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LOCAL GOVERNANCE

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Local Government in Armenia: Reforms with an Uncertain Outcome

By Katharina Hoffmann, St. Gallen, and Arman Melkonyan, Yerevan

Abstract

In 2015 Armenia's government is pushing local government reforms in an effort to strengthen the country's lowest level of government, the communities (*hamaynkner*). The ambition is to merge small communities into larger and, in theory, administratively more viable units. Although the Armenian government has yet to define core legal aspects of the consolidation reform, on May 17, 2015, it nevertheless launched referenda on the consolidation of selected communities in three Armenian regions. The majority of the communities have accepted the consolidation plans, but concerns prevail that this reform will have negative effects on the communities' financial resources and power. It remains uncertain whether the reform will strengthen or distort decentralization. However, if the reform does not come with substantial infrastructural investments, the greater geographical distance between the people and their local government bodies may result in a substantial loss of trust in the latter.

Local Government Status Quo

Local government in Armenia is ailing and it is hard to find a proper remedy. Legacies of Soviet rule are in play. The country struggles with persisting patterns of centralized government that strongly rely on personalized networks while limiting the reach of formal institutions.

Starting in 1996, the government introduced reforms of the centralized Soviet system, seeking to build an administrative-territorial division that allows for local government. 37 Soviet-era units (*raions*) have been reorganised into 10 regions (*marzer*). Yerevan comprises an 11th region. The regions are divided into 915 communities. While the regions are governed by the state administration and implement central government policies, communities are subject to local government. Formally they are governed by a directly elected community chief and a community council. The authority of local government is, however, constrained by inertia in the central government and reluctance to shift real responsibilities to local government. This situation is apparent in the formal setting but also in informal power relations.

In terms of formal capacities, local governments enjoy responsibilities over a wide range of issues, including protection of civil rights, communal development, public utilities, education, social services and environment protection. Only in minor areas, such as road repair in communities, pre-school education, waste removal or cemetery maintenance, though, is real responsibility exclusively in the hands of local governments and not shared with regional or central counterparts. In practice, the central government has a number of control mechanisms at hand. It exerts influence via the regional government, the head of which is appointed by the central government. The governor of a region has the right to dismiss locally elected officials and must approve all decisions taken by local governments. Formally there are some mechanisms for local government

to protest against state decisions. In practice, however, dependencies on the central government, most significantly in financial matters, put local governments in a vulnerable position.

Financial dependencies manifest themselves in several ways. Communities generally face strong budget constraints that make it difficult for them to fulfill their obligations. Small communities, in particular, are barely able to cover more than their administrative expenses. The share of the community budgets in the total government spending is not more than 6–7%. Local governments themselves are eligible to collect land and property tax, fees for selected communal services, and may also sell property. The share of land and property tax in the communities' budget does not, however, exceed 25% of the budget of all communities. Fees for communal services are rather low, if collected at all, given the level of poverty in the regions. Revenues from property sales are negligible. This leaves local governments without any substantial independent resources and makes them dependent on state budget transfers. The latter cover about 50% of the communities' budgets (Tumanyan 2012). The state is miserly when it comes to redistributing taxes and keeps subsidies low. The only additional governmental funding a community may obtain is financial support for specific communal projects. Access to this fund depends on the regional governor. Given the weak financial situation of the communities, this mechanism strengthens the influence of regional governors on community chiefs.

The formal and financial constraints on local governments reinforce the importance of personalized networks among the different levels of government. Successful empowerment of individual local governments often rests on strong informal ties to agents in the regional and central government. These connections increase the importance of the community head and provide incen-

tives to marginalize the community council. Thus the pervasive informal system weakens a body that ideally should function as an additional intersection between residents and local government. Accordingly, local government reform so far has been able to break through the persisting patterns of centralized rule only to a limited degree.

The Promise of Community Consolidation

Against this background, domestic non-state and international actors have lobbied for wide-ranging local government reforms, including the enlargement of communities. The government has indeed picked up the issues of community consolidation and has, with the support of external actors, designed a reform pilot for 14 clusters of communities. Referring to experiences in other European countries, the reformers are promising to increase the communities' budgets and to create a more efficient administration. It is, however, questionable if the reform, as designed for the current pilot, can fulfill this promise. The two key issues that raise doubts are the difficult financial situation and the still undefined mechanism for an appropriate representation of the merged settlements.

