

CHALLENGES TO LOCAL GOVERNANCE IN THE SOUTH CAUCASUS

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INTRODUCTION

Poverty and lack of access to basic public services, especially in the rural areas, are the Achilles' heel of all three South Caucasus countries. Armenia, Azerbaijan and Georgia have all experienced various public protests against economic hardship fuelled by the substantial devaluation of the countries' currencies in 2015 and 2016. People in Azerbaijan and Armenia but also in Georgia

have insufficient access to government structures. They see no avenue for making their needs heard and change policy other than by public protests. Domestic governments and external actors should increasingly undertake efforts to improve the interaction between people and governments, especially by strengthening local governance bodies.

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EVIDENCE AND ANALYSIS

Protests Show Growing Dissatisfaction with Living Conditions

In the last two years, people's dissatisfaction with the economic developments in the South Caucasus countries has increasingly erupted into public protests. In Armenia, the summer of 2015 was marked by massive protests in Yerevan and minor towns against government plans to raise electricity prices. Several thousand took to the streets from May to August 2015. By and large, the events remained peaceful, but they were not without violent clashes between demonstrators and police forces. The key driver of this "No to Plunder" movement was Armenia's youth. They, however, acted with wide support from the older generations. Even Azerbaijan with its highly authoritarian political regime experienced a chain of public protests in its southern and central regions in January 2016. The bone of contention was rising food prices. Immediate violent police intervention stifled the protests. Apart from these larger incidents, scattered minor protests took place in various regions of the country in the last two years. They addressed salaries and insufficient basic infrastructure, including road infrastructure. These protests were of short durations and involved only several hundred protesters. Their emergence is, nevertheless, noteworthy given that people are well aware of the government's repressive reactions to any kind of public protests.

In Georgia, public actions against rising food and utility prices did not reach such a large scale as in Armenia, but they emerged on several occasions in

2015 and 2016. A more recent event was a two-week coal miners' strike in February 2016 demanding higher salaries.

Socio-economic Background: Effects of the Financial Crisis

The dynamics that provoked the mentioned public expressions of discontent are rooted in the severe currency crises that have hit the South Caucasus and its neighbourhood since 2015. The falling oil price led to a devaluation of the Azerbaijani manat vis-à-vis the US dollar by 49% in January 2016. The Georgian lari has lost 40% of its value against the US dollar since the end of 2014. The Armenian dram, which already experienced a devaluation of 20% in December 2014, has remained stable since then. However, like Georgia and Azerbaijan, Armenia strongly felt the consequences of the devaluated Russian ruble.

Large parts of these societies felt the implications of the Russian financial crisis directly by a severe decline of remittances from Russia (40% in Georgia, 56% in Armenia¹). Transfers from Russia constitute half of the remittances towards Georgia and Azerbaijan and 80% towards Armenia. Armenia and Georgia depend most on remittances. Remittance flows constituted 21% of the Armenian and 12% of the Georgian GDP in the last ten years. Due to the importance of income from oil and gas exports, the contributions of remittances to the GDP of Azerbaijan is 2.5% insignificant. However, the Caucasus Barometer, a survey of the well-known Caucasus Resource

1 No figures for Azerbaijan available.

Research Centre, discloses that in 2015, at least 12% of respondents from rural areas and 9% from urban settlements relied on remittances as one source of income.

Stalled Development in the Poor Rural Areas

Particularly vulnerable to the discontinuation of remittances is, in all South Caucasus countries, the population of rural areas and medium-sized towns. Particularly, inhabitants of rural areas have limited access to other monetary income. Employment opportunities are scarce. The recent financial crisis slowed down any progress in this regard. In Azerbaijan, where employment opportunities in the regions are primarily build by government projects, remote regions suffered from the government's decision to abandon a number of such projects given the state budget constraints caused by the low oil price. A large number of farmers in all South Caucasus countries lives on subsistence production. Revenues from agricultural goods are low as the majority of small-scale farmers have little more than access to the markets in their region. Formal and informal protectionist measures limit wider market access, not only for agricultural production. This applies especially to Azerbaijan and, to a lesser degree, to Armenia and Georgia. In consequence, the share of people in rural areas living below the national poverty line is high with 37% in Armenia and 20% in Georgia. In Azerbaijan, 50% of all people living below the poverty line live in rural areas. Limited access to public services and basic infrastructure is also among the factors hampering the economic development of aggrieved regions in the South Caucasus

