The Place of Local and Regional Self-Government in Eastern Partnership Policy-Making and Delivery
This report was written by Dr Claire Gordon and Dr Tomila Lankina (LSE Enterprise).

The fact sheets in annexes A and B were written by Hrant Mikaelian and Nina Iskandaryan (Armenia), Anar Valiyev (Azerbaijan), Maria Shappo and Irina Tochitskaya (Center for Social and Economic Research) (Belarus), Sergi Kapanadze (Georgia), Inga Savin (Moldova), and Iuliia Kurnyshova (Ukraine).

They do not represent the official views of the Committee of the Regions.


Catalogue number: QG-01-15-507-EN-N
doi:10.2863/294899

© European Union, 2015
Partial reproduction is permitted, provided that the source is explicitly mentioned.
Contents

Executive summary...............................................................................................................................1
Introduction................................................................................................................................................3
Part 1: Costs and benefits for regional and local authorities of the signatories to the Association Agreements on Deep and Comprehensive Free Trade Areas with the EU ..........................................................................................................................5
  Overview of the EU relations with EaP Countries .................................................................5
  Medium to long-term benefits ........................................................................................................7
  Short-term costs ...............................................................................................................................7
  Different incentive structure for EaP countries ..........................................................................8
  Challenges of EU interactions with EaP partners .......................................................................9
Part 2: Impediments for Economic Development in the Six EaP Countries: Most Pressing Issues .................................................................13
  The Eurasian Economic Union (EEU).....................................................................................13
  Economic dependence on Russia .................................................................................................15
  Centralization of power .................................................................................................................16
  Political aspects of governance ..................................................................................................16
    Review of local decision making and freedom of information .....................................17
    Local government revenue and tax base ...............................................................................18
    Size of municipal authority and territorial consolidation ............................................18
    Corruption, patrimonial, and clan politics ..........................................................................19
    Poverty and under-development ............................................................................................20
Part 3: Political Situation and Decisions and their Impact on the LRA’s Economic Development in the EaP Countries ..................................................23
  Challenges to democracy, rule of law and institutional reforms ......................................23
  Wider regional geopolitics ........................................................................................................24
Part 4: Policy Recommendations .................................................................................................31
  The EU in Brussels .......................................................................................................................31
    For EaP countries ....................................................................................................................31
    For AA/DCFTAs countries ....................................................................................................32
  EU Delegations in EaP countries ..............................................................................................33
    For EaP countries ....................................................................................................................33
    For AA/DCFTAs countries ....................................................................................................33
  Central governments in EaP countries .....................................................................................34
    For EaP countries ....................................................................................................................34
    For AA/DCFTAs countries ....................................................................................................35
  Regional and local governments in EaP countries .................................................................37
For EaP countries.................................................................37
For AA/DCFTAs countries..................................................37
Annex A : Division of Powers fact sheets ............................39
Armenia..............................................................................40
  Key stages in the evolution of local governance legislation......41
  General Division of Powers.............................................43
  Systems of multilevel governance ..................................44
  Relations with the EU/Representation at EU level ...............45
  Subsidiarity ...................................................................46
  Bibliography ..................................................................46
Azerbaijan ........................................................................48
  General division of powers ............................................49
  Systems of multilevel governance ..................................53
  Relations with the EU/Representation at EU level ...............54
  Subsidiarity ...................................................................54
  Bibliography ..................................................................54
Belarus ................................................................................56
  General Division of Powers ............................................56
  Systems of multilevel governance ..................................59
  Relations with the EU/Representation at EU level ...............60
  Subsidiarity ...................................................................61
  Bibliography ..................................................................61
Georgia ..............................................................................63
  General Division of Powers ............................................64
  Systems of multilevel governance ..................................67
  Relations with the EU/Representation at EU level ...............68
  Subsidiarity ...................................................................68
  Bibliography ..................................................................68
Moldova .............................................................................71
  General Division of Powers ............................................72
  Systems of multilevel governance ..................................77
  Relations with the EU/Representation at EU level ...............77
  Subsidiarity ...................................................................78
  Bibliography ..................................................................78
Ukraine ..............................................................................80
  General division of powers ............................................80
  Systems of multilevel governance ..................................83
  Relations with the EU/Representation at EU level ...............84
  Subsidiarity ...................................................................85
  Bibliography ..................................................................85
Annex B: Overview of fiscal decentralisation fact sheets ...........................................89

Armenia .........................................................................................................................90
  Legal acts governing fiscal decentralisation ...............................................................90
  Qualifying fiscal decentralisation ..............................................................................90
  Deficit, debt at the sub-national level and borrowing capacity .........................91

Azerbaijan ......................................................................................................................93
  Legal acts governing fiscal decentralisation ...............................................................93
  Qualifying fiscal decentralisation ..............................................................................93
  Deficit, debt at the sub-national level and borrowing capacity .........................94

Belarus .............................................................................................................................96
  Legal acts governing fiscal decentralisation ...............................................................96
  Qualifying fiscal decentralisation ..............................................................................96
  Fiscal equalisation mechanism ..................................................................................96
  Deficit, debt at the sub-national level and borrowing capacity .........................97

Georgia ...........................................................................................................................98
  Legal acts governing fiscal decentralisation ...............................................................98
  Qualifying fiscal decentralisation ..............................................................................98
  Fiscal equalisation mechanism ..................................................................................98
  Deficit, debt at the sub-national level and borrowing capacity .........................98

Moldova ..........................................................................................................................100
  Legal acts governing fiscal decentralisation ..............................................................100
  Qualifying fiscal decentralisation ............................................................................100
  Deficit, debt at the sub-national level and borrowing capacity .........................101

Ukraine ...........................................................................................................................103
  Legal acts governing fiscal decentralisation ..............................................................103
  Qualifying fiscal decentralisation ............................................................................103
  Fiscal equalisation mechanism ................................................................................103
  Deficit, debt at the sub-national level and borrowing capacity .........................104

References ......................................................................................................................105
List of Abbreviations

AA -- Association Agreements
AP – Action Plan
CEE – Central and Eastern Europe
CU – Customs Union
DCFTA -- Deep and Comprehensive Free Trade Agreements
EaP – Eastern Partnership
ECU – Eurasian Customs Union
EEU – Eurasian Economic Union
ENP – European Neighbourhood Policy
GOST – The Gosstandard System
IPR – Intellectual Property Rights
LRAs – Local and Regional Authorities
PCA – Partnership and Cooperation Agreement
SES – Single Economic Space
SPS – Sanitary and phyto-sanitary standards
TBT – Technical barriers to trade
Executive summary

The report explores the challenges and opportunities which the new generation of AAs/DCFTAs present for economic, political and institutional developments at the sub-national level in the six Eastern Partnership countries – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The report presents an analysis of (1) the costs and benefits for regional and local authorities of the countries which are signatories to the AA/DCFTA as well as of the particularities of the EU’s relationship with the countries participating in the Eastern Partnership; (2) impediments for economic development; (3) the political situation and decisions and their impact on the LRA’s economic development. The main conclusion is that though successful implementation of the AA/DCFTAs is likely to deliver medium to long-term benefits for economic developments at central, regional and local levels in participating states, short-term financial and administrative costs are likely to be high and as a result there is a risk that compliance will be severely hampered. Russia continues to have important economic leverage over EaP states, and has the potential to use sanctions to derail processes of closer integration with the EU. Thus, EaP states risk finding themselves in a situation of being “between two stools” (Korostelyeva 2010) – unable to fully benefit from either the Russia- or EU-led mechanisms of economic integration and trade liberalization. The report also discusses the domestic structural and policy impediments to economic reforms, as well as the negative effects of authoritarianism, patrimonial politics, and corruption on governance at national, regional and local levels of authority.
Introduction

The EU’s relations with the six members of the Eastern Partnership have evolved in different ways since these countries achieved their independence following the collapse of the Soviet Union in 1991 and this diversity is also reflected in the complex and varied political-economic systems that have emerged in the region. While Georgia, Moldova and Ukraine (oscillations notwithstanding) have expressed a firm interest in getting closer and eventually joining the EU, Armenia and Belarus continue to ally themselves both economically and politically more closely with Russia. In the case of Azerbaijan, the central vector of its relationship with the EU is based on mutual economic and energy interests with limited engagement in the democracy promotion dimension of this relationship. In June 2014 three Eastern Partnership countries signed a new generation of contractual agreements with the EU, so-called Association Agreements with Deep and Comprehensive Free Trade Agreements, offering the possibility of enhanced cooperation and integration between the EU and its partner countries, Georgia, Moldova and Ukraine particularly in the areas of trade and economic relations. Meanwhile relations between the EU and the other members of the Eastern Partnership – Azerbaijan, Armenia and Belarus – are at a different stage of development. Azerbaijan and Armenia continue to implement open-ended extensions of their Action Plans whereas in the case of Belarus, its relations with the EU are governed by Conclusions of the Foreign Affairs Council last set out in 2012 and the EU has committed itself to a policy of constructive engagement. Against this broader context the current report explores the challenges and opportunities which the new generation of AAs/DCFTAs present for economic, political and institutional developments at the sub-national level in the Eastern Partnership countries.