There is a consensus on the need for community consolidation in Armenia, especially given the fact that only 23% of the 915 communities have more than 300 inhabitants. Some communities have no more than 25 inhabitants but have the same obligations as other communities. Experts and local government agents are concerned, though, about the legal framework and implementation of the reform. The overall aim is to merge the existing 915 communities into 235. The settlements will be governed by community centers, which are agglomerations with more than 3,000 inhabitants. The current consolidation plans include settlements that have a distance of 20km to the center; in some cases even more. With the argument to increase efficiency, the development of key infrastructure will concentrate on the community centers. This may affect public administration, nurseries and medical support. There is, however, much uncertainty regarding the legal framework that defines the power and competences of the community settlements.

An often discussed, but not yet convincingly answered, question concerns the financial implications of the consolidation process. The reform will not be accompanied by changes in the legal regulation of community budgets or additional state-transfers. The current budget of the settlements will be merged into one community budget. The only financial benefit will stem from centralizing core administrative units. This will indeed reduce the number of civil servants in a community reasonably, as so far each community, regardless of its size, is supposed to have a similar, often over-complex

administrative structure. The monetary surplus created by this measure will, however, be limited due to the low salaries in Armenia's public administration. The government did not provide any calculation for the expected benefits. Some officials speak, however, about 50–60% of the communal budgets. Other sources suggest a total surplus of 24,000 USD per annum which equals only 37% of the overall budget. The government promises a reallocation of this money into infrastructure projects, thereby raising hopes in the settlements given the poor conditions of, for example, drinking water supply, irrigation systems and streets. The community enlargements create an additional priority. Substantial improvement is needed in most pilot cases to ensure appropriate mobility between settlements and the new community centers. The lack of transport and poor roads mean that distances of 20–30km will make it difficult for settlement residents to travel to the future community centers. A surplus of 24,000 USD from the administration reform will hardly allow the communities to satisfy infrastructural needs in and between settlements. These logistical problems raise questions about how the merged settlements may keep a voice in the communal budget decisions and ensure that their infrastructural needs will be considered.

Challenges of Consolidation

The answers given so far to this question are inconclusive. Expert interviews with representatives of the federal and local governments conducted after the referendum reflect uncertainty regarding the representation of settlements in the community structures. Confirmed is that the settlements will not have a mayor or a council anymore. The population will directly elect the community council. It is not yet defined which mechanisms will ensure that all settlements have a representative with appropriate powers in this council. There will be a second representative of each settlement who will support the work of the community mayor and will be appointed by him. The competences of this representative are not yet clarified. In any case, the individual settlements are losing their direct connection to the regional governor.

In the light of these trend lines, a rather ambivalent picture emerges for the merged settlements. The main power of the residents will rest in the election of representatives to the community council; however, this mechanism hardly promises much leverage. On the one hand, the merged settlements will hardly have sufficient weight against the representatives from the community centers with more than 3,000 inhabitants. On the other hand, as mentioned before, the community council has little decision-making power and tends to be marginalized. A direct link to the community mayor appears to be more helpful.

However, the representatives' leverage will be rather limited given that s/he will be appointed by the community mayor. As we have already pointed out, access to resources strongly depends on the regional governors. The enlargement process will deprive the settlements of institutionalized opportunities to interact with regional governors. This will decrease their chances to lobby for their needs on the regional level through formal and informal mechanisms.

The consolidation reform also risks further weakening the anyways weak linkage between residents and local government bodies. Despite all limitations in its formal and de facto power, people tend to place more trust into local than central government institutions. A survey conducted in Armenia in the period 2009–2013 indicates decreasing trust in the president and increasing trust in local government. These attitudes reflect a genuine reticence towards state administration bodies inherited from Soviet experiences and the benefits of direct access to local government members (Babayan 2008). Often trust is placed in the current chief of community due to his/her personal characteristics and achievements than into the body as such (Margaryan 2011). It will require time and significant improvement in the mobility between settlements and the new community center to develop trust in local government bodies that are located far from the people they serve.