countries. A key issue for farmers in all three countries is insufficient irrigation systems and limited access to pure irrigation water. The mentioned shortcomings negatively affect the scale and quality of agricultural products and with it their competitiveness. Connection to transport infrastructure, including roads and public transport grids, is another problem, especially in remote villages, for the transport of goods, interaction with regional administrative and business centres and access to education infrastructure. In Armenia and Georgia, several smaller communities struggle with their linkage to gas grids. As of 2015, only 60% of households in Georgia were, according to Georgian national statistics, connected to the central gas supply system. Frequent interruptions of electricity supply in Georgia create challenges both for small businesses and private households.

Dissatisfaction over public services is, however, also topical in urban areas, including the capitals. The list of causes for concern and discontent ranges from low quality of tap water to interrupted water supply, missing or damaged sewage systems, insufficient waste disposal, insufficient public transport, lacking pre-school education facilities and the absence of recreational space. The question of living conditions thus causes latent conflicts between people and governments, which may increasingly turn into open conflict in form of protests if the economic situation further deteriorates.

In charge of providing the lacking public services and basic infrastructure are local governance bodies and the central governments. People in all three South Caucasus countries have little leeway to address the

central but also the local government structures with their needs and to lobby for improvement. Armenia, Azerbaijan and Georgia have slightly different local governance systems. However, they have in common that the local governance structures hardly serve to mediate between people and government in local matters. The general trust in local government is low. The Caucasus Barometer indicates for all South countries over a longer timeline that only 33% of respondents at least somewhat trust in local

governments. This lack of trust is widely caused by the specific integration of local government bodies in the national government structures. The South Caucasus countries established local self-government structures in the early 2000s in order to meet the conditions for membership in the Council of Europe. The governments, however, de facto stick to a central system of local governance and therefore put local government structures into a weak position.

CITIZENS' LEEWAY TO ADDRESS LOCAL GOVERNANCE ISSUES

■ Armenia's Local Authorities Lack Capacities to Act Independently

In Armenia, 897 municipal units are headed by local self-governments, constituted by directly elected mayors and municipal councils. The range of their duties is wide, including pre-school education; supply of water, gas and electricity; public transport and also environmental protection. However, they are responsible for only minor tasks in these areas, and only within the territory of their municipality. The latter is rather small in most cases as many municipalities include only one or a few villages or towns. Thus, already by design is the sphere of influence of local self-governments rather limited. What is more, they strongly depend on the next administrative level – the governors of the country's 11 regions. Regional governors are the central government's extensions into the regions. Compared to the municipalities, they possess wider competences in matters of regional development and public services and are financially stronger.

The governors, appointed by the prime minister, implement central government policies in the spheres of education; urban development; gas, electricity and water supply; transport infrastructure and social security. They have a regular budget, which is part of the state budget, and a budget for specific development initiatives at their disposal. A council of the region brings municipalities and governors together. The interaction between them is marked by the governors' ambitions to control municipalities and by the municipalities' competition over extraordinary funds from the governors. While municipalities are formally independent from the regional governors, governors have a legal mechanism at hand to interfere in local government decisions: Governors are in the position to revise municipal decisions if they do not comply with national law. In cases of law infringement, governors even have the right to dismiss members of the municipalities. Thus, they are authorised

to overrule election decisions. In Armenia, where rule of law is still often compromised, these legal clauses provide governors with leeway to directly interfere with local matters. Experts on and members of local governments report that regional governors actively engage in local election matters and municipal decisions to an extent that exceeds their formal competences. The intrusion of governors in local matters is additionally fuelled by the municipalities' interest in gaining access to regional funding for local initiatives. The regular municipal budget is rather low. It is constituted by low state budget transfers and by local taxes. The limited capacity of inhabitants to pay these taxes negatively affects the already small municipal budget. This is especially an issue in rural municipalities. Since the regular budget hardly allows municipalities to fulfil their duties, additional regional sources are crucial for any extraordinary initiatives or emergency measures. Good ties to the regional governor, therefore, increase the municipalities' capacity to act.