This report and the accompanying fact-sheets have been compiled by drawing on a variety of sources as a means of accurately assessing (i) the formal division of political and fiscal powers in each of the six Eastern Partnership countries, (ii) the actual situation on the ground at the sub-national level as well as (iii) the potential costs and benefits of the ongoing development of relations with the EU at the sub-national level and in particular the implementation of the AA/DCFTA agreements in Georgia, Moldova and Ukraine. These include an examination of primary and secondary sources, including legal and policy documentation (relevant legislation from our case study countries as well as EU documentation such as the AAs/DCFTAs documents, ENP Actions Plans, Country Progress Reports), and primary interviews conducted with local government officials and key stakeholders in the case study countries. These
have been also supplemented by review of a range of academic and policy analyses.

The report is divided into four parts:

1. Part 1 contains an assessment of the costs and benefits for regional and local authorities of countries that are signatories to the AAs/DCFTAs with EU: Georgia, Moldova and Ukraine. Consideration is also given to the relationship of the EU with the other member countries of the Eastern Partnership: Armenia, Azerbaijan and Belarus.

2. Part 2 provides a consideration of the impediments for economic development in all six EaP countries highlighting the most pressing issues facing these countries at the regional and local levels.

3. Part 3 presents an overview and analysis of the political situation in each of the six countries focusing on the impact on local and regional authority development in the EaP countries.

4. In Part 4, as a result of the preceding analysis and drawing on the country fact-sheets, a series of recommendations are made to support the successful implementation of the AAs/DCFTAs at the regional and local levels as well as to promote the further upgrading of EU relations with other members of the EaP.
Part 1: Costs and benefits for regional and local authorities of the signatories to the Association Agreements on Deep and Comprehensive Free Trade Areas with the EU

This part of the report provides an overview of the current formal state of relations between the European Union and the six EaP countries. It presents an analysis of the costs and benefits for regional and local authorities of the countries which are signatories to the AA/DCFTAs as well as of the particularities of the EU’s relationship with the countries participating in the Eastern Partnership. The main conclusion is that, though successful implementation of the AA/DCFTAs in Georgia, Moldova and Ukraine is likely to yield medium to long-term benefits for economic developments at central, regional and local levels, the short-term financial and administrative costs which result from legal and regulatory approximation are likely to be high and as a result there is a risk that compliance will be severely hampered. Thus the EU needs to find ways to manage the time-lag challenge so that the costs of legal and regulatory approximation do not obstruct the reforms that lie at the heart of the implementation process.

Overview of the EU relations with EaP Countries

In June 2014 three Eastern Partnership countries signed a new generation of contractual agreements, Association Agreements with Deep and Comprehensive Free Trade Agreements with the European Union, offering the possibility of enhanced cooperation and integration between the EU and the partner countries, Georgia, Moldova and Ukraine in particular in the areas of trade and economic relations. These enhanced agreements hold out the prospect of increased access to the EU’s single market and greater circulation of goods, capital and service, three of the four pillars of the EU’s single market thus moving these countries ever closer to Prodi’s 2002 promise in the lead-up to the launch of the European Neighbourhood Policy ‘Everything but institutions’. However, the effective implementation of the AA/DCFTA necessitates costly technical and regulatory adjustments to ensure approximation and alignment with different aspects of the acquis. This inevitably presents considerable challenges in the short term at the central and sub-national levels in Georgia, Moldova and Ukraine all of which
are characterised by weak administrative capacity and are strapped for financial resources.

As regards the other three Eastern Partnership countries, in the case of Armenia and Azerbaijan, the PCA signed in 1996 remains the key legal document underpinning relations with the EU though the Action Plans concluded under the European Neighbourhood Policy also remain an important structuring device (even though these are not legally binding documents). Belarus has followed a different path having failed to ratify its PCA in 1997. Though formally a member of the European Partnership the country only participates in its multilateral track. In general the EU has found it difficult to find effective channels of engagement with the central authorities in Belarus; since 2010 this has taken the form of the declared policy of constructive engagement though in reality the concrete results of this mode of engagement have been rather thin.

The EU’s relations with Eastern Partnership Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Relations with EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>PCA signed 1996, entered into force 1999 – forms legal basis of relationship with EU</td>
</tr>
<tr>
<td></td>
<td>Joined ENP – 2004</td>
</tr>
<tr>
<td></td>
<td>AP concluded 2006</td>
</tr>
<tr>
<td></td>
<td>EaP – 2009</td>
</tr>
<tr>
<td></td>
<td>Decision not to initial the negotiated AA/DCFTA – December 2013</td>
</tr>
<tr>
<td></td>
<td>EU-Armenia Visa-Facilitation and Readmission Agreements came into force in January – 2014</td>
</tr>
<tr>
<td></td>
<td>Joined Eurasian Union – January 2015</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>PCA signed 1996, entered into force 1999 – forms legal basis of relationship with EU</td>
</tr>
<tr>
<td></td>
<td>Joined ENP – 2004</td>
</tr>
<tr>
<td></td>
<td>AP concluded 2006</td>
</tr>
<tr>
<td></td>
<td>Memorandum of Understanding – 2006</td>
</tr>
<tr>
<td></td>
<td>EaP – 2009</td>
</tr>
<tr>
<td>Belarus</td>
<td>PCA negotiated in 1995 but ratification postponed since 1997</td>
</tr>
<tr>
<td></td>
<td>Participation in multilateral track of EaP – 2009</td>
</tr>
<tr>
<td></td>
<td>Policy of critical engagement – announced 2010</td>
</tr>
<tr>
<td>Georgia</td>
<td>PCA signed 1996, entered into force 1999 – forms legal basis of relationship with EU</td>
</tr>
<tr>
<td></td>
<td>Joined ENP – 2004</td>
</tr>
<tr>
<td></td>
<td>AP concluded in 2006</td>
</tr>
<tr>
<td></td>
<td>EaP – 2009</td>
</tr>
<tr>
<td></td>
<td>AA/DCFTA signed June 2014</td>
</tr>
</tbody>
</table>
Moldova | PCA negotiated in 1994 but ratification postponed since 1998  
| AP signed in 2005  
| EaP – 2009  
| AA/DCFTA signed June 2014  

Ukraine | PCA signed in 1994, entered into force in 1998  
| AP signed in 2005  
| EaP – 2009  
| AA/DCFTA signed June 2014  

**Medium to long-term benefits**

The major challenge for the signatories to the enhanced generation of AA/DCFTA is a fundamental time-lag problem. In the medium to long-term the successful implementation of the AA/DCFTA holds out the promise of the further integration of Georgia, Moldova and Ukraine with the EU’s single market and all the potential benefits this may offer in terms of increased market access, the possibilities for increasing levels of trade with EU member states, domestic economic development and growth deriving from the potential positive spill-over effects of enhanced competition and the improvement of the quality of infrastructure and concomitant improvements in the quality of production. The upgrading of administrative capacity and the process of legal and technical approximation to EU standards stands to strengthen the quality of public administration and may over time give impetus to decentralisation processes. Improvements in domestic markets plus the strengthening of legal and administrative infrastructure should thus make the political economies of Georgia, Moldova and Ukraine more attractive to foreign investors. Possibilities for deeper cooperation in the fields of cultural and educational exchanges and the engagement of civil society at all levels also exist, which may also strengthen the consolidation of democracy in these countries which are beset by the legacies of underdevelopment and socialist authoritarian political systems and centrally planned economies.

