*, November 10, 2016, <<https://www.euractiv.com/section/azerbaijan/interview/ziyadov-baku-will-become-a-dubai-like-hub-in-eurasia/>>

relocation to the city's outskirts.<sup>2</sup> This exacerbated the already widening levels of social inequality and segregation in urban Baku, where wealthier residents have come to benefit from the city's amenities and services, replacing a more egalitarian Soviet-era urban structure.

### Why a Construction Boom?

The construction sector is a good outlet for reinvesting oil surplus revenue. Keeping money in cash or in bank accounts is unreasonable. Over time, assets may lose their initial value due to inflation or changes in the exchange rate. At other times, assets may be consumed too fast, providing no profit in return. In extreme cases, assets may be lost to competitors or simply expropriated. In countries with weak property rights, re-investing or recycling the oil surplus for profit (El Gamal and Jaffe 2008) seems more reasonable than consuming, saving or expatriating to Swiss bank accounts. A group of savvy new oligarchs allied with powerful bureaucratic interests formed a strong coalition to advocate investment in construction, or the so-called "secondary circuit of the built environment" (Buckley and Hanieh 2014). These construction plans matched the discourse of the top leadership of the oil-boom era, i.e., diversifying the economy with little political cost. Agriculture and manufacturing-oriented economic diversification (like that pursued by Malaysia or Singapore) seems like a structural impossibility in Azerbaijan due to the weakness of domestic commercial elites (and their dependence on government procurement and subsidies), the country's landlocked geographical position, "bad neighborhood," and high barriers of entry to international markets for late-late developing countries. Moreover, Malaysia-like diversification has high political costs, as it might turn the incumbent elites into political losers and empower would-be beneficiaries who might turn their economic wealth into the source of independent political power. Considering these constraints and the large fortunes to be made in the construction sector, the oil boom incentivized the new class of oligarchs to invest the surplus in infrastructure and marketing campaigns in the quest to secure non-oil revenues, jobs, prestige and government legitimacy. After all, skyscrapers were first built in New York, and they represent the symbols of modernity just like the Mercedes and SUV cars that filled the streets of an aspiring new mega-city.

### Urban Planning

Azerbaijan's urban reconstruction over the past decade represents a series of decisions and deals intended

to rebrand the city's image, akin to what Peter Eisinger described as "the politics of bread and circuses." Reconstruction has emphasized entertainment projects such as shopping malls, convention centers, sports arenas, Formula One circuits, and aggressive marketing efforts to advertise the country's new image and to win bids to host important music events (Eurovision) and sporting competitions such as the European Olympic Games (see Appendix). By focusing on the tourism and hospitality sectors, planners expect that these investments will generate jobs and profits. While it is early to evaluate the profitability of these projects in Azerbaijan, there is plenty of evidence with which to question the economic rationality of such spending decisions. Although highly profitable to developers, private investors and construction companies, such entertainment investments often fail to generate expected returns or positive spillovers (e.g., jobs or taxes) that benefit the public interest. Thus, while the investors reap the benefits, the welfare of ordinary citizens might suffer. Public resources that were spent on over-blown infrastructure projects could have been invested in improving local public services such as health care, schooling, vocational training programs and assistance for disadvantaged groups. Moreover, construction projects in Baku placed enormous strain on local residents. Green parks were destroyed, and trees were chopped down to make way for new high-rise buildings, causing an increase in the level of air pollution. Urban public space shrank and has been commercialized. Construction works, noise from vehicles, traffic problems, and limited parking lots have all added to the limited absorptive capacity of the city to accommodate the needs of rural-urban (internal) migrants, the inflow of foreign tourists and the ambitious policies of urban policymakers.

### Implementation Game

Although planning may be sound, projects may fall prey to bureaucratic politics during implementation, a phenomenon referred to as the "implementation game" (Bardach 1977). For example, public managers may exaggerate the financial costs of a project or divert resources. In a similar vein, construction projects may be diverted to benefit the construction firms connected to bureaucratic groups. Procurement decisions and funds may be tilted to favor the business interests of these groups.