■ Low Expectations on Armenia's Municipalities

The municipal dependence on the regional level influences the relationship between people and municipalities in two regards. People vote for those municipal candidates who get support from regional governors. At the same time they tend to accept that municipalities have only limited space for action beyond implementing policies from above. People often hardly know what competences municipalities formally have. In the relationship between people and municipal representatives, the reluctance of people to appeal to municipalities for

solving local issues and the inertia of municipal bodies to react to complaints appear to reinforce each other. In particular, individuals without personal ties to municipality members see little reason for turning to these self-government structures. Few people consider regional or central government bodies as alternative places to go. Trust in central governments tends to be even lower than trust in local bodies.

■ Azerbaijan's Municipalities are under Central Government Control

In Azerbaijan, two entities are in charge of local administration. On the one hand, there are the local executive authorities, who are appointed by the president and represent the central government in cities, towns and villages. On the other hand are the directly elected local self-governments who administer the country's municipalities. Local self-governments have been introduced in the early 2000s and are thus newcomers to the local administration. As newcomers local self-governments have never lived up to strong independent players. Central competences in the sphere of urban development, supply of water, electricity and gas as well as transport infrastructure, social security and healthcare reside with the local executive authorities. Municipalities also hold competences in the very same spheres. The law, however, insufficiently defines the boundaries between the domains of the two bodies. Additionally, in many spheres of municipal competences, the operational procedures are hardly defined. Lacking an appropriate legal basis for implementing their duties, municipalities are rather vulnerable to charges of breach of law.

This situation severely constrains the scope of action of local self-governments. Local executive authorities, commonly dubbed the president's hand in the regions, have a comparatively stronger position as they operate on a more sophisticated legal basis and receive backing from the central government.

Another prominent constraint to municipalities is, quite similar to Armenia, their budget. It is composed by fees for local services, local taxes and state budget transfers. Especially weak income sources are local fees and taxes as the payment capacity is rather weak. Regular state budget transfers are also rather low, and the scope for applying to additional targeted financial injections is limited. In a nutshell, municipalities often lack the financial capacity to fulfil their obligations adequately. One of the few solutions to this situation is collaboration with the local executive authorities. Given that municipalities and local executive authorities are rather unevenly integrated into the established power structures in Azerbaijan, municipalities have little bargaining power in such situations of collaboration. In consequence, municipalities follow the tune of the local executive authorities rather than acting independently.

■ **Mistrust vis-à-vis Azerbaijan's Local Authorities**

Both the legal and the financial constraints to municipal action discredit municipalities in the eyes of the people. Many regard local self-governments as dispensable bodies that only act in support of local executive authorities. The low visibility of municipalities in local affairs leads to the fact that people

are hardly aware of duties and (formal) powers of municipalities. Against this background, it seems rational that people refuse to pay dues to the municipalities or pay little interest to local elections. It goes without saying that municipalities are not the local institution people turn to.

The only local players perceived as relatively potent are the local executive authorities. They are, however, still not officials that people trust in. They have the ambiguous reputation of having some bearing on local matters but at the same time being delegated by the central government to supervise local affairs. It is also everyday wisdom that the scope of action stands and falls rather with the position of acting head of the local executive authorities in the elite networks than with the formal competences of the agency. In this light, local executive authorities are not necessarily a body to appeal to in search of support for local issues. People who do so rarely relate success stories.

In Azerbaijan, unlike the other South Caucasus countries, confidence in the central government is higher than in local administration. An appeal to branch ministries or to the presidential administration ranks as more promising than seeking help from local agencies. Doing so, however, still is not a common strategy. Central government bodies are not easily accessible to the public, and their responsiveness to requests is reported to be rather weak.

■ **Georgia's Municipalities Remain Weak despite Recent Decentralization Reforms**

Georgia's local governance system has seen four substantial reforms since

1994. They brought the country closer to decentralisation than the other South Caucasus countries. Local self-governments, nevertheless, have not yet turned into powerful players potent enough to promote development. Even after the latest reform in 2014, the 76 municipalities (including 12 self-governing cities) struggle to gain de facto independence from the governors of the country's 12 regions and from the central government. Georgia's municipal administration is organised by two bodies: the head of the municipality with its administration and the municipal council composed of 10-50 members, depending on the size of the municipality. Both are directly elected. The municipalities are relatively large territorial units. To bridge the distance between the municipal centre and villages, the municipalities may appoint municipal trustees in villages.