**Short-term costs**

To enable all this to happen there are considerable short-term costs at the central and sub-national levels. The AA/DCFTAs are 700-page long documents enumerating long lists of legal, technical and regulatory adjustments to be made as part of the implementation process of this new generation of agreements with countries in the EU’s Eastern neighbourhood. These encompass regulatory
approximation in terms of the technical barriers to trade (TBT), in sanitary and phyto-sanitary standards (SPS), protection of intellectual property rights (IPT), competition and state aids. The adjustments are overwhelmingly unidirectional. This poses a number of severe obstacles to the three countries which have signed up to these agreements at the central not to mention the regional and local levels. The EU needs to find ways to manage this time-lag problem to enable governments and stakeholders in Georgia, Moldova and Ukraine to derive interim economic benefits from their contractual agreements with the EU so that the costs of compliance do not outweigh the perceived benefits and the implementation process is not hindered or even derailed by bureaucratic and politics elites (Schimmelfennig and Sedelmeier 2005).

Different incentive structure for EaP countries

It should also be noted that the incentive structure shaping interactions between the EU and the EaP is fundamentally different to that which shaped the interaction between the EU and the candidate countries in Central and Eastern Europe (CEE). Firstly, unlike in the case of the CEE countries, no clear membership prospect has ever been offered to Georgia, Moldova and Ukraine. Likewise, while these three countries have underlined their European orientation, other countries in the Eastern neighbourhood have been more ambivalent. Armenia and Belarus are members of the Eurasian Union and Azerbaijan with its highly authoritarian system – though interested in the trade and the ensuing economic benefits that derive from its relationship with the EU – has voiced no interest in joining the EU. So the conditionality which was adopted as the main tool of Europeanisation in the CEE region has at best been a “conditionality-lite” whose leverage is diluted by the absence of the golden carrot of EU membership (Sasse 2008). Secondly, diversity notwithstanding, while the transition from socialism in the CEE countries was uniformly in the direction of liberal market economies, this is simply not the case in the Eastern neighbourhood of the European Union. Transition has been more complex with an uncertain destination: the countries of the Eastern Partnership remain predominantly semi-authoritarian or authoritarian political systems and there is a considerable diversity in the structure of their economies and the degree of marketization. Strong structural post-communist legacies remain in terms of the organisation and standards of the economies of the region, which pose considerable challenges for Georgia, Moldova and Ukraine in the process of adaptation and adjustments needed to meet the requirements of the AA/DCFTA.

Thirdly, for the countries of the CEE the only game in town was Brussels. The same cannot be said for the Eastern neighbourhood countries, all of which have complex post-Soviet relationships with Russia not to mention relationships with
other surrounding states which have to be factored into government and stakeholder calculations in terms of responses to and the development of ongoing relations with the EU. As noted above particularly with the much more hesitant relationships the EU has had with Belarus and Armenia neither the pull factor nor push factor of the EU may be strong enough to induce institutional alignment, norm transfer and democratic change (Gordon and Sasse 2008). At a very late stage in the process Armenia, which was on the point of initialising an AA/DCFTA, reneged in December 2013 and instead opted to join the Eurasian Union. It is perhaps worth noting that no such complex technical or regulatory adjustments are required to join the Eurasian Union. Moreover the economies of the Eastern Neighbourhood align more readily with the norms of the GOST standard system, which addresses general and technical specifications and safety requirements for different industries and are still utilized throughout the countries of the region. Finally all three AA/DCFTA countries have unresolved conflict situations – the ongoing conflict with Russia and inside Ukraine concerning the eastern part of the country, South Ossetia and Abkhazia in Georgia and Transnistria in Moldova – in all these cases sizeable regions remain outside the sway of central government. Thus it remains unclear how the provisions of the AA/DCFTA will be applied and implemented at the regional and local level in these areas. (Please see Part 3 of this report for further discussion).

Challenges of EU interactions with EaP partners

At the same time there are a number of evident similarities between the CEE and countries of the EaP which also need to be taken into account when considering the challenges of the implementation of the AA/DCFTAs in Georgia, Moldova and Ukraine. These factors characterised the EU’s interaction with candidate countries in the CEE and shaped aspects of the accession process and will also inevitably shape the implementation process of the AA/DCFTAs in the Eastern neighbourhood. Firstly, the administrative capacity of central governments in CEE was severely constrained. The annual regular reports for the CEE candidate countries were littered with references to the weak administrative capacity in the countries of the region, so much so that having initially supported a model of decentralisation in CEE the EU shifted to favouring a model of administrative regionalisation in the countries of the region. In other words the administrative capacity at the centre was so weak that in order to ensure the effective adaptation and implementation of the acquis the imperative was to strengthen administrative capacity in the centre where “islands of excellence” emerged to manage the accession process (Goetz 2001; Hughes, Sasse et al. 2004). The weakness of administrative capacity and the underfunding at sub-national levels is also a serious challenge for the
implementation of the AA/DCFTAs by Georgia, Moldova and Ukraine and will have to be taken into account by central governments and their EU interlocutors in the planning and implementation of these agreements.

Secondly, the EU enlargement process remained fundamentally a bilateral interaction between Brussels and governments in the capitals of the countries in CEE. The sub-national governments and stakeholders were marginalised from the process: they did not participate in negotiation processes and were not consulted; as such their levels of knowledge about the EU remained low. Marginalization from negotiations with the EU and low levels of knowledge about the EU also characterise subnational governments and stakeholders in the EaP countries and given the geographical distance to Brussels and the lack of membership prospects this phenomenon is perhaps even more pronounced. Thirdly, the countries of CEE were severely constrained from a fiscal point of view – the costs of adapting and implementing the acquis were significant. Moreover these were countries still in the process of transition from centrally planned authoritarianism faced with highly complex political economy trade-offs in terms of sustaining the political momentum behind the reform process. All of these issues constrain and shape the way in which the AA/DCFTAs will be operationalised in practice in the Eastern neighbourhood of the European Union. Administrative capacity is extremely weak outside the capitals of Tbilisi, Chişinău and Kiev, judicial structures remain undeveloped, finances are highly constrained, the knowledge of EU structures and processes is highly limited and moreover countries in the region are faced with complex geo-strategic trade-offs.

Thus although the role and responsibilities of regional and local authorities are highlighted in a range of articles in the AA/DCFTAs, such as the areas of shared resources, public procurement, tourism, agricultural and rural development, regional development, cross-border and regional-level cooperation pose very serious questions over the realistic possibilities these LRAs will have for effectively implementing these clauses unless the financial situation changes and considerable technical and administrative support is provided by the centre and the EU – given the complexity of the acquis and the financial costs of approximation and implementation. At this stage virtually no attention has been paid by the EU to the state of administrative infrastructure at the sub-national level in the AA/DCFTA countries and there is the risk that, as Falkner et al. have argued in their investigation of compliance with EU directives, that the sub-national levels in the Eastern neighbourhood will at best remain a “world of dead letters” (Falkner, Treib et al. 2008). As yet there is no evidence that additional sums of money are being made available by the centre to enable the implementation of the AA/DCFTA at the sub-national level. As one of our interviewees pointed out:
“Association Agreement requests reform, but there are no reforms without effective regional and local government, decentralization and restoration of order in the legal system. The AA does not regulate local self-government, it regulates economic life, but we will never revive our economy with our local governments.”

It may be suggested that both the EaP and now the AA/DCFTA do not take adequate account of the “domestic structures of partner countries” and even suffer from too “Eurocentric an approach” (Merabishvili 2014). Given the above challenges it would be advisable for the EU to support twinning initiatives and greater engagement with local stakeholders to inform and train local actors about the AA/DCFTA and its operationalisation, to enhance processes of capacity-building at the sub-national level recognising diversity within different regions, and to align financial frameworks with specific reform initiatives.
Part 2: Impediments for Economic Development in the Six EaP Countries: Most Pressing Issues

In this section, we discuss the most pressing issues that serve as key impediments to economic development in the six countries. Specifically, we discuss the wider geopolitical factors and domestic structural and policy impediments. Obstacles to economic development stemming from aspects of regional and local governance that need reform are also addressed.

The six EaP states vary significantly both with respect to the structural conditions underpinning economic modernization and models of economic development espoused by their ruling elites. They include resource-poor economies like Armenia and Moldova; energy giants like Azerbaijan; states espousing Soviet-style economic management and models of economic development like Belarus; and countries that have embraced economic and trade liberalisation like Georgia (Darden 2010). Despite these important structural and policy variations, all countries face pressing economic issues, or pursue policies that serve as severe impediments to their economic development and modernisation. These challenges and policies stem from the wider geopolitical dynamics in the region, particularly the political issues relating to the development of the Russia-led Eurasian Economic Union and Russia’s involvement in regional ethno-territorial disputes; economic dependence on Russia or vulnerabilities to economic pressure from Russia; centralization of power; authoritarian or semi-authoritarian forms of governance that impinge on local authorities’ capacity to pursue economic development objectives; the local authorities’ inadequate revenue and tax base and discretion; excessive fragmentation of local authority; endemic corruption; and other pressing regional and local socio-economic issues impinging on long-term modernization and development. Below we address these issues in turn.