Considering artificially inflated real estate prices, the profit margin (the difference between cost and revenue) is large. Real estate is thus immensely profitable. Another "political" advantage of the construction sector is that compared to more technology-intensive manufacturing, construction, as a services-based sector, is more labor intensive. Given Azerbaijan's dearth of technology

2 Amanda Erickson, "Middle-Class Families Face Evictions in Azerbaijan", *New York Times*, August 10, 2011, <<http://www.nytimes.com/2011/08/11/world/asia/11baku.html>>

and shortage of non-oil jobs, an emphasis on construction has the additional advantage of providing jobs for abandoned rural areas, where most (largely low-skilled) males leave their families in search of jobs in Russia or in the greater Baku area, where they typically work as construction workers, taxi drivers, small shopkeepers, bazaar salesmen, or traders. According to official statistics, the construction sector employed 89,200 workers in 2016 (a decline from the highest number of 101,100 in 2013),<sup>3</sup> but this figure is most likely an underestimation, as it excludes a large fraction of workers without official contracts. More realistically, this number may be twice as high given the large percentage of unofficial employment. This contributes to the expansion of the shadow economy, as most employees in the informal sector lack employment contracts to avoid paying taxes. Inadvertently, urbanization leads to the informalization of market-based interactions and the expansion of the “shadow economy”.

Most construction projects in Baku were built by local private companies, and some were financed through government contracts, i.e., they were publicly funded. In fact, one of the challenges the government is currently facing with the decline in oil revenue is a poor record of attracting foreign investors to finance large urban reconstruction projects (Valiyev 2016). This serves the interests of large, politically connected business groups and developers. Real estate developers are typically large, well-established companies that obtain most of the government procurement contracts but also develop their own projects.

Other stakeholders are government agencies granting permissions and licenses for construction, which in Baku’s case includes six state bodies. Urban governance in Baku is excessively centralized. The mayor of Baku (the head of the city’s executive authority) is not an elected office, the only non-elected mayor among Council of Europe member states. Heads of Baku City’s rayon executive authority are also appointed by the president. Interestingly, each rayon’s executive head reports directly to the head of state and has responsibilities independent of the mayor of Baku City. This structure promotes top-down decision-making, stifling broader public participation in urban governance.

The process of obtaining licenses and permits for construction projects involves a multitude of different state agencies and is lengthy and complicated (UNECE 2010, World Bank 2016). According to the World Bank’s Dealing with Construction Permits index, which measures

“the procedures, time and cost to build a warehouse”, it takes 18 procedures and 203 days to build a warehouse in Azerbaijan (for comparison, in Georgia, the same process requires only 7 procedures, which can be completed in 48 days) (see Table 1 and Figure 1 on p. 6). Azerbaijan ranks near the bottom of the list (161 out of the 186 countries), on par with countries such as Equatorial Guinea, Bolivia and Chad. As seen in Figure 2 on p. 7, dealing with construction permits in Azerbaijan is a heavily bureaucratized process involving six different state agencies, and the official costs are high, at a total of AZN 271,906 for the entire procedure (World Bank 2016).

### Urban Renewal: Residential and Entertainment

First, there is the construction of high-rise residential buildings. These projects are driven by the interests of large business groups (often with a “krysha” by a certain senior official), but some are based on government procurement contracts (*dövlət sifarişində reallaşan tikinti layihələri*). In the Azerbaijani neopatrimonial state administration, government procurement decisions often favor oligarchic interests.

For example, in 2016, the president ordered the cabinet to speed up the socio-economic development of several rayons of Baku City, stipulating the demolition of 1,094 residential buildings and the relocation of more than 49,000 people to new multi-story complexes with better living conditions. Following the relevant order of the Cabinet of Ministers, 33 construction companies applied for reconstruction contracts for the old buildings in the city’s Narimanov area; 25 of these projects were approved and 12 of them have begun demolition and construction works.<sup>4</sup>

Second, there are publicly funded “entertainment amenities”. These are slated to raise the public image of the city and generate returns through the inflow of tourists and the hosting of sporting events. The new master plan prepared by the State Committee for Urban Planning and Architecture, called the Greater Baku Regional Development Plan, is currently under consideration and aims to tackle the expected urban sprawl in Baku, with estimated population growth from the current 2.6 million to a projected 3.8 million by 2030.<sup>5</sup> If the plan is implemented, the government is expected to expand

3 Azerbaijan State Statistical Committee, Construction Sector, <<https://www.stat.gov.az/source/construction/>> [file name: 040en.xls]