The results on the May 17 referenda draw a rather promising picture of the residents' trust in the reforms. Only 6 of 22 communities rejected the enlargement plans. In the Armenian context of vital dependencies between community chiefs and regional governors and the strong influence of community chiefs on the residents, these results should be treated with caution. The post-referendum debate appears to draw a more reliable picture by pointing to the undesirable features of the reform. The

lack of convincing suggestions as to how small settlements may ensure their ability to influence communal budget spending is a key element in the rather negative attitude. People expect little investment in small communities and outward migration triggered by the reduction of public administration staff in villages. In consequence, some critics claim that small settlements will cease to exist. Those in favor often refer to promises given by the government to engage in infrastructure development and poverty reduction measures, if the referendum is adopted. So far however, the government did not present any framework for such an investment programme.

Conclusion

The effect of the consolidation reforms will depend on the government's readiness to take the concerns of the settlements into account by ensuring an appropriate and efficient representation of all settlements, providing sufficient financial means for the development of core infrastructures beyond the community center and encouraging intercommunal mobility between residents. The three referenda are only one milestone in a process the course of which is not yet set. The government may well take it as a chance to trim local government structures in a move towards more centralization. Yerevan can also see the vote as a chance to substantially enhance local governments by creating conditions that indeed allow communities to fulfill their obligations. In any case, the government faces few constraints in proceeding according to its reform plans as it is not obliged to respect the referendum results, a fact that is increasingly often mentioned when talk turns to the communities that rejected their consolidation. In the final analysis, the referenda are little more a PR strategy. It remains to be seen who is the core audience, the population or external actors who are eager to see reforms.

About the Authors

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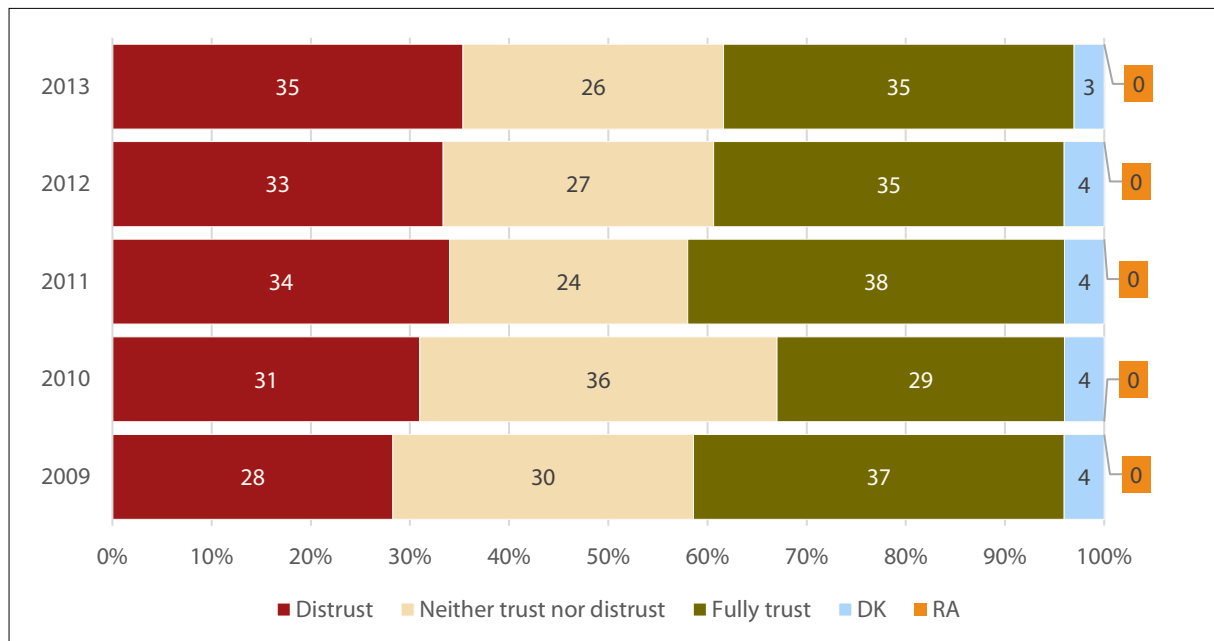
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OPINION POLL