The Eurasian Economic Union (EEU)

The Eurasian Economic Union, which had been in the making since 2010, and which became formally operational on 1 January 2015, has the potential to significantly affect the economies of EaP states. In 2010, the Customs Union (CU) was signed between Russia, Belarus and Kazakhstan. The CU provides for a common external tariff regime, common customs regulations, and the formation of joint decision-making and regulatory institutions. In January 2012, the Single Economic Space (SES) was launched, providing for free movement
modelled along the lines of the EU, and the abolishing of trade barriers. The political protests in Ukraine and the toppling of Ukraine’s unpopular leader Viktor Yanukovich derailed Russia’s attempts to bring Ukraine into the EEU. Two of the EaP states, Belarus and Armenia, have however since signed up to the EEU (Dragneva and Wolczuk 2015). Despite the proclaimed goal of benefits from a common economic space and free trade, external observers and policy makers in the participating states have raised concerns about the short and long-term implications of these arrangements for economic development (The World Bank 2012). The first set of concerns relates to the institutional architecture governing these arrangements—it is notoriously opaque; governance structures are asymmetrical in that Russia retains the upper hand in negotiations over the EEU’s institutional architecture and policies; many decisions about the institutions governing the EEU have been made in great haste; and, importantly, there is little potential for positive governance spillovers: not only does Russia control the EEU’s institutional architecture, but the Union’s legal documents have explicitly incorporated provisions for “respect for the specificity of the political structure of the member states” (Article 3) (Dragneva and Wolczuk 2015).

The second set of implications of the EEU for the economies of EaP states could be more directly linked to their economic development. While there may be shorter-term benefits from intra-block trade liberalisation, EEU states are bound to lose out in the longer term due to diminished levels of technology and goods transfer from the more advanced European Union member states’ economies, with resulting implications for technological innovation, modernization, and growth (The World Bank 2012). For countries like Armenia lacking land borders with EEU signatory states, the economic benefits of the ECU customs arrangements are even more problematic. The EEU integration process may also indirectly affect the economies of states that have decided to abstain from opting into it—notably Moldova and Georgia; Russia is known to have resorted to economic—trade, energy, harassment of migrants—blackmail tactics to penalise the “near abroad” states for their lack of enthusiasm for joining Russia-led political and economic groupings. Most recently, Russia has taken unilateral decisions to impose restrictions on imports from EU states following the imposition of EU sanctions on Russia; however, both Belarus and Kazakhstan, despite being CU signatories, have ignored Russia’s attempts to impose a “fait accompli” “taking the opportunity to profit [from the sanctions] instead.” Belarus has also refused to submit to Russia’s pressures and impose restrictions on the import of Ukrainian products in 2014 (Dragneva and Wolczuk 2015, p. 28). These longer-term and recent developments illustrate the potentially corrosive effects of the Russia-led Eurasian economic project on EaP states’ trade with the EU, while also casting doubt on the functionality and durability of the EEU itself.
Economic dependence on Russia

The economics of EaP states significantly benefit from, and in some cases, depend on, trade and other economic ties with Russia. Yet, such dependencies, while providing an immediate lifeline to the struggling post-soviet economies, may also impose long-term costs hampering economic development and modernization through a form of an “authoritarian diffusion” effect (Obydenkova and Libman 2012). Armenia illustrates how economic dependence on Russia can inhibit progress towards democracy, and promote corruption and poor governance. Armenia is heavily dependent on Russia for energy supplies. Over the last few years, Russian companies have acquired control over the country’s defense industries, energy, rail, and telecommunications infrastructure and networks, including a major nuclear power plant (Metsamor), as part of the energy “debt-for-assets” swap (Oskanian 2015). These arrangements underlined the opaque and un-transparent nature of decision-making by Armenia’s ruling groups, while depriving the country of control over strategically and economically important assets. Although Moldova and Armenia have recently benefitted from new gas pipeline infrastructure projects diminishing their energy dependence on Russia, Russia is poised to remain the region’s key energy supplier in the immediate future. Another source of Russia’s leverage over the economies of EaP states is labor migration and remittances. Hundreds of thousands of labor migrants fuel the domestic economies of resource-poor states like Moldova and Armenia, while also increasing Russia’s leverage over even the energy-rich states like Azerbaijan. The effect of such dependencies has been illustrated recently when Western sanctions and the collapse of oil price hit Russia’s economy hard, in turn stemming the tide of the flow of remittances to Russia’s neighbors. Another set of impediments to economic development stems from challenges for EaP states in adapting to the changing realities of availability of alternative markets for their products. There is a high level of trade inter-dependencies among post-Soviet states; although these interdependencies do not necessarily incentivize innovation, for many producers, they remain a convenient alternative to European markets. Georgia illustrates this pattern. In 2014, Russia accounted for some 65 per cent of Georgia’s total wine exports. Although Russia has repeatedly resorted to economic blackmail against Georgia, it continues to be favoured as a trade partner because of the familiarity of Georgia’s producers with the Russian market and the persistence of Soviet-era economic network ties. By contrast, the EU market continues to be perceived as an unfamiliar and uncertain terrain, and complying with EU regulations is perceived as imposing costs on domestic producers (Dvali and Kanashvili 2015). Thus, EaP states risk finding themselves in a situation of being “between two stools” (Korosteleva 2010) — unable to fully benefit from either the Russia- or EU-led mechanisms of economic integration and trade liberalization.
Centralization of power

Aside from the above external influences on economic development in EaP states, the peculiarities of their domestic political institutions, politics, and patterns of informal governance generate additional challenges for economic development and growth. Specifically in relation to regional and local development, it should be mentioned that Soviet-style top-down centralization of power and decision-making continues to characterize governance in several EaP states. Institutional mechanisms remain in place for subordinating regional and local government bodies to national state institutions or de-concentrated state authorities at a local level. This observation applies in particular to Belarus and Azerbaijan, where local governments are subordinated to state power in all but name and hardly any exclusive local competences exist. Local practitioners on the ground have repeatedly raised concerns about the implications of the lack of genuine institutional autonomy for economic development. Local bodies do not possess the required autonomy to tailor economic development and service provision to local needs and specificities.

Political aspects of governance

Even where formal provisions are in place for the separation of local authorities from state power, local autonomy is often compromised because of political manipulation of local authorities by national political parties. Specifically, local authorities complain that the allocation of funding to municipalities is often politicized in that localities with councils and mayors controlled by the national party in power receive preferential treatment in the disbursement of national funding, while others are penalized. For instance, in Armenia, regional authorities (marzpetarans) controlled by the ruling Republican Party (RP) reportedly exercise political powers over heads of the lower level territorial communities (particularly if they are also run by RP), even though formally the latter are not subordinate to the regional bodies. Such practices go beyond the regional authorities’ legally inscribed authority. It should be noted that the politicization of financial allocations to municipalities is not unique to states that have been part of the Soviet Union. Similar patterns have been also observed in post-communist states that have since acceded to the EU like Hungary (Lankina, Hudalla et al. 2007). Such practices undermine the principle of transparency in budget allocations and compromise the municipalities’ capacity for long-term economic planning.
Review of local decision making and freedom of information

Furthermore, effective procedures for judicial review of local government decisions or for adjudicating between state and municipal bodies, and for citizens to obtain information on local finances and laws remain undeveloped. Either appropriate legislation is lacking or is woefully inadequate, or—as is often the case, appropriate legal frameworks are in place, but the courts are not independent. In Azerbaijan, for instance, it is not unheard of for citizens to have protested against municipal decisions in court. However, the judicial system is not independent, and local courts are often beholden to executive power at national and local levels. Where tough legislation has been put in place to scrutinize local decision making to minimize corruption, as has been recently done in Ukraine, local practitioners have complained that it can have adverse effects on local initiative in that genuine attempts to invest in developing the localities—an example that comes to mind would be a municipality pursuing partnerships with the private sector—could be construed as being corrupt.