Formal legal and financial supervision as well as budget constraints tie municipalities to the central government and its regional trustee, the governor. The legal supervision of municipalities is in the hands of the central government, namely the prime minister's administration. Local experts interpret the shift of supervision in 2014 to this body, which does not specialise in local governance issues, as a commitment to centralisation rather than decentralisation. Given its distance from the local level, the supervision will rather be shaped by central rather than local governments' interests. Regional governors have been stripped of direct supervisory powers but maintain influence over the local level in the so-called "Regional Consultation Council" consisting of the heads of municipalities and the governor of a region. In the council,

municipalities report their work and may acquire additional financial resources.

Municipalities have far-reaching local governance competences, including economic development and the provision of infrastructure for water, gas, electricity and transport. A lack of human resources and funding, however, constrains their capability to implement their duties. With the 2014 reform, municipalities took over a number of duties that are challenging in terms of skills and finances. An example is water supply, which is especially challenging in Georgia's remote regions that still need to be provided with access to the water supply system. The fulfilment of such major tasks requires more professional knowledge than so far has been required from municipal representatives. To overcome this hurdle, many municipalities turn to the regional governors in search of support and training. Helping municipalities to develop their budgets and action plans, regional governors maintain a say in shaping local decisions.

In the framework of the Regional Consultation Council, governors also distribute additional governmental funding for projects on local development. Access to this financial source requires, however, an action plan approved by the governor. While this action plan increases transparency in these extraordinary financial flows, it reportedly opens the door for governors' interests to dominate the action plan. The fact that municipalities are also in need of extra-budgetary funding is caused, as in Armenia and Azerbaijan, by insufficient municipal revenues and state budget transfers. The budget is composed by independently collected property taxes and

fees for local services and, to a much larger degree, by equalisation transfers from the state budget. The latter are based on an unfavourable formula that hardly gives scope of action to the municipalities. Even central government representatives admit that the current financial situation does not allow municipalities to accomplish their duties. Recently, key governmental actors as the ministry of finance voice the intention to increase the transfers to Georgian municipalities. It, however, remains to be seen how this is realised. Substantial investments into local infrastructure and development still come from the central government.

■ Municipalities in Georgia Hardly Tangible for Citizens

The underfinancing of local self-governments put in motion the same cycle as described in the other two South Caucasus states. Municipalities remain rather invisible, especially to people who do not live in the municipal centres. They come into the picture as organisations collecting money rather than providing support and development. People are, accordingly, hardly willing to pay taxes and local fees, which again reduces the financial power of municipalities. The establishment of village trustees has so far not had an ample effect on the visibility of municipalities. Nor has it significantly strengthened people's identification with municipalities as the trustee is appointed, not elected. Knowledge of the functions and personalities of municipalities is rather low. This applies in particular to individuals who do not have to interact with local government structures for professional reasons and live in smaller towns and villages. Mu-

nicipal representatives have reported that if people appeal to them, it often concerns issues beyond their competences. Another, and in some cases more frequently chosen, point of contact with government structures remains the regional governor. In a representative survey of the FP7 project ISSICEU conducted in 2015, about 54.4% of the respondents did not consider appealing to any government structure when they encountered major issues with the provision of public services.

■ Self-Organisation of Citizens as Response

In all three South Caucasus countries, ordinary citizens thus have little power - least in Azerbaijan and most in Georgia - to solve local issues by bureaucratic interaction with self-government and government structures. What are the alternatives? These are rather similar in Azerbaijan, Armenia and Georgia: The predominant strategy is to bear the situation passively. Another strategy is self-organisation. This is particularly common in rural areas and towns but can also be found in quarters of the capitals in which the cohesiveness of inhabitants is rather strong. This includes individual neighbourly help, which in Armenia, Azerbaijan and Georgia takes place to a degree unknown in Western European countries. According to the ISSICEU survey, far more than half of the respondents recently joined neighbours in construction and repair works, and about 40% provided financial support.