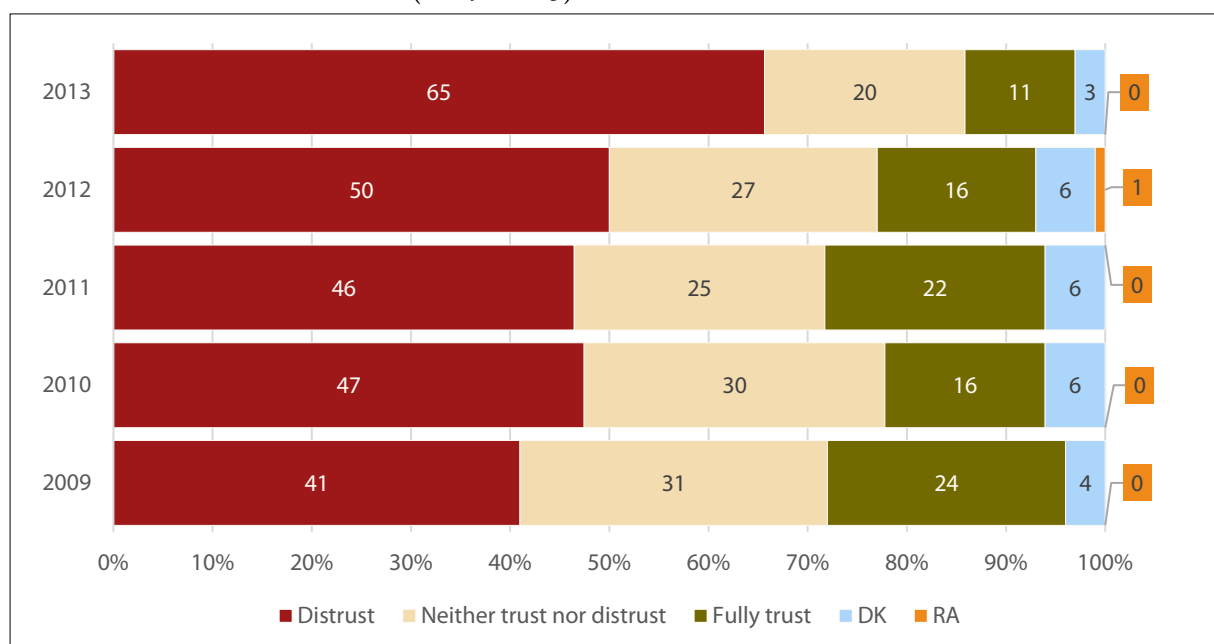
Level of Trust Towards Different Political Institutions

Figure 1: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—Local Government (2009–2013)



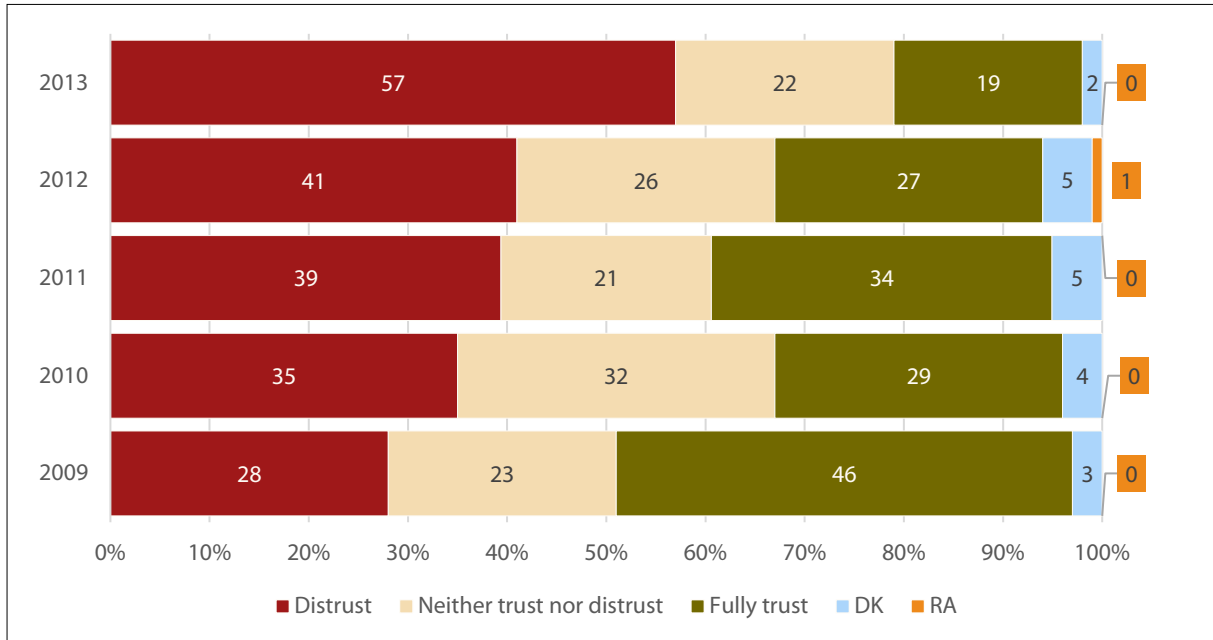
Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>