4 “Bakıda xaotik tikinti dövrü başa çatdı” [The chaotic construction era in Baku is over], Azərbaycan [official newspaper], June 30, 2017, <<http://www.azerbaijan-news.az/index.php?mod=3&id=125101>>

5 State Committee on Urban Planning and Architecture, “Greater Baku Regional Development Plan”, <[http://www.economicforum.ge/img/original/2016/11/10/Greater\\_baku\\_regional\\_development\\_plan.pdf](http://www.economicforum.ge/img/original/2016/11/10/Greater_baku_regional_development_plan.pdf)>

construction in the area that would unite Baku Proper with Sumgait City and the adjacent town of Khirdalan (town). It is estimated that AZN 140 billion of investment will be needed to realize this plan through 2030. As similar projects in the past were built from the public purse, costing billions of dollars, time will tell whether the government can succeed in mobilizing foreign capital for investment.

One could argue that there is some evidence to support the government's aggressive city branding and advertising campaign, as it helps to bring in foreign tourists. For example, in the first eight months of 2017, more than 2 million (mostly low-budget) foreign tourists visited Azerbaijan, spending a total of AZN 1.3 bln (\$767,000). Additionally, this boosts the labor market by providing jobs for thousands of people.<sup>6</sup> The share of tourism as percent of GDP grew from 3.6 percent in 2013 to 4.2 percent in 2016.<sup>7</sup> However, it remains to be seen whether the earnings from tourism are of a magnitude that would justify further public investment in "entertainment amenities".

### Conclusion: Social Consequences of Chaotic Construction

Over the past decade, Baku has undergone a series of significant transformations, resulting in chaotic construction. Urban reconstruction has reduced the area of public space and has often gone against the basic rules of urban planning. Soviet-era buildings are suffering from neglect and lack of maintenance, while newer ones are built in close proximity, and construction projects adjacent to each other lack parking lots or playgrounds for children. As a result, the city center is becoming packed with high-rise buildings, offices and shopping malls. The city is overcrowded, with the typical problems of a budding megacity. Traffic, noise and air pollution are familiar problems. During the high rain season, rainfall floods the streets, turning the city into a virtual lake as the city's sewer pipes operate beyond their capacity and the city planners have delayed the construction

of a drainage system for decades. Car drivers park on sidewalks, impeding the movement of pedestrians in the downtown areas.

Another social aspect of Baku's urban transformation is the increasing spatial segregation of the city, with wealthier people enjoying the comfort of private houses and driving expensive cars while the rest of Baku's residents reside in more distant rayons and have to commute on overcrowded metros or buses and marshrutkas. Some of the wealthier people live in completely isolated areas, such as the Baku City Villas compound, which is "isolated from the hustle and bustle of city life in the hectic metropolis". Another spatial dimension is that better-quality schools, as well as private schools that charge high tuition fees (in the range of AZN 15,000/ USD 5,900 – 20,000 / USD 11,800), are traditionally concentrated in central areas, which puts them beyond the reach of ordinary families both geographically and financially.

The fact that ordinary citizens and disadvantaged groups have virtually no say in urban policymaking, partly due to the weakness (or near absence) of grassroots civic initiatives (Sayfutdinova 2010; also see Nazaket Azimli's article in this issue), handicaps the adoption of good and responsive policies. Urban redevelopment is thus captured by developers and construction firms. Locals are often evicted from their homes, sometimes violently, and without proper financial compensation. As local residents have no power to resist, entire neighborhoods are being destroyed and uniform, sterile-looking ahistorical residential skyscrapers and offices are replacing traditional communities, undermining the cultural specificity and the "southern city" look of downtown streets. This type of change also produces the income-based reorganization of city dwellings as poorer households, unable to buy expensive property in their own neighborhoods, move outside the city. High concentrations of less well-off and poorly educated residents in the city's outskirt areas might eventually raise the levels of crime and street gang violence in urban suburbs.

#### *About the Author*

Farid Guliyev is an independent researcher specializing in natural resource management, comparative institutions, and public policy analysis with a focus on the politics and political economy of Central Asia and South Caucasus.