Self-organised neighbourhood works can also evolve as a collective action of a larger group of neighbours. Some emerge upon joint initiatives of disgruntled inhabitants. Some continue the Soviet

tradition of voluntary-compulsory work called “Subotnik”. Here, current or former community elders provide the impulse. People tell of collective initiatives to fix the heating system of an apartment house under city administration, or paving road sections or building irrigation systems. A remarkably complex and heavy project that was reported involved laying about 200m of sewage pipeline from a state-run apartment house in Baku. Such initiatives exist, on the one hand, due to the inhabitants’ craft and construction skills. They depend, on the other hand, on the participants’ financial capacity to pay for materials and skilled work on their own accounts. Self-organised undertakings may, however, hardly solve issues to a satisfactory degree when they require connection with the state or municipal governed infrastructure grids. Private initiatives may provide irrigation

pipelines but fail to ensure that water is supplied to them. Sewage pipelines transport waste water away from the immediate surroundings of the house but cannot be connected with the city sewage system. Self-organisation, therefore, provides some remedy, but hardly conciliates discontent in a sustained manner. In absence of efficient and generally accessible channels of communication and negotiation with local self-government and governmental agencies at the regional and central level, people only have confrontational means at hand to appeal to the government. They may exert pressure on government officials by turning to the mass media or, if the situation becomes more pressing, may initiate public protests that, especially in Azerbaijan, provoke harsh reactions from state forces.

POLICY RECOMMENDATIONS

Supporting People’s Negotiation Power vis-à-vis the State

In light of the current state of the continuing economic crisis, this situation is alarming. Increasing economic hardship renders it more difficult for people to provide passive consent to dissatisfying development prospects. It also constrains the individuals’ capacities to solve cost-intensive issues in a self-organised manner. People will increasingly be ready to express their discontent in public protests. However, public protests come with the risk of generating high costs for the protesters and triggering other undesired repercussions.

It is therefore important to improve the scope of action for ordinary people in local matters.

A key issue is to improve the accessibility to and responsiveness of government bodies by strengthening local self-governments. Strong local self-governments ideally may serve as mediators between local needs and government interests. As shown above, municipalities in the Caucasus are still far from assuming such power. External actors, including the Committee of the Regions of the Council of Europe, but also international development agencies, work on improving their position primarily by

lobbying for an improved legal framework for local self-governments. Building a sound legal foundation for decentralisation that stipulates a satisfactory degree of legal and financial independence of municipalities is important, but will be effective primarily in the long run. So far, various government players in all three South Caucasus countries still veto decentralisation. They justify a veto by arguments such as lack of competences of municipal actors, but they also contend that decentralisation would stir up secessionist dynamics. As long as central government actors do not support decentralisation, the short-term impact of legal reforms remains limited. Georgia's latest local government reform shows that missing consent over decentralisation waters down the reforms, even if the government signals reform enthusiasm vis-à-vis external actors. The reform process in Georgia took off with a very progressive legal framework. It ended up with a reform that, as described above, failed to put municipalities into a strong position. Besides this, state actors in the South Caucasus have informal mechanisms at hand to weaken legal stipulations and exert control over local self-governments. In a situation where no full commitment to local self-government is given by central governments, external actors should focus on the local level with the aim to increase advocacy for local self-government. As a first step in this direction, it is necessary to improve people's identification with their local self-government bodies and representatives. Municipalities need to become more visible as capable players in local government. They need to get rid of the current image of „doing nothing but demanding money“. Municipalities

need to become tangible. Foreign agencies including the German Society for International Cooperation and the Swiss Agency for Development and Cooperation already established an initiative in this direction in Georgia and Armenia. They support the opening of citizen offices, not just in municipal centres, but also in the peripheries. Azerbaijan would also benefit from more visible and efficient contact points with municipalities. In all three South Caucasus countries, information campaigns of municipal duties and citizens' rights vis-à-vis municipalities would further increase the awareness.

However, most convincingly, municipalities may present themselves when involved in projects on issues such as local development or poverty reduction. Municipalities in all three countries possess some competences in these issue areas, but in none of the countries do they have the financial means at their disposal to initiate meaningful projects. Involving municipalities as domestic coordinators or facilitators of small-scale foreign-funded projects on local levels could help improve their image. In Azerbaijan, where besides municipalities, the local executive powers exist and actually dominate the local level, projects involving municipalities can hardly be implemented without the consent of the local executive authorities. Offering local executive authorities some degree of involvement could be a necessary trade-off for empowering municipalities through small-scale projects. The repercussions that come along with this trade-off need to be evaluated on a case-by-case basis.

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