AN ALTERNATIVE LOCAL GOVERNMENT

MODEL FOR DIVERSIFIED AND INCLUSIVE

ECONOMIC GROWTH IN AZERBAIJAN

By

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Abstract

The world, no matter the global efforts, keeps struggling against the number of issues, those including the climate changes, poverty levels, etc. In regard to that, the work is concentrated on an examination of the necessity for the inclusive economic growth. It is further noted that no results can be achieved without a proper grass work, and therefore there is urgent need for the decentralization. Azerbaijan, as a sample of young country with incomplete decentralization is studied here.

The work puts forward the idea of necessity for the inclusive economic growth. It examines the connection between the decentralization of the governing system in Azerbaijan and its effect on the overall well-being of the population in the country. The breakdown of historical preconditions for the formation of competent local government, as well as the analysis of external experience is done through the paper to reveal the background of present the situation. The structural components hindering the decentralization of government are identified and the recommendations for minimizing and eliminating the highlighted concerns are provided. The difficulties of decentralization of government bodies were emphasized, and lawful resolutions are offered. The results of the study will be useful to policymakers as they conduct administrative and economic reforms in order to improve institutional components of decentralization and thus make it more conducive to all-encompassing economic growth.

Keywords: Decentralization, Economic growth, Local administration, Municipality, Azerbaijan.

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Introduction

The calls for inclusive economic growth keep rising as in volume, so in intensity. There is now a growing tendency among private and public sectors worldwide to shift and adopt more inclusive policies to meet the demand. The Financial Crisis of 2008 served as a wake-up call on that matter, but the recent global pandemic has put an even tighter strain on the issue. A basic surface example: there were 0.8% [1] or about 56 million [2] more unemployed people before the pandemic than before 2008. Growth through the GDP, as we have known it, doesn't work for all. [3] The need for a restructured and developed economic model is apparent. The individual inclusive approach is required to contribute to and ensure the overall well-being.

The economic and social crises of close past decades revealed the ineffectiveness of national governments to tackle the issues at their roots as they are often distant from the source of a problem. The whole world appeared to be vulnerable to the waves of global instability, namely the same Global Financial Crisis of 2008 and the recent coronavirus pandemic. However, this was especially apparent in the background of young countries with underdeveloped political and economic systems. Azerbaijan, one of them, experienced and experiences a major hardship of adjusting its operations to the fast-changing atmosphere for several reasons, but mainly as its ruling party and settled system is far from voters and possesses no proper awareness of the local issues. It, now, needs to adjust its legislation and taxation to embrace the role of municipalities as local governing units and needs to transfer the authority down the line to free up the governing capacity of self-governing single administrative units. This seems like the most logical step that the country can take in the current stage of development.

Proceeding from two paragraphs earlier, a unique question may and does come forward:

"What is the local governance model capable of driving an inclusive economic growth in the

Republic of Azerbaijan?". The issue is a global matter, however, in order to provide for high effectiveness of the research, we will isolate the study to one specific country mentioned earlier — the Republic of Azerbaijan. The reason for that is my close familiarity with it. The timeframe of 1988-1991 remains in history as a period of dissolution of the largest communist country, the Union of Soviet Socialist Republics. Its territories spanned Eurasia during its existence between 1922 and 1991. The collapse of the then centralized government resulted in subsequent recovery in the independence of numerous countries. Azerbaijan regained ¹its independence after the collapse of the former Soviet Union back in 1991. Following that grand date, the country started to form its own political and economic base. However, what was believed to give a spur to democratic and economic development didn't turn out to be the reality for the majority of those newly independent. The obsolete system of economic standards and myriad other issues still hinder the nations from achieving their prime. [4]

All the revised papers in the preceding literature concentrate on a separate element of the issue. The previous research specifically failed to investigate the connection between the existence of self-sufficient local administration and high collective well-being. One covers the question of inclusive economic growth in the world, while the other studies the way for building a more resilient public administration in Azerbaijan. My contribution, therefore, serves as a merging point of those elements to represent and answer the single question of inclusive economic development through government decentralization. The work encompasses the information on possible local government models, analyses, and proposes the most relevant system to the conditions of Azerbaijan.

¹ Indeed, Azerbaijan regained its independence in 1991 and not just gained it, as it may be incorrectly portraited. The Democratic Republic of Azerbaijan was the first in the Turkic and Muslim worlds to establish a secular democratic system. It was founded on May 28, 1918, shortly after the Transcaucasian Democratic Federative Republic fell apart, and it lasted until April 28, 1920.

The local administrative units are a little-studied area, hence considering the complexities of the research question, a contextualized analysis of local self-government capabilities and possessions is required. For the purpose of support to the statement in the work, a descriptive mixed method of study was implemented. Secondary data has been acquired from various sources to implement quantitative research, in addition to a qualitative one. The justification for combining the two methodologies is that they provide a better grasp of a study problem when used jointly. The problem of authority is investigated using a qualitative technique, while the financial situation of the Azerbaijan economy and its municipal points is investigated using a quantitative method.

The study focused on the legislative framework of the local government in order to establish if Azerbaijan's local governments have appropriate functions and competencies. For this aim, desk research, also known as secondary data gathering, was utilized to gather information. The research depends heavily on original sources, such as laws, as well as secondary sources, such as reports, research publications, and the news media. Academic and media materials are frequently cited to provide background to the situation.

The difficulties of municipal finances and administrative resources are investigated using a quantitative method. Basic statistics regarding the economy, municipalities, and other topics are included in the dataset. In Azerbaijan, the federal government does not share basic statistics about municipalities and most municipalities fail to provide key information about their operations, such as municipal budgets, programs, and so on. For these reasons, previous research has primarily focused on broad indicators of municipal finances, such as total revenues or expenditures of Azerbaijan's municipalities, or the size of intergovernmental transfers to local self-government, for which the State Statistics Committee of Azerbaijan provides data. Averages, percentages, and graphical representations of the data are used extensively in the analysis.