Procedures for access to information on decision making that might impinge on local governance and development also leave much to be desired though they vary significantly in the six states. For instance, in Georgia, legal provisions are in place obliging state bodies to divulge information on laws and other state acts within ten days. State bodies however often fail to comply with these requests within the specified time frame. Georgia’s judicial system is relatively effective however. Citizens and NGOs are known to have successfully brought court cases against state bodies of power that have failed to respond to “freedom of information”-type requests. In Armenia, considerable variation exists in the degree of openness and transparency among the different bodies of state and local power. For instance, in 2013-2014, the Freedom of Information Centre of Armenia and the Committee to Protect Freedom of Expression recognized the Ministry of Territorial Administration as the most open state body in Armenia. In Moldova, a special law is in place to secure “Transparency in Decision making.” However, the legislation is often opaque—for instance, not all financial data are available online, particularly for the lower levels of municipal authority; furthermore, citizen apathy often puts a break on the development of effective mechanisms of transparency and information sharing with the relevant stakeholders. The result—similar to what has been also reported by practitioners in Armenia—is decision making that is often un-transparent and non-participatory in nature. The level of state responsiveness and transparency is particularly low in authoritarian states like Azerbaijan or Belarus.

The above shortcomings in the relevant legislation on judicial review, in how the laws are implemented in practice, and in access to information have the
potential to significantly hamper local economic development—not least because these shortcomings help perpetuate corruption, red tape, and inefficiencies in addressing local developmental needs and long-term economic planning. Furthermore, a culture shift in participatory attitudes and in greater scrutiny by citizens, businesses, and NGOs of municipal and state bodies is warranted even in the more politically open settings like Moldova, not to mention the regional autocracies like Azerbaijan.

Local government revenue and tax base

All the EaP states suffer from a weak regional and local revenue and tax base, and to a significant degree depend on revenue allocations from national governments. This problem is not so acute for national capital cities, but is particularly severe when it comes to smaller municipalities. In some states—notably Armenia and Ukraine—practitioners report that the share of locally-generated taxes in local government revenue streams has declined over the last decade. This issue is particularly severe in Ukraine, which is suffering from a fiscal crisis. Local taxes constitute an insignificant source of local revenue, as the power to tax is often concentrated at the national level and local authorities have the power to levy taxes on resources that often generate little revenue for the local budgets, often barely covering the salaries of municipal personnel. The concentration of taxation power and streams at the national level puts a break on local incentives to develop local economies and to tailor development programmes to the specificities of particular localities. In recent years, some improvements have been made—notably in Armenia—in terms of the power of local authorities to change the taxes within a certain margin set by the central government, however, the size of the tax to be collected depends to a large extent on national government indicators rather than those set by local authorities. Corruption also affects revenue-generation at all levels of authority. For instance, in Armenia, large companies owned by state officials or their close associates are known to receive preferential tax reductions; this pattern accounts for low rates of tax collection in the country.

Size of municipal authority and territorial consolidation

Territorial fragmentation is an issue which is particularly acute in some EaP states. Consolidation of municipal authorities is often warranted when small municipalities struggle to fulfil their mandate, notably in the provision of complex services like education. Furthermore, in states like Armenia, consolidation is seen as a potentially effective instrument to undermine the
power of corrupt local notables in municipalities with less than 1000 inhabitants. In Armenia, many local practitioners have voiced support for the process of the merger and consolidation of local communities, which had been initiated when the country expressed an interest in signing up to the AA. Although Armenia has since opted for the EEU, as one local expert noted, “we are inspired by Europe, not by Eurasian Union member states.” Similar enthusiasm was voiced in Ukraine for the “Law on the Principles of the State Regional Policy,” recently adopted as part of the process of harmonization of Ukraine’s legislation with EU regulations.

**Corruption, patrimonial, and clan politics**

Corruption is endemic in the six EaP post-Soviet countries. All of these states could be also described as quintessentially patrimonial in that state resources are not allocated based on impersonal, bureaucratic, or ideological criteria, but on personalistic patron-client ties and loyalties (Hale 2015). These ties and loyalties often have a regional dimension to them—an example is Armenia’s powerful Karabakh grouping. Patrimonial politics have implications for economic, and specifically, regional development, as personalistic ties shape the disbursement (and misallocation) of economic resources in a way that favors a particular group, clan, or region. Corruption also plagues small business development at a local level: many local small businesses in Armenia reportedly close down because of the burdens of corruption. In Azerbaijan, where key resources are concentrated in the hands of a small patrimonial elite, small businesses also complain of routine harassment, bribe extortion, and excessive taxation. As noted elsewhere in this report, Georgia has made impressive progress in combatting corruption, and is now ranked far more favorably than the other EaP states in corruption perception indices composed by Transparency International (TI), the corruption watchdog (see Table 1). The current government of Ukraine, which appears as the most corrupt EaP state in TI’s 2014, rankings, has identified the fight against corruption among its leading priorities, recently adopting a law on the “Prevention and Combating of Corruption.” However, it remains to be seen whether such legislation is effective in combatting corruption, rather than serving as an instrument of witch-hunt against opponents of politicians and powerful economic groupings at various levels of authority.
Table 1: Transparency International Corruption Perception Index, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>2014 TI Corruption Perception Index (out of 174 countries; higher rank indicates higher levels of corruption)</th>
<th>TI Corruption score (Higher score indicates lower perceived levels of corruption)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>142</td>
<td>26</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>126</td>
<td>29</td>
</tr>
<tr>
<td>Belarus</td>
<td>119</td>
<td>31</td>
</tr>
<tr>
<td>Moldova</td>
<td>103</td>
<td>35</td>
</tr>
<tr>
<td>Armenia</td>
<td>94</td>
<td>37</td>
</tr>
<tr>
<td>Georgia</td>
<td>50</td>
<td>52</td>
</tr>
</tbody>
</table>

Poverty and under-development

The painful transition from communism to market capitalism has had severe repercussions for the economies of EaP states, which continue to generate pressing challenges for economic development. The energy resource-poor economies like Moldova, Georgia, and Armenia have been particularly hard-hit by the transition, while in Belarus, development has been hampered by stalled reforms, the concentration of industry in state hands, and lack of industry competitiveness due to preferential access to Russian markets. The dependence of these states on Russia for energy supplies—often over-priced, but even when provided at subsidized rates—has been a double-edged sword. For instance, Moldova’s payment arrears to the Russian energy giant Gazprom reportedly amount to some $5 billion—largely due to accumulated arrears in the breakaway Transnistria region. In Armenia, Russia has leveraged the payment arrears as part of a bargaining strategy to acquire control over strategic national resources—energy grids, nuclear plants, rail systems, etc. Belarus has benefitted from Russian subsidized energy supplies, yet in recent years Russia has sought to renegotiate the arrangements demanding high payments for oil. Under Russian pressure, Belarus has also agreed to sell its remaining shares in the natural gas pipeline operator Beltransgaz to Russia, in exchange for lower gas prices. With the exception of Belarus, the economies of EaP states continue to suffer from the repercussions of ongoing or frozen territorial conflicts. The Armenia-Azerbaijan conflict over Nagorno-Karabakh resulted in sealed borders between Armenia and two of its neighboring states; only Armenia’s borders with Iran and Georgia are now open. As noted repeatedly by practitioners in Armenia, border closure is a significant impediment to trade and development.

In Moldova, Transnistria’s de facto status as a breakaway region means that Moldova lacks control over key industrial assets concentrated there. The de facto separation of Abkhazia and South Ossetia from Georgia has resulted in a loss of revenues from access to transportation arteries and customs duties. These conflict legacies serve to exacerbate the dependence of EaP states on remittances flows from, and trade with, Russia.

At the same time, as noted above, the economic dependencies on Russia also leave these states vulnerable to the vagaries of the strength of the Russian economy and the ruble. Local practitioners have reported that the repercussions from Russia’s recent economic woes have been felt very strongly at a local level. For many localities, seasonal labor migration to Russia represents a key source of employment, while remittances represent a sustenance lifeline for families of migrants left behind. Remittances also boost local economies. For instance, in Moldova, remittances reportedly amount to $1.6 billion annually from some 1 million migrants working in Europe, Russia, and the other former Soviet states. These sources of sustenance for the local economies have been drying up as migrants started to return home when the value of the Ruble fell and demand for migrant labor shrunk.

---

3 Ibid.
Part 3: Political Situation and Decisions and their Impact on the LRA’s Economic Development in the EaP Countries

The 2009 Eastern Partnership process has done much to invigorate relations between the EU and the six post-Soviet states, promoting trade, bilateral and multilateral relations, and incentivising greater commitment to democratic governance. Although the EaP countries have expressed their interest in increasing political, economic, social and cultural links with the EU, significant practical challenges remain on the way to the implementation of the provisions laid out in the AAs and those related to the DCFTAs. Below we discuss how the wider geopolitical and domestic political-institutional environments impinge upon LRA’s economic development in the EaP countries.

