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## Local Governments in Azerbaijan: A Long Way To Go

By Anar Valiyev, Baku

### Abstract

Ever since Azerbaijan established the municipality system in 1999, local governments have faced many problems, including the absence of financial independence, duplication of administrative functions, and low trust on the part of the population. Despite calls to further decentralize the system, the government has made little progress while still keeping the old system of regional executive powers, which deprives the municipalities of their functions. However, the growing cost of running the public administration system, social issues, and financial problems may force the government to move forward with decentralization reforms.

### Introduction

On December 23, 2014, Azerbaijan held another round of municipal elections, the fourth since independence. According to the final protocol of the Central Election Committee, around 1.8 million people participated in the voting, electing 15,963 members of municipal governments. Overall, more than 31,000 candidates competed in 1,718 municipalities. Government agencies and several local organizations claimed that the municipal elections were held in a transparent environment in accordance with democratic norms. Nevertheless, independent experts stated that the elections had very low turnout, which reflected a lack of interest among the general population. Indeed, the absence of real administrative, financial and political power is usually cited as the major reasons for the lack of interest in these elections. Moreover, the indirect subordination of the municipalities to the regional executive authorities made this tier of governance useless, if not redundant. In the following article, we will examine the current problems of municipalities and the causes for these concerns, as well as suggest recommendations for the future development of local governments.

### What Is Wrong with Municipalities?

Azerbaijan's system of governance nominally can be called three-tiered. The top or highest tier of the government is the central executive branch headed by the president. The president appoints the Cabinet of Ministers and other high-ranking officials. The regional executive branch (REA), the second tier of governance, is merely a continuation of the central executive. The legal status of regional state administration in Azerbaijan is determined by law. In June 2012, the president approved a new regulation, which granted additional powers to regional governments, strengthening their dominant position over Azerbaijan's regions. The regional governors designate local administrations in villages and settlements situated within their territory. Heads of local state administration carry out executive duties in rural areas, cities and city districts. The third nominal tier of governance is the municipality (*bələdiyyə*).

After the collapse of the Soviet Union, Azerbaijan took significant measures to change its approach from communism to a market-based system, which includes strengthening institutions, giving power to the people and democratizing the government. In the process, Azerbaijan formed local governments in 1999 (initially planned to launch in 1997) with the idea of decentralizing state administration. The Constitution of Azerbaijan, adopted in 1995, states that local government is exercised both through local bodies of state administration and through municipal governments. The Constitutional provision on the regional executive branch and municipal governments regulates local bodies of state administration through relevant laws. As of today, 1,718 municipalities staffed by 15,682 people are operating in the country, while a few years ago this number was 2,750.

In reality, however, the municipality turned out to be powerless. In Azerbaijan, the regional government controls the majority of socio-economic functions. On some issues, governors are supposed to take into consideration the views and suggestions of municipalities. However, due to the fact that funding from the state budget goes directly to the regional government, and this branch of government, not the municipalities, is responsible for submitting proposals to the state, the role of municipalities is limited to ceremonial functions. The ill-defined border among the roles, responsibilities and competences for regional governments and municipalities is a big problem. Thus, the current framework leaves municipalities little discretion over a significant portion of the responsibilities granted them by the Law on the Status of Municipalities.

The central authorities and their authorized officials still seem reluctant to carry out local government reforms and especially draw a clear line between state and municipal responsibilities. The government, at the same time, does not see the necessity for making an even smaller scale reform in the case of Baku. As Ali Ahmadov, the executive secretary of the ruling party, stated in response to a question on establishing a municipality

in Baku and transferring all powers to this body, such a move would not make sense given Azerbaijani society's current attitude towards municipal activities. Meanwhile, the Congress of Local and Regional Authorities of the Council of Europe has repeatedly proposed an initiative to hold mayoral elections in Azerbaijan, especially in Baku. Proposals to establish a large urban municipality in Baku have often been on the agenda. Government officials have stated that the issue of establishing a single municipality can be seriously discussed in five years.

Financial dependence and the absence of a decentralized system create another problem. Due to the lack of finances and minimal political and administrative powers, municipalities lack the ability to make decisions autonomously. According to the Tax Code of the Azerbaijan Republic and the Law on Municipalities, municipalities can charge a land tax levied on a physical person; property tax levied on a physical person; mineral royalty tax levied on construction materials of local importance; and profit tax for enterprises and organizations that are the property of the local municipality. The rates are applied according to local decisions and paid in municipal areas. The decision to apply certain rates belongs solely to municipalities. Beyond taxation, municipalities receive non-tax revenues. Municipalities may levy posting of street advertisement, disposal and letting of municipal property, fixed and mobile commerce, hotels, sanatoria and health resorts, and parking. However, reality shows a different picture. First of all, municipalities do not have profit-making enterprises under their jurisdiction. Thus, profit tax is not applicable at all and no funds come from that type of taxation. Not all municipalities have mineral resources related to the construction industry. (Natural resources are the property of the state and a municipality cannot levy taxes on mineral resources, except construction materials such as sand and stone.) Even municipalities endowed with sand and stone cannot levy the tax because large corporations control these resources. Property tax levied from physical people also comes to municipalities at a lower level than established by law. According to statistics, the collection rate did not go beyond 70% in 2011 across the country. There is also great disparity in geographic terms: while in urban zones such figures may reach 80–90%, in outlying areas collection does not surpass 2–3%. Some municipalities even do not have such a tax at all. Finally, the land tax that is prevalent in rural areas, although collected properly, cannot provide financial sustainability to municipalities because of several other problems. As for the levies, municipalities could collect only auto-parking fees, while others were prevented from doing even this by regional governments. The reason for such weak collection of taxes