The thesis is divided into 4 chapters with integrated sections and subsections. Chapter number 1 introduces the idea of inclusivity, delves into the kind that is of special interest to this specific work, and demonstrates the necessity for the inclusive approach in the modern world. The chapter following starts building around the concept of self-governance. It presents the current case of Azerbaijan and compares that to two of the neighboring states. Then, the work keeps investigating the present economic condition allowing for a better understanding of the necessity for an inclusive approach. And last but not least, the final chapter suggests a list of options for improvement by indicating the existing regional and organizational recommendations, measures the feasibility of offered, and gives a short approximation of future proceedings.

Chapter 1 – Inclusive Economic Growth

Economic development is way much more comprehensive than just an increase in the wealth of a nation. It is a rise in quality of life, boost in confidence, protection from oppression, and prominent selections for individuals – as maintained by Michael Todaro. [5] Where the income gap is large, even with the economic progress, no significant improvement should be expected. Economic development is made up of a large selection of criteria, those involving life expectancy, poverty level, disease contamination, crime and corruption levels, and others – the total well-being of a nation promoted by the inclusion of each and every member. Indeed, economic growth and inclusion go hand in hand, and one without another is under a huge danger.

The reality of a capitalist regime is that the owners of capital are the main beneficiaries of the system. Since no matter the effort of the workers, their efforts will benefit the owners the most. For the economic development to work, the middle and bottom classes would need to fairly benefit from the arrangement too. The idea behind the concept of inclusive development is that all socio-economic classes enjoy the economic advancement of a country. Even with that clear idea though, there are still ongoing debates regarding the alternative measures for welfare of a nation. This chapter reviews the notion of inclusivity as a whole, so in the context of this specific piece of work.

1.1 Definition of inclusivity

The essence of the statement, of the advocacy for inclusivity, lies in understanding what inclusivity is. The support for it has been on rising ever since the last century and, as mentioned earlier, has already gained momentum as a leading criterion for the life quality assessment. The episodes of social unrest [6], apparent political polarization, unstable economic reflected from

globalization, the inability to eradicate poverty, and the evident threat to the climate are matters of global concern. The combination of mentioned factors concludes in the hostile living environment, and for that, immediate weighty intervention is required. It is now of utmost importance to comprehend its necessity of it in the modern world.

The notion refers to the all-embracing, complete tolerance to every member of society regardless of their gender, position in the society, or any other possible differential. It does acknowledge the differences, and the uniqueness of each individual, though, it also recognizes the fact that any person has value to invest on their own. It consequently ensures that the resources and opportunities are available and accessible for everyone at every level and that nobody is kept out for whatever distinction reason there is. It creates a culture of respect, facilitates the integration of individuals into the groups, and contributes to a more efficient and resilient community by strengthening the ties and solving the issues of individual and societal matters. The inclusive society is more reactive and less vulnerable as it eliminates the asymmetries in social structure and cuts down on the economic inequalities. In a basic interpretation, therefore, it is a structuring instrument that can be employed to promote unity, consistency, and solidarity for cooperative efficient performance.

Inclusivity deals with a wide spectrum of classifications, including but not limited to race, gender, disability, and others. In the long list of possible categories, the geographical distribution though, residence area so to say, is of special interest to us. A study on the existing inclusivity literature reveals regional development to be one of the most often neglected topics for research. In the next section therefore we are looking closer to the matter of "regional development".

1.2 Geographical inclusion

The chase for economic benefits has backed the ignorance and has resulted in the degradation of environmental and social conditions. The present ideological settlement pursues the numbers indicated by Gross Domestic Product (GDP, as abbreviation) lonely and neglects the true distribution of wealth abandoning the necessity for overall well-being. That, consequently, results in a failure of contemplating the "What kind of local and regional development and for whom?" [7] — in other words, disregards the relevant model that might be out there. It is, therefore, there is a need to expand the understanding of growth beyond simple GDP.

The Financial Crisis of 2008 revealed the weakness of the current standard and urged us to look for an alternative development model – the adequacy of the neoliberal model² at present is under the question. The recent pandemic conditions also demonstrated the importance of a strong local self-administration mechanism to rapidly counter the problem at a base with no significant dependence on a reaction from the centralized management. Proceeding from the outcomes, the idea of balanced regional development started to rise in popularity and earned its recognition after the Financial Crisis and the pandemic, accordingly.

The word region may have different meanings, from encompassing several continents to just a few cities in a small country – and here, specific to this section, we refer to the administrative unit of a country that is in the possession of a self-administrative body. Such a targeted individual development of the administrative units is aimed at achieving stable and steady development of a country. [8] It is worth mentioning that in contrast to the prevailing literature, there is no specific pressure for equality in this work but rather equity where

² Neoliberal model – theory urging the underdeveloped countries to remove the barriers to free markets so that they can generate growth. The claim is that if capitalism is left free to operate, it will generate wealth that will benefit everyone.

everybody gets the resources to reach the same result, instead of getting the identical number of resources.

Moreover, neither it does advocate for the alike development of the districts — one region may be specialized in the industrial sector, while the other may have better settings for farming. The single idea promoted here is shared access to the per capita income and living quality across a country. The growth in the poorer regions would also benefit the economy of a nation as a whole.