Figure 2: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—Parliament (2009–2013)



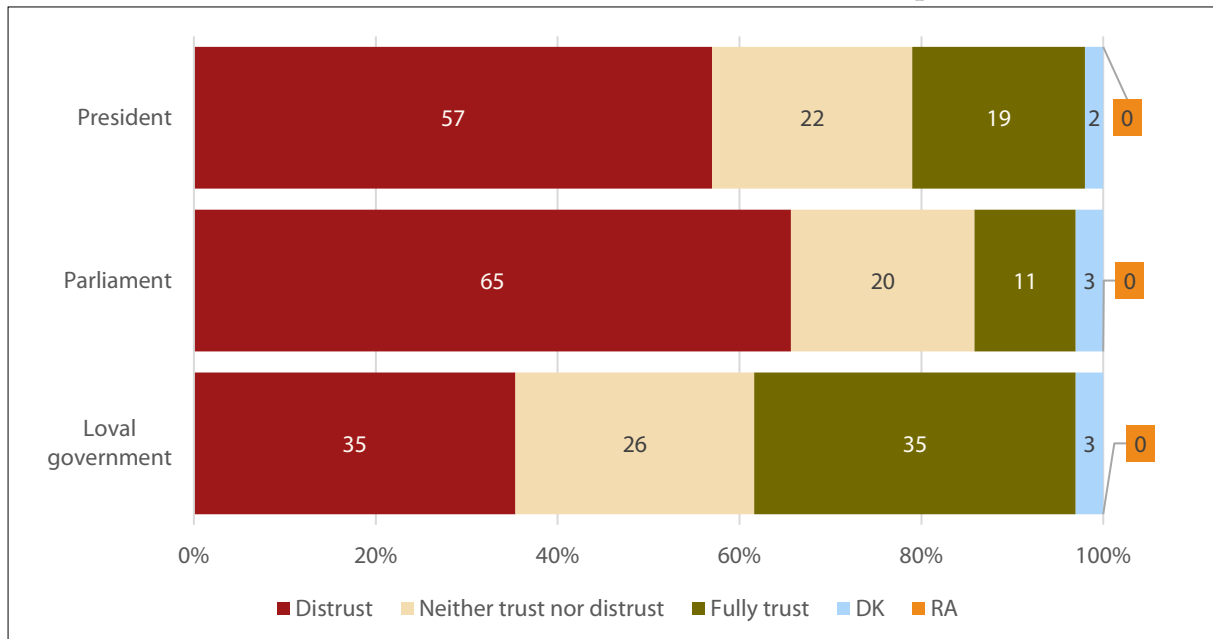
Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>

Figure 3: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—the President (2009–2013)



Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>

Figure 4: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—Local Government, Parliament, and President Compared (2013)



Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>

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.

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Georgian Local Government Reform: Enacted but Languishing on the Backburner

By Michael Cecire, Washington

Abstract: This article examines the recent progress and current state of local government reform in Georgia. After a period of extended centralization under the previous United National Movement, the successor Georgian Dream coalition government embarked on a program of dramatic decentralization, which resulted in a comprehensive local government strategy and, subsequently, a less-ambitious but still considerable slate of proposed reforms in late 2013. However, opposition to key elements of the proposed legislation by groups led by the influential Georgian Orthodox Church saw the final bill moderated. Since the law was adopted in early 2014, however, decentralization efforts have largely stagnated. Efforts to address a missing revenue-sharing and fiscal decentralization component appear to be stalled. Given the political environment, the Georgian government is unlikely to pursue further decentralization reforms in the near-term, despite their advantages for governance and economic development.

Introduction

Any discussion of local government in Georgia is impossible without exploring the issue of decentralization, and the political pathologies that it often elicits in the Eurasian space. In Georgia, the ruling Georgian Dream (GD) coalition, which bucked regional trends by introducing modest but broad decentralization legislation in 2014,¹ has failed to appreciably follow up on local government reform efforts with appropriate fiscal mechanisms.