and levies is the municipalities' absence of administrative, financial and political power. Local businesses and the population do not take municipalities seriously.

Most of the governmental agencies and officials blame municipalities for the country's many existing problems, especially with informal housing. Thus, in February 2011, Azerbaijan's Parliament held a special hearing dedicated to the activities of municipalities. It was revealed that in 2010 alone 80 hectares of lands were sold to private citizens illegally, while 3,210 hectares of land were illegally leased to private citizens. Overall, heads of 27 municipalities were brought to court and charged with corruption. However, it is naïve to believe that municipalities acted independently. In many cases, central and regional executives are aware of such irregularities but prefer to close their eyes.

All these issues lead to the low level of trust in municipalities. According to a 2013 poll, 40% of people either trust or somewhat trust local government, around 32% distrust it and 24% remain neutral (CRRC, 2013). This low trust level can be explained by the problems described above as well as a situation in which many unsatisfied people tend to see municipalities as incapable of solving the problem. Since the central and regional governments wield most of the power in the country, people tend to place their trust in them rather than local governments since the central and regional authorities can, it is believed, really solve problems. Thus, voter turnout in Azerbaijan for municipal elections is very low compared to other elections.

Yet the existence of such a complicated system poses huge problems to the operation of public administration. First of all, administrative costs to run so many duplicated governments are excessive. The government is allocating large amounts of money to support the work of the mayor's office and their respective departments. Unofficially, governors also give unofficial orders to municipalities to use their resources for renovation activities in a specific area on a regular basis; this happens even though municipalities have myriad socioeconomic problems to address throughout their own territories. These interventions have an adverse bearing by limiting opportunities for municipalities to freely dispose of state budget subsidies. Allocation of financial assistance is basically decided on the basis of unofficial instructions from governors.

### **Future of Municipalities. What to Do?**

Proponents of public choice theory, which adheres to principles of self-government and democratic administration decentralization, would argue for complete decentralization and freedom of municipalities. This policy option would champion the idea of further decen-

tralization, administrative reforms and mutual cooperation between local governments.

Such a policy would require the following steps:

- *Liquidation of regional governors* as a redundant tier of government and by the subsequent transfer of their powers to local municipalities. Currently, governors are implementing the functions of municipalities while the latter are deprived of any power. Governors control the budget and administrative power, while the municipality is left to implement instructions from above.
- *Establishing a two-tier system* envisions that municipalities in each city or rural area would establish a council from which the mayor could be elected. That system would allow close local-level cooperation within the framework of the council.
- *Encouraging Municipalities to Cooperate.* Municipalities in Azerbaijan, and in Baku in particular, do not have a culture of cooperation with each other. Each of them prefers to solve their problems alone. The government should encourage coordination among the municipalities in order to approach the existing problems from a more comprehensive view. Governmental grants could become one of the effective incentive mechanisms for the encouragement of cooperation among municipalities. Thus, in order to compete for grants and additional financial resources,

municipalities would be forced to form alliances with each other and stop competing.

This policy option, however, is one of the least possible since it could bring more problems than it solves. There are a lot of uncertainties about whether decentralizing reform would really be effective. It is uncertain whether such a policy could influence ongoing sprawl, illegal housing or environmental problems. In the absence of proper legislation, the low political culture, lack of horizontal cooperation, and fierce opposition from all levels of government make this policy option unrealistic. Reform, in the first place, would affect the interests of municipalities and various officials whose jobs would be liquidated or merged. It could lead to massive layoffs and create new social problems. Moreover, the high cost and lack of local government capacity to implement reforms would be another obstacle for such a policy option.

Nevertheless, prolonging the reforms of local governments can bring additional problems that governments cannot foresee. Thus, the current government should take serious steps to correct problems and launch some reform of the system. Otherwise, the rising cost of running the public administration system, social problems and some deterioration of the economic situation could negatively affect the work of the system and lead to serious problems.

#### *About the Author*

Dr. Anar Valiyev is a Baku-based analyst. He holds a Master's Degree in Public Affairs from Indiana University Bloomington and a PhD in Urban and Public Affairs from the University of Louisville.