1.3 Importance

Even with the significant growth results, till all layers of the society do not benefit from it, that growth is not there to stay. Put differently, with the growing distance between the classes, the societal ties and settlements may deteriorate leading to a general turmoil. From another perspective, the biased concentration on the growth of a nation leads to the loss of human capital, so in the future returns. The "mistreated" households can't afford the investment in their descendants, and can't care for their physical and social environments – the evil cycle of underdevelopment takes its place and solidifies the possibility to reverse the dynamics. Expanding the development strategy over the whole population, and contributing to the diversity of stakeholders eventually lead to consistent and sustainable progress.

The balanced development across the regions incorporates economic, which is of our main interest here, but also social and political areas, which are directly interrelated with the economic performance of a country. Shortly listing the considerations:

1. Economic:

a. Usage of areal endowments

The increase in the local capabilities for processing raw materials paves the way for less wasteful management of resources.

b. Dispersal and increase in the variation of employment opportunities

The scattered and individual development of units allows for higher performance attracting a larger volume of employed.

c. Diversifying infrastructural locations and administrative capabilities

Scattered design of infrastructural systems permits for smooth functioning even in the most distant and isolated location of a country.

2. Non-economic

a. Overall satisfaction or Happiness levels

The regional development solves the long-standing issue of depravity from the services and opportunities—the health, education and other sorts of institutions operate and provide the services of competitive quality. Moreover, it relieves the necessity for the emigration of labor to the centers of economic development.

b. Care for all

Inclusive economic growth is the one that opens up the same opportunities for all allowing for the poorest strata to improve their conditions.

Summary

All said and done, now let's rephrase the idea with a list of short characteristics. The world has been in a constant move from simple economic growth towards inclusivity, the inertia of which was catalyzed by a few quite recent economic shocks. It does, what may simply opposite, focus on the economic progress, however, with an idea of all-encompassing well-being as a priority. The economic development is long-term in nature and wholly committed to the sustainability of the achievements. The final idea of such type of development is not to share the easy income with everybody, but to create conditions and grow each individual to acquire that by themselves.

Chapter 2 – Municipality

Economic development is usually done for the people rather than with them. In order for inclusive development to hold, however, a strong mechanism of self-governance has to be in place. The results have to be clearly and visibly disseminated and the feedback following has to be heard. The personnel of local government work and live where their electorates do—whether they want it or not, they are in constant interaction with the residents and they are aware of the local trends. [9] Hence, they are better suited to lead the inclusive approach to development and every nation needs a strong local governance system.

Three decades later, a set of independent countries, known as the Commonwealth of Independent States (CIS), somewhen parts of the great USSR, are still struggling to get a hold of development. If the decentralization, for instance, is considered to be one of the key alterations required for the proper transformation from the collective to a free-market system, not all those have successfully managed to achieve it. Among those fifteen former soviet countries, about half passed the line of status quo and moved towards realistic developmental ambitions. Estonia, Latvia, Lithuania, Moldova, Ukraine, Georgia, and an outlier—Kyrgyzstan, are those that succeeded in implementing the reforms. While the rest: Azerbaijan, Turkmenistan, Tajikistan, Uzbekistan, Kazakhstan, Russia, and Belarus are still holding tight to the obsolete system refusing to give up even a bit of centralization.

These countries share a unified past of a few hundred years and the majority of them are still in close neighborly relations of somewhat interrelated internal affairs – a drastic regional change is required for a system to modify in one of those countries. It is for this specific work, however, that we isolate the list to three countries of a smaller region of the South Caucasus – a bridge of land within the CIS region connecting the Black and Caspian Seas.

2.1. Azerbaijan

December 1999 – the time when the first municipal elections took place in Azerbaijan. 20 went by but obviously not much has changed. The problem surrounding the local governance in Azerbaijan is multifaceted. The main issue that needs to be resolved, no matter the policy to be implemented, is the legal foundation of the municipalities. The local administrations do not possess status and, even though nominated through the local election process, are very much dependent on the central government. In the Law of Municipal Status in Azerbaijan, it is indicated that the municipalities are responsible for the execution of the local functions but a clear distinction on their position is not even provided. The European Charter of Local Self-Government, which Azerbaijan signed and ratified in 2001 and 2002, accordingly, states that the local government is an autonomous system but to the extent of its authorities and resources. [10] According to it, any insufficiency may lead to involuntary dependency on the central government.

In the absence of an independent local system, the executive authorities step forward to fill the void. They are recognized as the local government people are looking for, although the latter is reporting to the central government, instead of being accountable to the people. The Statute on Local Executive Authorities is a definition of that as it legally delegates the power over local issues down the line to the central government. Even with Articles 4 through 6 of the Law on Municipal Status allocating some authority to the municipalities, the previous Statute and a list of several other documents also delegate the identical authorities to the local executive authorities. [11] Those responsibilities include but are not limited to waste management, environmental regulations, and others. [12] The key functions of the education and health industry, for example, are not under the authority of the municipality which places them as inferior institutions.

The non-existence of the legal basis flows into a larger cycle of issues. No proper status deprives the local administrative bodies of the freedom to set and collect taxes. That consequently results in the total loss of freedom of action. Local government incomes and spendings make up less than 1% of the GDP in Azerbaijan. Aside from the administrative decentralization, the financial one isn't in place either, it seems. In 2015, all 1607 municipalities share a total budget of 8 million 294 thousand manats (about 10 million 591 thousand US dollars). It is not even 5161.16 (6 590.65 US dollars) manats per municipality, on average. This is not even sufficient to pay the salaries and cover the clerical expenses. [13] The support from the national budget is allocated on quite vague conditions. Even worse, somewhat contradictory. The European Council set a minimum of 7% as the share of the municipal budget in GDP for the effective performance of the local governance. In Azerbaijan, that equated to less than 0.05%.

The status of the capital city is the concluding point. It is not governed by an elected official but rather appointed by the president – by the head of the government. Residents are not involved in the planning procedures. The European Council in its Recommendation numbered 133 advises granting the capital cities all the necessary opportunities, those including the legal and financial resources, to encourage their independent operation.