The result has been a broad system of nominal decentralization throughout the country, but lacking in the typical fiscal decentralization that lends substance—and effectiveness—to government. This lack of progress is reflective of Georgian political uncertainty surrounding the issue of decentralization itself, which was and continues to be a subject of substantial political controversy due to its associations with separatism.

However, while the GD coalition has made expanding rural economic opportunity a cornerstone of its economic development strategy since taking power in late 2012, Georgian economic growth and development continue to be largely driven by non-agricultural service sectors,² which tend to favor the capital, Tbilisi, or major urban regions. While these economic processes are primarily the consequence of agglomeration and critical mass, the inability of localities to wield meaningful budgetary powers inhibits local economic development and propels “brain drain” from the regions to the capital or even abroad.

Centralizing Trends

In early 2014, the Georgian parliament passed new legislation granting expanded powers to local government structures, reversing what had been by that point almost a ten-year trend in favor of powerful, and in some cases

almost radical, centralization. Under the pre-Rose Revolution government of then-President Eduard Shevardnadze, the Georgian parliament ratified the European Charter of Local Government in 2004, which should have invested greater decision-making power in local municipalities. However, the post-Rose Revolution United National Movement (UNM) government almost immediately rolled back this initial tilt towards decentralization. In late 2005, the UNM government enacted changes that established the basic regional administrative structure until 2014. This structure included two autonomous republics—Abkhazia and Adjara—and a further nine provinces (*mkhare*). Under this umbrella were 69 municipalities, of which all but five were essentially administered by the central government; Tbilisi, Batumi, Kutaisi, Poti, and Rustavi enjoyed “self governing” status, but only Tbilisi had direct mayoral elections (but only since 2010).³

Under this system, localities enjoyed little authority. In 2007, provincial governors were awarded supervisory authority over municipal governments, granting these presidentially-appointed offices with wide latitudes of power—albeit in the service of the president. In 2008, the central government took the added step of stripping shared income tax revenues from localities, and authorities in Tbilisi established comprehensive political and budgetary control over local administrative structures. By 2012, the administrative relationship between central and sub-national units had become so tightly vertical that even the highly centralized official mechanisms

1 <<http://carnegie.ru/eurasiaoutlook/?fa=53824>>

2 <http://geostat.ge/index.php?action=page&p_id=739>

3 There was controversy in 2009 when then-Georgian President Mikheil Saakashvili declared in an UN General Assembly speech that the authorities had committed to the direct election of “all mayors” in the self-governing cities. However, the government later backtracked, and only Tbilisi was allowed direct mayoral elections, beginning in 2010. See: <<http://www.civil.ge/eng/article.php?id=21537>>

were reportedly contravened in the service of political expediency.

In 2010, UNM member and Saakashvili ally Levan Varshalomidze, the head of the Adjara autonomous government, slammed his local governments' inability to make even "minor, technical decisions" without first consulting central authorities in Tbilisi—in spite of Adjara's constitutional and treaty-bound autonomy.⁴ In addition, the Tbilisi city government under then-elected Mayor Gigi Ugulava, who was also a Saakashvili confidant and a member of the UNM's inner circle, took administrative responsibility for the resort localities of Borjomi and Gudauri, despite these towns being in the provinces of Samtskhe-Javakheti and Mtskheta-Mtianeti, respectively.

The rationale for the UNM government's extensive centralized state was largely two-fold. First, centralization was seen as an effective and necessary means of facilitating state-building efforts, and particularly as a means of facilitating "shock therapy" public administration and economic reforms—as well as stamping out petty corruption. In this way, centralization was largely successful, as the centralized state was able to push through unpopular and sometimes radical reforms, while also divesting power from potential reservoirs of political and bureaucratic opposition. Second, the UNM also used centralization as a means of consolidating its domestic political position and gaining controls of the commanding heights of political, social, and economic power throughout the country, which it hoped to utilize to perpetuate its rule while maintaining the veneer of democratic governance and political pluralism.⁵

The Return of Decentralization

After overcoming the odds and winning election in October 2012 elections, GD officials began extensive consultations with members of civil society on the subject of decentralization. Early concepts drafted by the Regional Development Ministry envisioned highly liberal reforms, which would have: terminated regional governorships in favor of councils populated by municipal representatives; directly elected all municipal administrators and mayors; spurred fiscal decentralization; and imbued representative functions for localities beneath the municipal level, such as villages.