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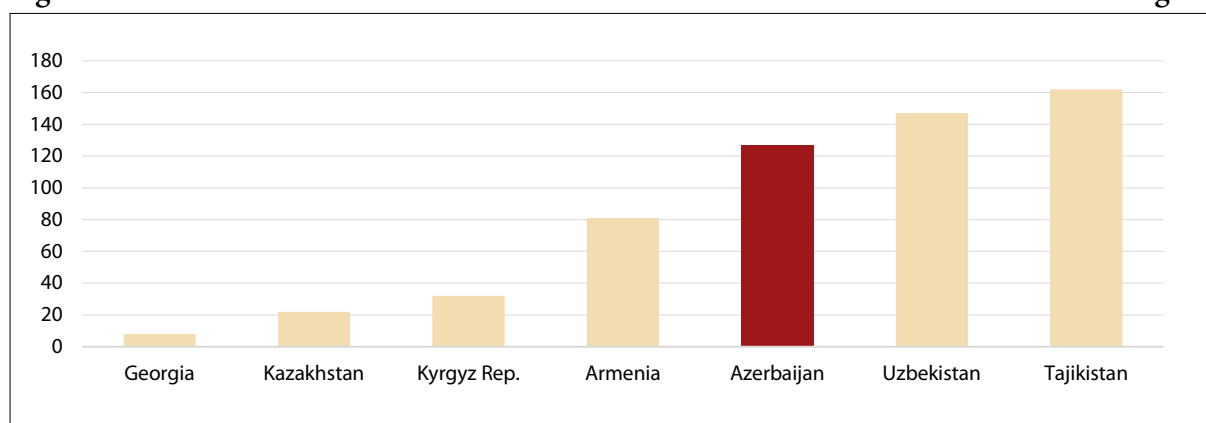
**Table 1: Construction Permits: Central Asia and the Caucasus**

Economy	Dealing with Construction Permits rank	Procedures (number)	Time (days)	Cost (% of warehouse value)
Georgia	8	7	48	0.2
Kazakhstan	22	19	123	1.7
Kyrgyz Rep.	32	11	142	1.8
Armenia	81	18	84	0.9
Azerbaijan	127	18	203	4.5
Uzbekistan	147	23	176	3.8
Tajikistan	162	27	242	2.1

Source: World Bank, <<http://www.doingbusiness.org/data/exploretopics/dealing-with-construction-permits>>

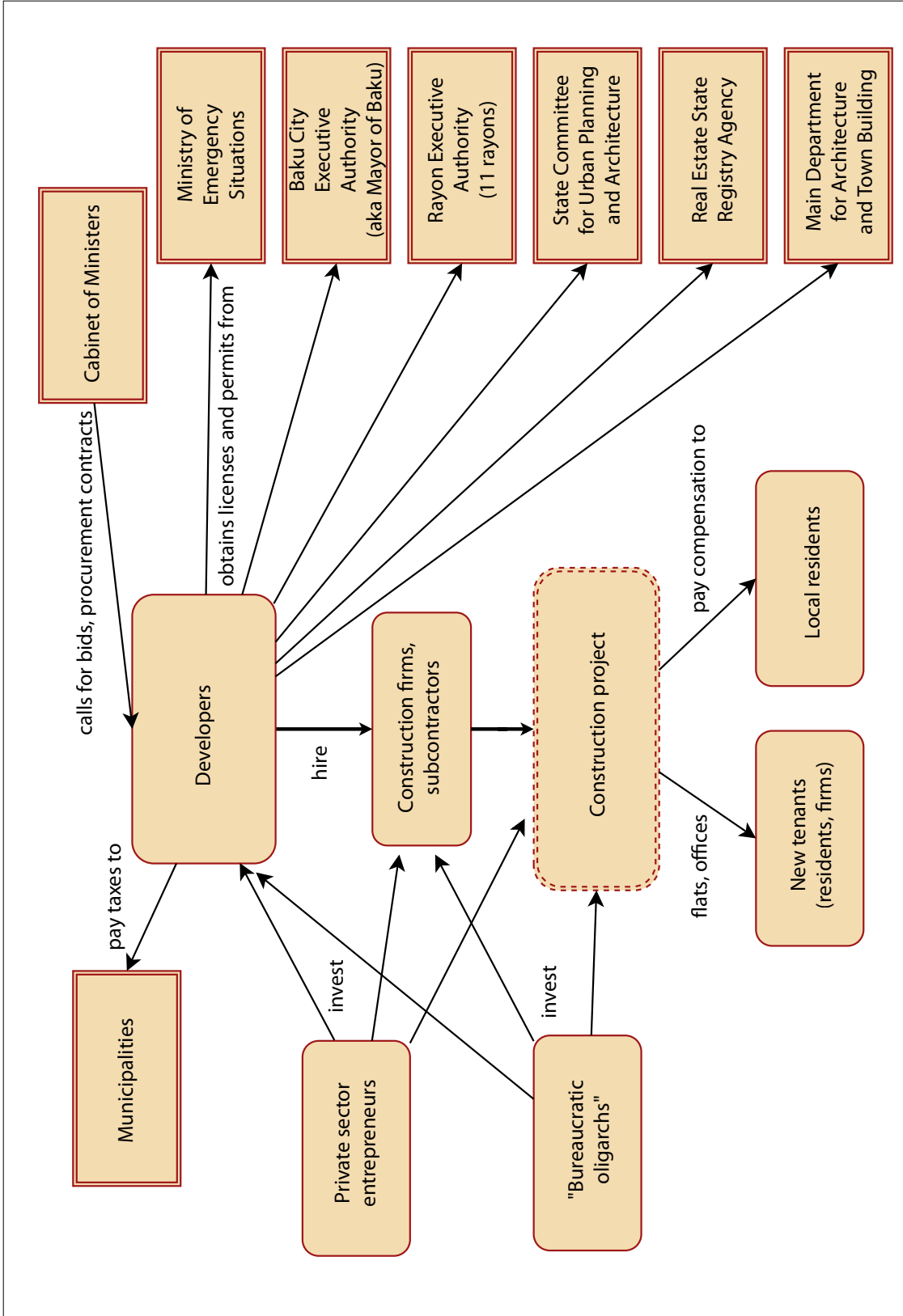
Note: numbers in the first column indicate a country's position in the global ranking