Challenges to democracy, rule of law and institutional reforms

A significant impediment to effective local governance remains weak commitment to democracy and rule of law. As repeatedly noted in scholarship on the EaP and ENP, the EU has never systematically pursued democratic conditionality in the respective countries (Freire and Simão 2013; Hagemann 2013). Furthermore, for many states, the adoption of EU norms is associated with significant bureaucratic challenges and implementation costs, which have to be weighed against the eventual long-term benefits of complementarity with EU legal, bureaucratic and governance frameworks, and against the reality of lack of even medium-term prospects for accession to the EU (Buzogány 2013). Where political will to nurture democratic institutions at national, regional and local levels is present—and actively encouraged by the EU—, governance is often hampered by elite capture, clientelism, and corruption. Soviet-era legacies of centralised management continue to plague attempts to develop genuine autonomy of regional and local authorities. Even where genuine autonomy of regional and local authorities in decision-making and fiscal matters is present in the relevant legal documents and constitutional provisions, local authorities complain of lack of resources to carry out their assigned responsibilities and often report de facto high levels of control over local governance exercised by state bodies.
Wider regional geopolitics

The wider geopolitics of the region also significantly affect the course and progress of the implementation of AAs and DCFTAs at regional and local levels. With the exception of Belarus, all EaP states have ongoing, unresolved, or “frozen,” territorial conflicts involving minority ethnic groups. Russia remains a significant player in all of these conflicts. Russia’s influence manifests itself in several ways. Russia is a key energy supplier for most EaP states. It represents an important source of funding for breakaway entities with ethnic Russian populations or groups—like the Gagauz in Moldova—with religious, cultural, or linguistic ties to Russia. It is also a host to hundreds of thousands of migrants from EaP states, thereby playing an important role in supporting the EaP states’ economies via remittances flows. Any escalation of tensions between Russia and EU member states threatens to put these migrants at risk thus reducing the incentives of these countries to develop their relations with the EU. Russia also directly or indirectly supports aspirations for institutional autonomy of regions with Russian-speaking populations, or—as in the case of Crimea—their outright secession. Russia seeks to influence electoral outcomes not just at the national, but also at local levels of authority, to ensure the representation of pro-Russian economic and political interests in states and regions that have articulated their commitment to the EaP framework. Russia’s economic involvement and self-imposed role of protector of the “Russian World” provides it with important leverage in negotiations over the regional institutional architectures of EaP states. Specifically, Russia has articulated its preference for the federalisation of states with territorially concentrated Russian-speaking minorities like Moldova and Ukraine. While genuine autonomy of sub-national territories with minority ethnic groups would be in the spirit of the EaP’s fundamental values, Russia’s own domestic record of recentralization and the undermining of genuine local autonomy over the last decade casts doubt over the sincerity of commitment to advancing these values in its neighbourhood. Because regional economies—particularly in break-away entities like Moldova’s Transnistria or Georgia’s South Ossetia and Abkhazia—are to a significant extent integrated with Russia, Russia has taken the position that any adverse effects of the DCFTAs on trade with it would have to be taken into account in the process of their implementation.

Below, we provide a summary of how the wider geopolitical and domestic political variables translate into specific challenges to LRAs as they pursue the objective of economic development, in each of the six countries.

- **Ukraine**: Ukraine has been frequently referred to as a leading ENP state in terms of its willingness to incorporate, and adapt, EU norms and standards (Buzogány 2013). Ukraine and its LRA’s capacity to pursue economic
development prerogatives however have been significantly hampered by political instability following mass protests and the ousting of the former President Yanukovich in 2013-2014; Russia’s annexation of Crimea; and the ensuing military conflict in Eastern Ukraine’s breakaway regions. Political crisis only exacerbated the country’s economic woes stemming from years of economic mismanagement, corruption, and stalled reforms. Because of the ongoing instability and economic crisis, local practitioners on the ground complain of severe setbacks in their ability to pursue long-term economic development planning.

Although the present government has articulated a strong commitment to economic reform, the state retains a strong role in regulating business and economic activity. This in turn does little to facilitate the implementation of the government’s objective of reducing corruption as over-regulation facilitates graft and bribery. Despite the government’s commitment to reform and attracting foreign investment to promote regional development, national-level political instability and economic crisis discourage foreign investment. These problems are magnified in Ukraine’s eastern break-away regions, which are now de facto ruled by Russia-supported rebels. For the local authorities and ordinary citizens in these regions, the pressing issue is survival and continued provision of basic social services, not issues of long-term investment, trade, and development.

Moldova: Moldova’s fragile parliamentary democracy has withstood numerous setbacks, and, following the recent parliamentary elections that brought a pro-European government to power, it is set to continue on its trajectory of political and economic reform. Nevertheless, like other EaP states, high levels of corruption continue to plague governance at national, regional and local levels of authority. Corruption in Moldova has been described as a “threat to national security that “hampers the government’s performance and puts European integration in jeopardy.” In 2010, the European Commission noted that “only limited progress was observed in the fight against corruption, and more sustained efforts are needed.” In recent years, as documented by TI, Moldova has made some progress in combatting corruption however national governance has been plagued by high levels of state capture, whereby leading businessmen secure important positions in structures of power, or otherwise indirectly control power-holders and influence their decisions (Tudoroiu 2014).

The alternation in power between pro-European parties and parties with a communist orientation also meant that pendulum swing-like setbacks has characterised the implementation of local government legislation. Specifically, in the late 1990s, as part of Moldova’s aspiration to bring its
legislation into conformity with EU standards and to develop effective structures of regional development, legislation was passed aimed at promoting genuine local governance. When a new communist government came to power in 2003, a quasi-Soviet system of local administration centralising power and undermining local power was restored. In the 2007 local elections, the government threatened to penalise municipalities that did not vote for Communist Party candidates. Following elections, the government resorted to preferential treatment of municipalities with communist mayors, channelling funding to them (Hagemann 2013). Moldova’s economic dependence on Russia has provided Russia with powerful leverage over the country’s economy. Russia is Moldova’s leading export destination for wine (80%). Moldova is also dependent on Russia for energy supplies (98%). Russia has on a number of occasions exploited these dependencies imposing economic embargoes and pursuing other forms of blackmail against Moldova (Hagemann 2013). The issues surrounding the breakaway region of Transnistria also shape governance in Moldova’s other regions, notably in Gagauzia. In what some scholars have described as a “marriage of convenience,” the leadership of Transnistria, supported by Russia, has encouraged the aspirations of the Gagauz minority group for greater autonomy, and has pressed for Moldova’s federalisation (Wöber 2013). The political issues surrounding the status of regions with ethnic, linguistic and cultural ties to Russia create uncertainty and potential for regional instability, which hampers long-term economic planning.

• Belarus: Belarus has been described as a “semi-sovereign nation” due to its strong political and economic ties with Russia—specifically preferential access to Russian markets and subsidised energy supplies —, and its reluctance to antagonise Russia in the conduct of foreign policy (Hancock 2006). In 1997 Belarus became subject to “restricted” political relations with EU and in 2006 the EU imposed a visa ban and asset-freeze affecting members of the Belarusian government complicit in electoral misconduct and political repression. The EU resumed political rapprochement with Belarus in 2008, but imposed sanctions again in 2011 (Babayeva 2014). Belarus has been an EaP country comparatively removed from Europeanisation processes, and has therefore lacked the incentives to articulate its commitment to EU standards of genuinely democratic regional and local governance.

Belarus is an authoritarian state. State power is concentrated in the hands of President Alexander Lukashenka, who became the country’s leader in 1994, and who has consolidated his rule by resorting to repression and intolerance

for opposition parties and political dissent (Babayeva 2014). Regional and local authorities do not exercise power independently of state bodies of authority and are politically dependent on the national centre. Belarus never formally announced an intention to commit to the EU AA and to the DCFTA. Few systematic assessments have therefore been made about the effects of these agreements on regional and local governance, trade, investment, and economic development. Belarus has couched its opposition to the DCFTA in economic terms, citing the negative impacts the Agreement might have on its machine-building, textiles, chemical, automobile and other industries and potential implications for the labour force of economic restructuring. Belarus’s political and economic ties with Russia however are also important factors in the country’s position on EaP and DCFTA. In 1996, Belarus signed a Treaty on the Union of Belarus with Russia, which envisaged a joint currency, constitution and economic planning (Babayeva 2014). Belarus is also a signatory to the Russia-led EEU. Russia’s perception of membership in the EEU and involvement with the EaP process as a zero-sum game is bound to complicate any potential future attempts for Belarus to pursue a multivector policy that would combine commitment to the EEU with genuine progress on the road to Europeanisation via the EaP process. Nevertheless, Belarus is a significant recipient of aid from some EU member states and democracy promotion initiatives, notably Germany (Babayeva 2014).