2.2 Around Azerbaijan

It is of special prominence and convenience for a newly established country to be able to learn from the experience of others, especially from those with centuries-old histories. For that, a government should and may detach from a single experience to constantly review the experiences outside of their constitutive borders. Undoubtedly, while the government can look around the world, for this specific work, it is also important to take the preceding and present

conditions, and abilities into consideration. From this point of view, the countries in the region of South Caucasus (Figure 1³), sharing close to the identical history of last few centuries to



Figure 1. Region of South Caucasus: Azerbaijan, Georgia, and Armenia.

Azerbaijan would be the right match.

Georgia (the Republic of), for instance, established its local governance system by the mid-1990s. Despite the high initial number of municipalities, the reforms of 2013 resulted in a subsequent decrease. In 2017, the country adopted new changes to the legislation, according to which city and town-level local administration bodies are now elected by the population, whereas the villages are appointed by regional municipalities. In total, there are 12

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³ The Autonomous Republic of Nakhchivan is a landlocked exclave of the Republic of Azerbaijan.

administrative units in Georgia, from which the capital city is in the possession of a special status – a council and a mayor elected by the city population are in the charge in the city of Tbilisi. Within those 12 regions, there 5 city and 59 regional municipalities.

Municipalities enjoy the extensive rights granted them by the Local Self Government Code of Georgia. From territorial planning and waste management to permit issuance and registration of citizens – everything is within the responsibilities of a municipality in Georgia. Accordingly, they also possess a considerably vast number of financial resources. In comparison to Azerbaijan, in 2015, Tbilisi alone had an approved budget of 800 million lari (425 million US dollars, 2015) [14] which was 42 times larger than that of all Azerbaijani municipalities combined. From that, more than half was formed from local sources, including taxes, fees, and charges, whereas the rest was supplemented by the national budget.

Armenia, however, is a model somewhere between Azerbaijan and Georgia. The difference that distances it from the Georgian model is the fact the authorities are executed by agencies instead of the municipalities themselves. The exception to that is the capital city of Yerevan which holds a bit more comprehensive authority by overseeing the transportation and school systems.

The country consists of 10 administrative units, but all regional administrations are recognized as a continuation of the central government. Those units form councils that are made up of the mayors of their individual municipalities and a regional leader selected by the governor, however, these entities only carry out advisory services. The position of municipalities is specified in the Constitution as "local self-government." In other words, these organizations are constitutionally recognized as government bodies. Their operations and finances are regulated by a separate line of laws. In 2016, consolidated municipal budget expenditures accounted for 8.6% of total government budget expenditures or 2.6 percent of

GDP. [15] Of course, it falls short of the Council of Europe's recommended level of 7%, but it isn't as low as in other transitional countries.

The number of municipalities is assumingly the reason behind the hindered development of the system in Armenia. Of the total 915 administrative bodies, a bit more than 860 are villages and the rest is urban municipalities.

Chapter 3 – Preceding conditions

The episodes of social upheaval, apparent political polarization, unstable economic reflected from globalization, the inability to eradicate poverty, and the evident threat to the climate are matters of global concern. They are inextricably linked. They repeatedly resulted in large protests such as the Arab Spring and the Occupy Movements in which the unfairness of the capitalist system was exposed, and the bottom half decided to take matters into their own hands and express their rage at the top 1% injustice. Those and other uprisings served as signals for a more inclusive approach. There is now a need for a comprehensive framework to investigate their interactions and connect the numerous strands.

3.1 World

After slowing down in the aftermath of the 2001 recession, economic growth has been moderate at best for much of the last two decades. Growth has been difficult ever since, and many economies are still grappling with sluggish demand, chronic unemployment, and rising inequality. A major contributor to the economy's dismal performance has been the economy's lackluster productivity growth. Productivity growth evaluates how much an economy can produce with its current inputs, which include people's labor, capital, as well as innovation. People and corporations are learning to accomplish more with less while productivity grows

more quickly. [Figure 2] Figure 2 depicts GDP growth throughout the course of an economic cycle, from the start of one recession to the start of the next. Before the pandemic, growth averaged 1.8 percent on an annualized basis. Inflation-adjusted economic growth in the 1990s was 3.3 percent on average. Prior to the pandemic, growth had slowed so badly that it had reached the lowest rate of any business cycle since World War II.

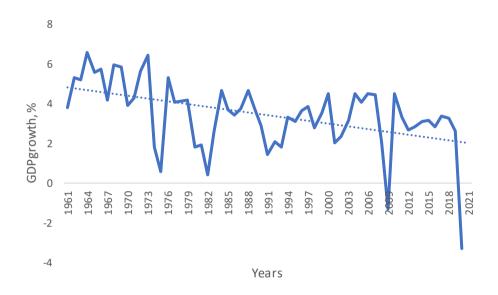


Figure 2. The World Bank Data, "GDP growth (annual%)"

Higher productivity allows scarce economic resources to be used more effectively, resulting in greater economic resources for more people. If the new resources are shared equitably, it builds the groundwork for greater living standards for everyone, and it makes it simpler for society to find the funds to invest in its future. Faster productivity growth makes it simpler to invest in physical infrastructure and sustainability, support an aging population, construct a 21st-century caregiving infrastructure, make health care affordable and accessible to all, and find solutions for current and novel diseases. In addition, quicker productivity growth makes it easier to control inflation. However, as the figure demonstrates, productivity growth

has been slow for more than a decade, placing the economy and people in jeopardy. High inequality, broadly shared income volatility, and poor company investment all contribute to poorer productivity growth in today's economy. These elements are also interconnected.