Under revised legislation proposed in November 2013, many of these features remained intact, but with major differences. The provincial governor would remain, but would be accountable to a provincial council

of municipal officials. Self-governing status would be granted to all municipalities with a population greater than 15,000—as well as certain localities that may not meet this threshold. And while fiscal decentralization was mentioned in the proposed legislation, it would not be implemented until some undetermined future point. Despite the changes, the proposed legislation appeared to point to a dramatic re-commitment to local government by the Georgian government.

However, the bill provoked strong controversy after it was introduced in parliament. The most forceful opposition came from the Georgian Orthodox Church and elements of the non-parliamentary opposition, which focused on the proposed role of provincial councils, claiming their prominence was tantamount to "federalism" and a harbinger of national "disintegration."⁶ While GD officials strongly resisted such suggestions, the final legislation that was passed in February 2014 demoted provincial councils to the level of purely consultative bodies and did away with sub-municipal assemblies, such as at the village levels.⁷ In addition, fiscal decentralization was mentioned but not elaborated upon, instead deferring a final rubric for revenue sharing to a later date. Reportedly, September 2014 was set as a target, but this date has come and gone without the details or major proposals for fiscal decentralization having been discussed, much less adopted.

Saxony or Srpska?

Ilia II, the Patriarch of the Georgian Orthodox Church, decried proposals to devolve power as a threat to Georgian territorial unity and national sovereignty. This view of decentralization is in many respects radical, but perhaps not unexpected in Georgia or throughout the region. With two outstanding separatist conflicts in Abkhazia and South Ossetia, two other regions with histories of quasi-separatist crises in Adjara and ethnic Armenian Javakheti, and a multitude of other areas and districts with ethnic or cultural distinctiveness, the fear of separatism in Georgia is widespread and understandable. More broadly, otherwise benign terms for describing varying levels of political autonomy have taken on a symbolic significance well beyond the scope of their technical meaning. While "federalism" is typically regarded as the shared sovereignty between a central government and constituent sub-national polities, its Russian cognate *federalizatsiya* has come to mean something very different in Eurasia.

This might be described as the "Saxony or Srpska" test, in which the former is an example of technical

⁴ <<http://www.civil.ge/eng/article.php?id=22180>>

⁵ See: <<http://www.sciencedirect.com/science/article/pii/S0030438713000045>>

⁶ <<http://www.civil.ge/geo/article.php?id=27635>>

⁷ <<http://transparency.ge/en/node/4000>>

federalism, while the latter is an exemplar of federalizatsiya. In places like Republika Srpska, federalizatsiya describes an extreme form of asymmetrical federalism, in which a federal region enjoys constitutional autonomy to a degree that its autonomy can defy or in some cases overrule that of the national government. In geopolitical terms, Russian sponsorship for separatist movements on its periphery tends to involve backing disproportionate, maximal autonomy for the separatist region in an exchange for conflict resolution.

Prior to adopting a recognition strategy in 2008, federalizatsiya was the Russian approach to the separatist conflicts in Abkhazia and South Ossetia; and today, it is widely regarded as a preferred Russian outcome for the conflict in eastern Ukraine. In contemporary Georgia, local resistance to decentralization is likely at least partially attributable to the confusion between federalizatsiya and federalism, or, in cases such as these, any other varieties of decentralization.

Lost Opportunity

Despite vague assurances that fiscal matters would be addressed soon after the passage of the original decentralization package, as well as some comments from government representatives that decentralization remained a work in progress, the current form of local government is unlikely to see further major, meaningful reforms in the near future. The experience of the original slate of decentralization reforms revealed stronger-than-expected resistance by the powerful Georgian Orthodox Church, and government officials appear to be keen not to invite fresh rounds of controversy by raising the issue yet again.

However, the half-finished state of decentralization efforts, particularly in the absence of an established rubric for revenue sharing and fiscal decentralization for localities, undermines much of the basic rationale for decentralization in the first place. From a public admin-

istration point of view, decentralization structures that offer new levers for electoral accountability over local officials are hamstrung by the lack of basic revenue and accompanying fiscal autonomy to make local government worth local voters' attentions.