**Figure 1: Construction Permits: Central Asia and the Caucasus: Position in Global Ranking**



Source: World Bank, <<http://www.doingbusiness.org/data/exploretopics/dealing-with-construction-permits>>

Figure 2: Construction Sector Stakeholders in Baku City



Source: diagram created by Farid Guliyev based on World Bank 2016, UNECE 2010

**Appendix: Major New Construction in Baku City and Absheron, 2011–2016**

Year inaugurated	Object
2016	Two new stations (“Avtovagzal”, “Ajami-2”) of Baku Metro
2015	Olympic Stadium Aquatic Palace Shooting Center Bike parking European Games Park Baku Congress Center “Dalga Beach-Aqua Park” family recreation center Culture Center Golf club “Gafgaz Baku Sport Hotel” Inn Complex “Bulvar Hotel” Inn complex Athletes and Media Villages New building of Court Complex Information Technologies and Data Management Center of the State Committee on Property Issues
2014	Trade Mall “Port Baku Mall” New Airways Terminal Complex of H. Aliyev International Airport New Terminal of new Baku International Sea Trade Port New Administrative-Educational Complex of National Conservatory Building of the Republic Institute of Sport, Medicine, Diagnostics and Rehabilitation Baku Health Center Azerbaijan Carpet museum New building of the Scientific Center of the National Encyclopedia of Azerbaijan New building of the Central Library of the NAS of Azerbaijan National Gymnastics Complex Chess School Music school
2013	Parking shelter complex in international airport named after H. Aliyev and International Logistic Center “Fairmont Baku” hotel in “Flame towers” Surgical clinic of Azerbaijan Medical University
2012	Trade Mall “28 May” Construction of 3 <sup>rd</sup> crossroad in H. Aliyev and Z. Bunyadov avenue “JW Marriott Absheron” Hotel Qafqaz Baku City Hotel and Residences “Four Seasons” Hotel New Training Complex [Campus] of Azerbaijan Diplomatic Academy New Training Complex [Campus] of Baku Branch of Moscow State University named after M. V. Lomonosov “Khazri” Recreation and Health Center Military Hospital “Baku Crystal Hall” Sport-Concert Complex H. Aliyev Center “Bakcell Arena” stadium Stadium in Bina settlement Stadium in Bayil settlement Sport Complex in Zira settlement
2011	New station (“Dərnəgül”) of Baku Metro “Kempinski Badamdar” Hotel “Hilton Baku” Hotel Jumeirah Bilgah Beach Hotel Treatment-Diagnostic Center

*Note: excludes industry-related constructions*

*Source: Azerbaijan State Statistical Committee, <<http://www.stat.gov.az/source/construction/?lang=en>> (File name: 001en.xls)*