However, the task here isn't just about restarting global economic growth; it's also about doing so in a more inclusive manner than in the past. To enhance growth and fight the slowdown in emerging nations, we must increase global efforts to accelerate economic activity and ensure that its benefits reach all members of society. International trade accords, for example, have enabled the free flow of capital on a worldwide scale, but they have also resulted in capital flight from developing nations and a global labor market race to the bottom. In this environment, the reality that political power is concentrated in the hands of a small elite cannot be overlooked. To address global inequality, the interests of those who profit from market economies' asymmetry must be revealed.

Inequality's impacts have contributed to social exclusion all across the world, disproportionately hurting society's most vulnerable members: the poor. Inequality prevents people from engaging in economic processes while allowing the wealthy to reap the greatest benefits from wealth accumulation. Inequality also degrades the quality of institutions, can lead to conflicts, and has a negative impact on human well-being. To minimize global inequality, the root causes must be addressed. The shift to a more inclusive economy may provide a solution to these global issues.

Climate change disrupts the economy and jeopardizes livelihoods in a variety of industries. Contamination, heat, and other environmental conditions cause poor health consequences, causing dislocation and asset cost for residents in the most impacted places. The world is vulnerable to a variety of climate threats, including water stress, heat waves, and physical climate risks like flooding. The transition to a green economy entails reducing the impact of climate change on people's livelihoods. Incomes can be sustained through

encouraging sustainable business practices in resource-depleted and fossil-fuel-dependent industries, endorsing green talents in these sectors, providing access to sustainable facilities in resource-depleted locations, and sponsoring green and complete financial systems.

Digitalization has the potential to be a leveler and enabler of opportunity for all. However, persistent digital divides risk exacerbating existing disparities – particularly when know-hows are not widely available, digital skills are lacking, or the adoption of breakthroughs such as artificial intelligence can have harmful implications. Significant disparities in intemet and digital service accessibility, adoption, quality, and responsible use persist, affecting women, older workers, and individuals living outside of economic hubs in particular. Furthermore, basic and conventional digital abilities consistently lag behind sophisticated nations. People's working, learning, and earning habits are changing. Digital technologies and new working structures are easing the difficulties usually faced by less educated or less mobile workers. Meanwhile, the emerging world of work risks marginalizing others – particularly those in routine occupations and without transferrable skills – resulting in stranded human capital and skills.

COVID-19 has further aggravated existing and new disparities for groups that already confronted disproportionate blockades to economic prospects before the crisis. The waves of unemployment triggered by the crisis may intensify the need for stranded skills, particularly in the provinces and areas that were most reliant on face-to-face communications and, therefore, harmed by lockdown restrictions. The accomplishment of the gender uniformity has been hindered by a generation. The economic shock from the coronavirus has also exacerbated regional disparities. The impact is likely to differ depending on exposures to tradable sectors, integration into global value chains, and sectoral specialization (e.g. dependence on tourism). Also, the least advanced economies have inferior health arrangements as well as weaker protection nets.

A justifiable recovery can only be attained if not only these new disparities are dealt with but also the original ones that existed before the epidemic, for a more fair and impartial future for all.

The world are facing a moral crisis. Poverty persists despite realized gains in productivity. Mobility also remains restricted for many residents. There is amplified sentiment that more people than ever before do not hold a fair chance to succeed—that exposed groups are left out from the work, study, and opportunities they need to progress; this leaves them stuck in poverty for years or even for generations. For an economy to run at its finest, it needs to be progressive, sustainable, and steady. It is also much more than this. It is not simply that the economy is purely rising, but that it's rising for all individuals.

3.2 Economy of Azerbaijan

The first years of regained independence didn't come easy to Azerbaijan. Neither came for any of the present CIS countries. The abrupt disintegration of the previously dominant centralized administration resulted in military escalations in several locations of the previous USSR. An almost half-a-decade war between neighboring the Republics of Armenia and Azerbaijan exhausted already limited capacities for development. All the resources, including labor and natural ones, were retransferred at the front. The ceasefire agreement was acquired eventually by 1994, but it had no binding effect as the records of new human losses kept coming at both sides and now real communication between the two was established. The region was experiencing large stagnation with no hope for a close rebound - all sectors, comprising agriculture, industry, and services, were underdeveloped with insufficient infrastructure or expertise to start from.

Nevertheless, year after year Azerbaijan had begun to see development, mainly in oil and gas industry, with the rest of sectors gradually following it. [16] The fossil fuels extraction and exports were the main drivers of rocket-strong economic growth, resulting in miracle growth domestic product (GDP) growth indicators [Figure 3]

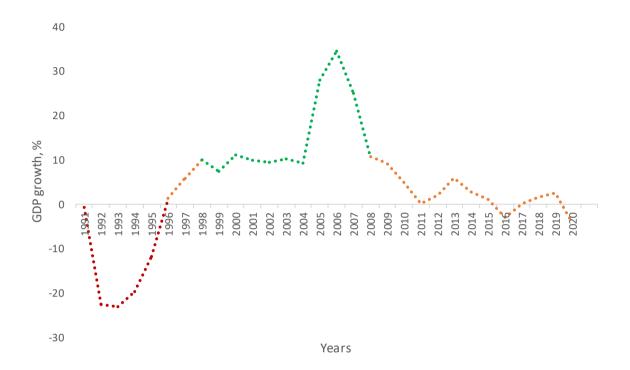


Figure 3. The World Bank Data, "GDP growth (annual%) – Azerbaijan"