But perhaps more importantly, the lack of a more robust budgetary component to the decentralization reforms ignores the potential role that municipal governments can play in promoting local economic development. For one, more local controls over revenue should help intensify the rate and breadth of municipal projects, which would be more likely to create jobs in the regions—and potentially help to arrest ongoing “brain drain” to Tbilisi and major urban areas. While lack of decentralization is unlikely to be the dominant explanation for lagging economic growth in the regions, a strong case can be made that restoring sizable revenue sharing arrangements with local municipalities would allow for a larger and more stable middle class population in the regions on the basis of direct and downstream economic activity from the locally-oriented expenditures of those funds.

Nonetheless, the political environment in Georgia is currently such that additional decentralization reforms are unlikely in the near- and even medium-term. Decentralization has few dedicated and influential political proponents among the Georgian political class, making the risk of revisiting decentralization—without external pressure or conditionality—likely to seem too high for what would be uncertain political or public opinion returns. At the same time, the existing structure brought into force in 2014 represents a meaningful improvement from the previous system, and does grant meaningful, if still sharply limited, local powers that offer some democratic and public administration benefits. But this current system requires additional elaboration, and the resources to accompany it, to render Georgian localities a more active and robust part of Georgian political life.

About the Author

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CHRONICLE

26 May – 23 June 2015

26 May 2015	Georgia marks independence day with festivities
27 May 2015	Armenian Foreign Minister Eduard Nalbandian visits Damascus and meets with his Syrian counterpart Walid al-Muallem and Syrian President Bashar al-Assad as thousands of Syrian-Armenians having left the country since the beginning of the war have taken refuge in Lebanon and Armenia
29 May 2015	The Georgian Parliament passes a bill criminalizing participation in illegal armed groups abroad during its second reading
29 May 2015	Georgian President Giorgi Margvelashvili criticizes a bill removing supervisory functions on the banking sector from the Georgian National Bank while setting up a Financial Supervisory Agency
30 May 2015	Ukrainian President Petro Poroshenko appoints former Georgian President Mikheil Saakashvili as governor of Ukraine's Odessa region, meaning that he loses Georgian citizenship after receiving Ukrainian citizenship on 29 May 2015
2 June 2015	Estonian President Toomas Hendrik Ilves stresses his country's support for Georgia's Euro-Atlantic aspirations during an official visit in Tbilisi
5 June 2015	The IMF says it is "concerned" over a bill that would strip the Georgian National Bank of its supervisory functions on the banking sector
5 June 2015	The Organization for Security and Cooperation in Europe (OSCE) says that Azerbaijani authorities have ordered it to halt its operations and close its Baku office
7 June 2015	Chen Changzhi, a senior Chinese legislator, visits Georgia and meets with Georgian top officials while touring wineries in the Georgian region of Kakheti
10 June 2015	Georgia reintroduces one-year visa-free stay for citizens of over 100 countries after tightening visa rules nine months ago
11 June 2015	Georgian Prime Minister Irakli Garibashvili meets with Azerbaijani President Ilham Aliyev while attending the opening ceremony of the European Games in Baku
12 June 2015	The President of Armenia's Olympic Committee does not attend the opening ceremony of the European games in Baku
13 June 2015	The United States welcomes the Azerbaijani government's decision to allow opposition activist Emin Huseynov to leave the country and fly to Switzerland, but calls on the government to extend this good will to other incarcerated activists
14 June 2015	At least 12 people die and more are missing after heavy flooding in Tbilisi's Saburtalo and Vake districts, with the Tbilisi zoo also flooded
15 June 2015	Georgia declares a national day of mourning for flood victims
15 June 2015	A native of Pankisi Gorge in Georgia is arrested on charges of recruiting for the Islamic State
15 June 2015	The body of a Russian soldier is found near a Russian military base in Gyumri, Armenia, with Russian media speculating that he was killed by a fellow soldier
17 June 2015	Demonstrators in Armenia protest a 16 percent hike in electricity prices
17 June 2015	A tiger which escaped the flooded zoo in Tbilisi is shot after attacking and killing a man in the city center
20 June 2015	Georgian Prime Minister Irakli Garibashvili says that the government is planning measures to increase safety along the Vere river following deadly flooding
23 June 2015	Armenian police use water cannons and force to end a protest in Yerevan where demonstrators criticized a 16 percent increase in electricity prices

Compiled by Lili Di Puppo

For the full chronicle since 2009 see <www.laender-analysen.de/cad>

ABOUT THE CAUCASUS ANALYTICAL DIGEST

Editors: Denis Dafflon, Lili Di Puppo, Iris Kempe, Natia Mestvirishvili, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines

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