• Georgia: Following the 2003 Rose Revolution, Georgia has made significant progress on the road to advancing democratic governance and rule of law, most recently, in 2013 enacting Constitutional changes limiting the power of Chief Executive and changing the system of government from strong Presidential to semi-Presidential system. Important changes were also introduced to the local government legislation in 2014, promoting greater independence of the municipal level of authority from state power and ensuring wider involvement of the electorate in democratic governance through popular election of mayors at various territorial levels. Georgia, which initiated a policy of crackdown on corruption in 2005 under the former President Mikheil Saakashvili, is also frequently cited as a “poster-child” among the non-Baltic post-Soviet states in fighting corruption (Di Puppo 2014). In 2007, the World Bank has named Georgia the “world’s top reformer” as part of its global assessment exercise on the “Ease of Doing Business.” Yet, Georgia’s democracy has been fragile in the past years as politicians have been accused of resorting to harassment of political opponents, limiting media freedom, and the repression of political opposition—often under the guise of fighting corruption (Di Puppo 2014). Some progress has been made in promoting pluralism in local decision making as the EU has encouraged the development of civil society and NGO work with local authorities at a grassroots level (Rommens 2014). Yet, local
government decision making has been also criticised for being hostage to control by national politicians; there is a strong tendency for local assemblies to be colonised by representatives of the national party in power. Wider geopolitical factors also have an important bearing on regional governance. Georgia’s 2008 war with Russia resulted in the consolidation of Russia’s de facto control over the breakaway regions of Abkhazia and South Ossetia—strategically important regions and trade and transit hubs. The separation of these regions has significant implications for revenue streams from trade and customs duties, as does economic blackmail that Russia has resorted to in the past when Georgia has sought to re-establish control over these territories.

- **Azerbaijan:** As a major oil supplier, and a country that is poised to become the world’s—and Europe’s—most important gas supplier in the near future, Azerbaijan is among the wealthiest post-Soviet countries. Yet, energy revenues have been a mixed blessing from the point of view of both local term economic development and democratic governance (Öge 2014). The oil and gas industries generate notoriously little employment. There are already signs of a “Dutch Disease,” whereby energy revenues inflate the value of currency, while reducing the competitiveness of industries not related to oil and gas production. Revenues from energy have facilitated the consolidation of authoritarian and patronage-based form of government of the Aliev dynasty, which relies on political repression and intimidation of opponents to stay in power. Azerbaijan is also one of the most corrupt countries in the region (Waal 2010). In 2014, Azerbaijan has been ranked 127th in TI’s Index of Corruption Perceptions, which is a very low rank even compared to other oil-rich states (Öge 2014). There is very little of genuine local governance to speak of, as the municipal level of authority is tightly controlled by parallel state structures at a local level, which are in turn controlled by central government bureaucracies. NGOs do not provide checks on state power at local levels of authority, and most are in fact controlled by the central government (Öge 2014). There is evidence to suggest that unlike Turkmenistan, the other regional energy-rich dictatorship, Azerbaijan seeks to promote an image of transparency in the management of its oil resources. Specifically, following the signing of the first major oil contracts in 1995, Azerbaijan has pursued governance reforms aimed at strengthening banking governance, improving the tax code, accounting, and internal and external auditing capacity (Öge 2014). These efforts however extend less to non-energy sectors of the economy and do not represent a move towards democratic governance.

Wider regional geopolitics are also bound to affect Azerbaijan’s stance on EaP and DCFTA. Azerbaijan has sought to steer its foreign policy—and energy politics—away from Russia’s influence. The construction of the
Southern Gas Corridor linking Azerbaijan’s gas network with Europe; and the operational Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Supsa pipelines significantly alter regional geopolitics in that these alternative routes reduce Russia’s energy leverage over post-Soviet states. Nevertheless, Russia continues to be an important player in the negotiations over the resolution of the dispute over the breakaway territory of Nagorno-Karabakh. The Nakorno-Karabakh issue continues to cast a shadow over Azerbaijan’s relations with Armenia, while also providing Russia with important leverage over the foreign policies of both Armenia and Azerbaijan.

**Armenia:** Armenia had been among the most industrialised territories of the former USSR, and consequently had been hard-hit by the disintegration of Soviet-era economic ties. An earthquake in 1988 badly damaged Armenia’s industrial north. Rapid economic decline in the 1990s reduced trust in state and public institutions to an all-time low. According to the CRRC Caucasus Barometer, in 2013, 14% of Armenians expressed trust in the government, compared to 38% in Georgia and 56% in Azerbaijan. Armenia’s politics could be characterised as “hybrid” in that democratic institutions are in place, but elections are marred by irregularities, political intimidation, repression and even violence; the political opposition does not enjoy a level playing field in the electoral process. Corruption, clan politics and nepotism are also rampant.

Armenia is not a signatory to the AA. While Armenia’s leadership has discussed signing the AA, and is already benefitting from the certain relevant financial incentives in the form of developmental assistance, experts agree that it is unlikely to opt for signing the DCFTA in the immediate future. Although Armenia became a signatory to the ENP Action Plan in 2006, and joined the EaP process in 2009, Armenia’s relations with Russia influence the degree of its rapprochement with Europe (Freire and Simão 2013). Armenia has been described as “Russia’s Israel” (Suny 2010) due to Russia’s economic and security support and perceived endorsement of Armenia’s position in the issue of Azerbaijan’s breakaway region of Nagorno-Karabakh, which has a majority Armenian population. Although Armenia’s politicians are known to have grown vary of Russia’s influence, the country, heavily dependent on Russia’s energy supplies and trade, and whose political establishment profit from emulating Russia’s model of “managed democracy” (Freire and Simão 2013) continues to tread carefully in how far it pursues a European foreign policy orientation.
Part 4: Policy Recommendations

This report concludes by outlining a series of policy recommendations that have been developed in light of the preceding examination of the potential costs and benefits of the implementation of AA/DCFTAs in Georgia, Moldova and Ukraine within the broader context of the development of EU relations with the EaP countries, and of the exploration of economic and political developments in the Eastern Partnership countries and their impact at the sub-national level. The recommendations are based on the recognition that for the implementation of the AA/DCFTAs in Georgia, Moldova and Ukraine to proceed smoothly and successfully, and for the EU continue to develop productive relations with other EaP countries in the future there is work to be done by all partners in the relationship. They are divided into four key areas: (i) the EU in Brussels, (ii) the EU delegations in the EaP partner countries, (iii) Central governments in EaP countries and (iv) Regional and local governments in EaP countries. Furthermore the recommendations are divided into those directed at all EaP countries and those geared towards Georgia, Moldova and Ukraine, countries which are in the process of implementing the new generation of AA/DCFTAs.

The EU in Brussels

For EaP countries

In its interrelations with the countries of the EaP the EU must tread a careful balancing act between respecting the diversity of political economies in the region and tailoring its responses accordingly, and supporting countries to fulfil commitments in their action plans or under the AA/DCFTAs.

EU officials in Brussels need to be mindful of the fact that the _acquis communautaire_ has been developed in the context of the advanced market economies of Western Europe and that the countries of the EaP are at different stages of marketization and with considerable diversity in their political systems. As such, a phased approach to approximation and implementation of action plans and AA/DCFTAs is likely to yield more positive results.

Given that all EaP countries have high levels of corruption and generally poor records in terms of the rule of law and government effectiveness, the EU needs to work with Georgia, Moldova and Ukraine and other countries implementing Action Plans to support civil service reform, to strengthen the rule of law, build independent and accountable judicial structures at all territorial levels and design and implement effective anti-corruption strategies.
The EU needs to take into account the different degrees of centralisation and decentralisation in sub-national governance arrangements in EaP countries and design policy responses and target technical and financial support accordingly.

The EU needs to be careful about its use of discourses around democratic liberal values as (depending on how these are translated and used) these can generate a backlash in EaP countries and hamper the further development of economic relations between the EU and its partners.