Strong dependency on extractive industries put Azerbaijan out unfortified from the negative impact of oil price volatility. During the years of falling oil prices, 2013-2017 to be precise, the GDP growth reduced to only 1,4% per year on average. Throughout its independence, the country has already been through a major global crisis - the Global Financial Crisis of 2007-9. The crisis decreased trust between the countries made them cautious and pushed them to rethink their relations with the outside world. It certainly contributed to the political affairs too, as the establishment of the concept of Greater Eurasia⁴ in years after. However, the effect of it stands in no comparison to the impact of the recent (2021) outbreak

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⁴ The Russian political elite put forward the concept of "Greater Eurasian Partnership" against the context of failing conversation with the West. The primary idea was to put Russia as a leader of a newly developed Eurasian political, economic, and security association.

of respiratory disease. Just in a short period of time, the ranking of economies started to change as some performed better than others despite the global isolation

The decline in renewable energy costs has been observable since even 2010. By 2019, the costs of almost all utility-scale renewable capacity additions achieved lower levels than the most competitive alternative — coal. Major developed countries have already commenced redirecting their economies to accommodate the increasing demand for the new innovative sources of energy, with some of them planning to stop the local trade of fuel-engine cars by 2025. It was during the lockdown, however, that the stock prices of the whole renewable energy sector fell lower than the fossil fuel-based ones. The restricted air communication curtailed public transportation and nationwide lockdowns reduced demand for oil. Former import-reliant states shifted to full home sufficient green energy production strategies leaving oil-exporting ones with shrinking perspective incomes. Consequently, the rent-seeking mode of the oil-dependent economy of Azerbaijan could not face the changes as the energy market commenced brisk diversification and started to have major fluctuations.

The Azerbaijani government has been attempting to diversify the economy for years now. However, no real progress has been recorded [17]. Fakhri Hasanov in his work Dutch Disease and the Azerbaijan economy [18] supports the previous statement by deducing that no proper de-industrialization has been carried out in the oil sector of the country.

3.3 Possible explanation

Perhaps the strong centralized government can be justified, and that's only for the starting years of a sovereign nation. To theorize the present problem, we may cite the book MITI and the Japanese Miracle, where C. A. Johnson for the first time conceptualized the idea of a developmental state [19]. It was a phenomenon in East Asia in the late 20th century. It reflected the model of capitalism where the state was determined by economic development

and was ready to take all necessary measures to achieve it. The actions are mainly described by strong state intervention, as well as extensive regulation and ready to take all necessary measures to achieve it. The actions are mainly described by strong state intervention, as well as extensive regulation and planning. The brilliant example of this are Japan, South Korea, Taiwan, Singapore, and Hong-King(China)—the countries with no natural resources to export, as an outcome of the regime, moved from low-income to high-income levels. The regime allowed governments to dictate the distribution of existing resources, and lead to the investment and mobilization of most of the capital into the most potential industries that benefited the whole society. Cooperation between government and industries was of prior importance. The term afterward was used to refer to the countries outside the East Asia region with a similar structure.

Now, we certainly cannot claim for Azerbaijan to be one - it has had abundancy in natural resources, for example. However, the intention and structure of the government were somewhat close to the developmental state. Same ruling party for the period prevailing the allowed time in most of the constitutions worldwide, close relations between countries major industries and government. It was either that or Azerbaijan had fallen into the trap of autocracy fooled by false promises and expectations. We will not be a judge of it here, however, what we will claim is the unreasonable centralized nature of the government in Azerbaijan.

Summary

All the processes are controlled from a single point with no real self-government present. Local governments lack the legislative framework to be independent within their territories and have no proper financial base to support their long-term projects. This distant form of governing limits the full potential of the community for development preventing it from initiating innovative changes. As long as the investment is mainly directed to the capital city of

Azerbaijan where the oil industry is mainly concentrated, the migration within a country will keep going contributing to an uncontrolled overpopulation in one region and drain of the human capital, and labor in the another. It is still you can hear in Baku people asking each other questions: "From which region you are?" bearing rather marginalization motives.

Chapter 4 – Implementation

The planning of the all-inclusive involvements starts from the identification of existing barriers and openings for impact. We have already gone through the potential sources of the problem, now it is time to dig deeper to draw a way out.

4.1 Preceding attempts

The victory of Azerbaijan in the Second Karabakh war in November 2020 resulted in Azerbaijan reclaiming control over a vast territory. Those included four previously occupied administrative units and three of a segmented control. Just a few months ago, at the end of the previous year, the liberated lands of the Karabakh Economic Region received a new representative appointed by the President of the Republic of Azerbaijan. The decree subsequent to the appointment minimized the number of regional bureaus of the Ministry of Education by consolidating them into bigger units, hence increasing the volume of people they serve. Such administrative decisions were long-awaited as they could contribute to the unification of the obsolete administrative units into larger segmentations. To entrust authority to the regions, such reform is required.

In case these steps are down in the direction of the reform mentioned above, the administration will have to submit constitutional modifications. And for that, a referendum is required. However, even with that reform at stake, the question arises about the source of accountability of those regional administrations. Will they be elected and independent, or will they be appointed by the government again? European Charter of Local Self-Government recommends that "Public obligations shall normally be exercised, in preference, by those authorities closest to the citizen". [20]

4.2 Solution

There is a considerable number of imperative recommendations for Azerbaijan regarding its future path towards the development, including the clarification of legal status for the status of local administrative bodies, a subsequent delegation of the authority to them, expanding their operational and financial capacities, and granting a separate status for the capital city of the country.

The root solution to the problem, as demonstrated by Georgia's experience, is to grant local self-government the status of local authority through legislation, and to distinguish very clearly between the executive and local self-governing authorities. These units, in comparison to nationwide governments, are assumed to be closer to people, to know their needs, and to be able to react in a quicker manner with more effective solutions. Therefore, it is advised to:

- 1. Transfer the authority down the line in a complete manner [feasible, according to the Charter]. Decentralization can be considered successful if and only it motivates local communities for active participation in self-government.
- 2. To conduct transparent elections [harder to measure]. More strict control and punishment practices need to be in place to prevent misconduct. Also, continuous work with grassroots organizations can be done to improve the trust of people in democratic changes.

However, the issue is not limited to questions of authority and status. Municipalities also do not possess a sufficient financial base to support their activities. There are two main groups of sources of financing, one through the taxes, and two from the government's annual subsidy. The government needs to devote most of its taxation power to the local governments, as taxes themselves comprise only about 15% of GDP, whereas the rest is mainly revenues from the oil and gas industry. An Independent financial base will allow local government to manage their budgets and redirect the investment to the most profitable areas for the region. It

will, eventually, strengthen the general resilience of the country as it will prevent the spillover effect for the cities neighboring the ones experiencing a disaster.

And last but not least, the formation of a metropolitan municipality responsible for the capital and other significant cities, as well as the holding of mayoral elections there. Surprisingly, Azerbaijan is the only country in the Council of Europe without a single elected council covering a capital city.

4.3 Feasibility

The years of revenues from the oil and gas industry feeding the centralized executive power resulted in a false perception about the valuelessness of directly elected local government. That is also backed by the constant negative narrative from the central government authorities regarding the lack of ready human resources. Municipalities should not, however, be excluded from this new geographical delimitation because of their existing predicament. On the contrary, this is an opportunity to re-establish trust in them.

For a decade now, there is a certain interest among the local people of Azerbaijan for self-government and it keeps growing. This is mainly related to the attempt of elite opposition groups in Azerbaijan to conduct a "silent revolution" - to bring democracy to the structure without much shaking it. Some of kind expectations and beliefs have risen with the idea of democratic municipalities. This is accompanied by strong support from local masses who deliberately attend both municipal and parliament elections to vote for the true leader. The expected change in the share of ruling parties aims at an increased performance of the public services and it is believable as the expectations generate trust and boost the voluntary participation. Moreover, Azerbaijan is keen to develop high-tech and internet-based services. In 2018, the internet penetration rate was 79%. [21] The freedom of access enables the

exchange of information and contributes to a more critically set and well-informed population, interested in participating in the self-governing mechanism.

In 2002, Azerbaijan recognized the European Charter of Local Self-Government. It was not fully binding, however, as Azerbaijan still had more than is known that 20% of its territories were under occupation. Therefore, the charter was supplemented with the following line: "Azerbaijan is not able to guarantee the implementation of the provisions of the Charter in the territories occupied by the Republic of Armenia until the liberation of the occupied territories." It was not only the territories that were problematic, but the former dwellers of those lands who had to live now as Internally Displaced People (IDPs), which was making it difficult for them to organize and manage local communities. However, those problems seem to be left behind because of the liberalization of the space after the counter-offensive operation conducted at the end of 2020.

Summary

We can now claim that there is no obstacle to refraining Azerbaijan from implementing the promised policy changes. It is a long-standing promise of the state to implement those, but no real action has been taken yet. Those will allow for improved public services, will lead to a diversified source of revenue by full exploitation of existing capital, and will cut the dependency on global trends.

Acceptance of this reality would be beneficial to society: local self-governance is a mechanism for effectively managing your decision-making and finances without having to travel outside of your home and wait for the signature of an official sitting in the capital, which can take months or years, to make decisions about your most pressing needs. Without local self-governance, even minor local issues become national issues, necessitating presidential action to build a road in a faraway village. There is no need for the highest-ranking state

official, who is in charge of the country's key concerns, to deal with the local socio-economic issues of 3,500-4,000 villages and 75-80 cities. Local self-government is not only an important institution for addressing the country's socioeconomic issues. These institutions also serve as a training ground for the country's immense human resources, some of whom will go on to become influential figures in the country's future. Great human potential is squandered without local self-governance. Through a multiparty system and, eventually, community participation, this institution also ensures democracy and pluralism. There is currently no country that has developed economically and democratically without gaining local self-sufficiency. Consider that local self-governance is a necessary prerequisite for the transition from a governed to a free and self-governed society.

Conclusion

One of the outcomes of the fight for social justice, equal rights, and opportunity is inclusivity. It is the result of marginalized, oppressed, and discriminated people's never-ending fight against injustice and oppression. If only to preserve all of our accomplishments in the fight for social justice, society must pursue inclusivity. Hence, inclusion should be encouraged everywhere. We may bring the struggle not only from the workplace, where much has already been achieved, but also from other seemingly unrelated areas that are implicated in society's power relations. We can make society more attentive to the principle of inclusion by making them compatible with it.

Inclusion is achieved through tiny efforts. The case studies and contributors' examinations of experience in various parts of the world reveal the broad variety of goals that proponents of decentralization are aiming towards. The most successful decentralization projects have enlisted the help and dedication of political, governmental, and civic leaders to keep governance reforms on track. The functions of governance institutions, as well as lessons learned about the most effective strategies to improve and strengthen decentralized organizations' administrative, financial, and political skills, are continually developing.

The expectation is that the alteration in the existing local governance mode and shift to more autonomous structure will provide for overall well-being in the regions of Azerbaijan. Everybody will receive a chance to contribute to growth and feel more motivated to do so, as they will harness the benefit of own labor in full. Worth mentioning, the increased trust towards the public institutions is another benefit point. The raised standards of integrity and efficiency in work will result in more transparency and public interest for participation. Depending on a

number of institutional restrictions relating to the routes through which decentralization affects economic growth, this impact can turn positive. Furthermore, if a country lacks sufficient legal systems, institutions, and human resources, decentralization does not always result in immediate economic growth. In fact, if decentralization has a negative influence on the country's economy, the effect could be reversed. Azerbaijan is in the same boat.

Low efficiency of local governments in Azerbaijan is due to a lack of strong institutional capacity, strict and transparent laws for regulating intergovernmental fiscal relations, insufficient financial autonomy, and a weaker financial basis of local governments. As a result, local administrations in Azerbaijan have yet to demonstrate that they are legitimate entities capable of dealing with local issues. This is due to two factors. First, there is a parallel executive authority at the local level. The majority of municipal tasks are shared with the local executive branches of central government. Municipalities suffer from income deficiency as a result of a weak financial foundation. Despite the fact that the rules specify specific sources of revenue for local governments, there are a number of loopholes that restrict local administrations from taking advantage of these revenue sources. On the other side, the current structure of local government income demonstrates that current revenues can only support current expenditures, with relatively little money spent on infrastructure construction. As a result of the aforementioned financial limits and institutional issues, local government revenue and expenditure have a detrimental impact on economic growth.

The diversification and inclusivity of the economy will be achievable with the reform of local governments, both institutionally and fiscally, as local governments operate as regional growth stimulators. As a result, local governments can indirectly have a positive effect on economic growth by contributing to employment at the local level. The current lower level of local government revenue and spending as a percentage of overall government revenue and expenditure highlights the need for local government finances to be strengthened. All of this,

however, is feasible only with this series of institutional and budgetary reforms in Azerbaijan's local government system, which can be summarized as follows:

Local government should be granted special status permitting their uninterrupted and efficient operation.

Local governments should be provided with adequate financial resources in the form of local taxes, intergovernmental transfers, and loan easing to meet their obligations.

Local governments should be fully incorporated into state-led regional development programs aimed at diversifying the economy and be given specific roles in the implementation of regional initiatives through specific funding.

Appendix 1

World Bank national accounts data, data files for the global economic growth.

Source: World Development Indicators.

Last Updated Date: May 25, 2022.

Indicator Name: GDP growth (annual %).

1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
3.80105038	5.32036	5.1924	6.568	5.555	5.718	4.164	5.951	5.831	3.917
6	7069	90223	6624	0509	9272	6965	4931	6195	5864
			6	4	34	97	16	57	73
1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
4.2903126	5.63030	6.4235	1.805	0.600	5.297	4.076	4.113	4.188	1.811
	6253	03349	9438	1738	4547	4963	5646	2630	1633
			06	35	74	92	9	01	73
1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1.92861641	0.41734	2.6211	4.677	3.712	3.445	3.740	4.660	3.740	2.876
5	847	35346	4882	5721	3927	9578	5245	6057	2450
			82	72	54	94	46	3	79
1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1.44649913	2.05612	1.8081	3.296	3.089	3.613	3.869	2.793	3.504	4.501
4	5611	66661	8990	3539	6618	0314	1740	4184	2235
			35	02	6	93	31	36	45
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010

2.00012720	2.33716	3.1593	4.479	4.048	4.495	4.438	2.000	-	4.494
2	3731	25936	8936	1740	6256	7543	8305	1.307	6945
				08	64	07	12	257	69
2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
3.33961788	2.67281	2.8446	3.117	3.168	2.825	3.394	3.269	2.600	-
6	8411	51633	7528	3024	0572	3743	5836	8142	3.293
			17	48	88	37	41	44	6830
									4

Appendix 2

World Bank national accounts data, data files for the economic growth of countries in South Caucasus region.

Source: World Development Indicators.

Last Updated Date: May 25, 2022.

Indicator Name: GDP growth (annual %)

Countr	Cou	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
y Name	ntry Code	1771	1332	1330	1,7,7	1770	1770	1337	1770	1,,,,	2000
Armeni a	ARM	- 11.6 9999 85	- 41.8 0000 27	- 8.79 9998 79	5.40 0002 779	6.89 9998 42	5.86 5400 749	3.32 1079 7	7.29 9999 988	3.30 0000 001	5.90 0000 003
Azerbai jan	AZE	- 0.70 0000 18	-22.6	- 23.0 9999 93	- 19.7 0000 07	- 11.7 9999 97	1.29 9999 465	5.80 0000 012	10.0 0000 117	7.39 9999 587	11.0 9999 95
Georgia	GEO	- 21.1 0000 07	- 44.8 9999 95	29.3 0000 2	- 10.3 9999 4	2.59 9996 724	11.2 0000 201	10.5 1904 122	3.10 4902 718	2.86 9257 044	1.83 8341 066
Countr y Name	Cou ntry Code	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Armeni a	ARM	9.59 9999 999	13.2	14	10.5	13.9	13.2	13.7	6.9	-14.1	2.2
Azerbai jan	AZE	9.90 0000 13	9.43 8916 342	10.2 0830 001	9.25 3801 326	27.9 6153 807	34.5	25	10.7 5897 816	9.29 6363 473	5.04 8944 567
Georgia	GEO	4.80 5453 273	5.47 3836 801	11.0 5872 319	5.79 4496 346	9.58 9574 062	9.41 9770 648	12.5 7895 343	2.41 8571 659	3.65 0513 63	6.24 9487 768

Countr y Name	Cou ntry Code	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Armeni a	ARM	4.69 9999 999	7.20 0000 001	3.3	3.60 0000 001	3.19 9999 999	0.2	7.50 0000 002	5.2	7.59 9999 999	-7.4
Azerbai jan	AZE	0.1	2.16 5239 43	5.80 9800 945	2.75 0507 03	1.09 3975 846	-3.1	0.2	1.5	2.5	-4.3
Georgia	GEO	7.39 9999 867	6.36 9008 306	3.62 1305 352	4.43 1924 823	3.02 2207 38	2.90 6438 78	4.84 2603 225	4.84 2919 885	4.98 2350 475	- 6.76 0439 82

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