The EU should demonstrate a commitment to supporting the reform process in EaP countries like Armenia some of whose political elites, while hesitant to opt into joining the AA and DCFTA because of geopolitical imperatives stemming from vulnerability to Russian pressure, support a European vector in the country’s foreign policy orientation.

The EU should continue to support liberalisation of visa regimes to enable effective interactions and learning among regional and local elites.

**For AA/DCFTA countries**

The EU Commission in Brussels and all the Directorate-Generals involved in different aspects of the AA/DCFTAs need to develop their own internal capacities and knowledge about regional and local economic developments in countries in the EaP, particularly in Georgia, Moldova and Ukraine.

The EU should develop a set of clear and consistent benchmarks for the articles of the AA/DCFTA relating to the responsibilities of regional and local government to support them in the difficult and complex adjustment and implementation processes.

At the same time, the EU should make it clear to the national elites that evidence of genuine progress in the reform process is required as a condition for further technical and financial support. In other words there needs to be a clear transparent reward structure with clear measurable benchmarks linked directly to ensuing financial support.

While being careful about employing the rhetoric of democratic and liberal values, the EU should develop a more effective strategy for communicating the economic benefits of the proposed reforms in regional and local governance—e.g., in the consolidation of local authorities; or in fiscal decentralization—to the relevant leaders and government stakeholders.
EU Delegations in EaP countries

For EaP countries

EU delegations should work more closely with its counterparts in the EaP countries to support monitoring of the implementation of legislation and to encourage cooperation between different units and levels of government.

EU delegations should draw on the expertise of existing member states to support the development of effective legal frameworks and corresponding procedures for judicial review of local government decisions and for adjudicating between state and municipal bodies.

EU delegations should support the development of mechanisms, which enable citizens, businesses and NGOS to obtain information on local finances and thus scrutinise the work of municipal and state bodies.

EU delegations should involve trade unions, consumers, businesses and other civil society organisations in their activities and in ongoing dialogue.

EU delegations should seek to “train a generation of trainers” inviting government officials to Brussels from across the EaP region to develop expertise in the approximation and implementation of key chapters of the acquis.

The EU should cooperate with other international organisations (EBRD, IFC, WB, UNDP) to effectively target support at the sub-national level.

EU funds (ENPI, ENPARD, ENI and others) need to be better targeted at the regional and local level and linked directly to the implementation of specific articles in different areas of economic development and to upgrading the quality of infrastructure.

For AA/DCFTAs countries

EU Delegations could usefully put pressure where appropriate on national executive structures to provide increased funding to regional and local levels to support processes of technical and regulatory alignment.

Given the limited knowledge of the EU outside certain government branches, EU Delegations need to organise information seminars and workshops for regional and local policy-makers and stakeholders to explain the complex
chapters, articles of the acquis including regulatory approximation in TBT and SPS standards, protection of IPR and engage stakeholders in developing workable plans for their implementation.

EU delegations should support regional and local levels in the planning and implementation of the articles of the acquis – including prioritisation of particular areas given their lack of administrative and financial capabilities to implement all the necessary articles in the short-term.

EU delegations should develop a more effective strategy for communicating precisely how local producers, otherwise oriented towards, and depended upon, Russian markets due to Soviet-era ties, could access the EU markets, and the benefits that would ensue from that.

Given the short-term and likely adjustment costs and accompanying socio-economic pain, the EU may want to consider providing additional contingency funding to support AA/DCFTA countries in this process.

Twinning programmes need to be extended and broadened out to enable twinning partnerships at the local and regional level – to support the strengthening of administrative capacities enabling the registration of new businesses and the implementation of acquis articles in the area of TBT and SPS.

Reverse secondments could also be introduced to enable government officials at all levels to spend time in EU member states to learn about practice in relations to the economic acquis in partner countries.

Central governments in EaP countries

_for EaP countries_

Central governments need to strengthen administrative capacities and prioritise the rule of law, due process and judicial procedures at the central and local level. This is absolutely critical to economic development at the local level.

Central governments should review, streamline and make more transparent taxation systems.

Central governments should support the development of mechanisms through which citizens, businesses and NGOs are able to obtain information on local
finances and thus scrutinise the work of state bodies at the regional and local levels.

Central ministries should support sub-national authorities to encourage the diversification of production at the local level through developmental support, tax breaks and other financial advantages.

Central governments should involve regional and local authorities and stakeholders in negotiations and discussions with EU counterparts as a means of supporting processes of Europeanisation and socialisation and to counter their current marginalisation from the EU-partner country relationship.

**For AA/DCFTAs countries**

Central governments need to develop concrete plans for the support of domestic agriculture – there are potential risks both in terms of the dominance of grain production at one end and the prevalence of small individual producers who risk being pushed out of production due to the costs of adjusting to European quality standards.

Governments in the region which have signed up to the AA/DCFTA need to explore ways of “doing business/cooperating” with neighbouring countries who are signatories to the EEU. The complex regional dynamics mean that governments have to navigate a path between Brussels and Moscow though this is likely to take a different form in each country. Given the regional geo-economic situation Moscow is likely to remain an important trading partner as well as energy provider.

Central governments should ensure that sufficient financial resources are transferred to the regional and local levels to upgrade local infrastructure and support the implementation of the *acquis*.

Central, regional and local governments need to organise workshops and information seminars to inform local producers, small business owners and potential new business owners about the *acquis* and changes that will need to be introduced depending on the sector as well as about procedures for setting up and running businesses.

Regional and local actors should be invited to attended Association Council and other Committee meetings on a regular basis.

Central governments need to encourage cooperation and collaboration among regional and local governments and other stakeholders to share resources and
achieve economies of scale in the processes of approximation and implementation.
Regional and local governments in EaP countries

For EaP countries

Regional and local governments need to develop their knowledge and capacity so that they can apply for EU funding to support approximation processes and other infrastructural development projects at the local level.

Regional and local governments need to develop more transparent systems of monitoring and accountability.

For AA/DCFTAs countries

Regional and local governments need to develop their knowledge and expertise about the EU and its activities so they are in a position to communicate to local stakeholders about the potential benefits of adjusting to EU standards, implementing the economic acquis and participating in the EU single market.

Regional and local governments need to organise workshops and information seminars to inform local producers, small business owners and potential new business owners about the acquis and changes that will need to be introduced depending on the sector as well as about procedures for setting up and running businesses.

Support should be given to small local producers to enable them to upgrade their production capacities and where possible put in place technologies to meet the complex SPS.

Regional and local actors should be invited to attend Association Council and other Committee meetings on a regular basis.
Annex A: Division of Powers fact sheets
Armenia

Armenia is a semi-presidential republic. The president is the head of state, and enjoys wide powers. The government exercises executive power, and is composed of ministers led by a prime minister.

The single-chamber National Assembly (parliament) is the supreme legislative authority of Armenia. The parliamentary majority nominates the prime minister, subject to approval by the president and after consultations with parliamentary factions. The president appoints and dismisses members of the government (ministers) based on the prime minister's recommendations.

There are two levels of territorial authority in Armenia – the central government (*karavarutyun*) and the local level – community (*hamaynk*). The regional/provincial administration is part of central government; there is no separate budget or plan for this level of authority. A state representative is appointed for each province (*marz*). The provincial administrations (*marzpetaran*) de-facto operate as intermediaries between local citizens and community-level authorities, on the one hand, and the central government, on the other. Governors of provinces are nominated by the prime minister, subject to approval by the parliament.

The community level is the only self-government level in Armenia. Armenia is divided into 915 communities, including 866 villages, 48 towns and the capital Yerevan. Each community, with the exception of Yerevan, elects its major (via a direct system) and a legislative body (municipal council) called a ‘council of elders’ (*avaganu khorurd*). Every community in Armenia elects its own municipal council (legislative body).

Yerevan is a single community with a different law: it elects its municipal council via a proportional representation system, and the council then elects the mayor. Yerevan’s municipal council is elected based on party lists (proportional vote). In Yerevan, the person who heads the list of the party that won over 40% of the vote automatically becomes mayor.

Local authorities include the municipal council (council of elders) and the head of the community (mayor) who heads the community administration. The mayor nominates members of the community administration subject to approval by the municipal council. In small communities it often happens that the council does not in fact have any leverage over the appointment of administrative staff.
Key stages in the evolution of local governance legislation

- 1995 – Adoption of the Constitution of Armenia that established the local governance system.
- 1995 – Creation of the modern administrative-territorial division of Armenia.
- 1996 – Adoption of the Law on Elections of Local Self-Government Bodies; conducting the first elections to local self-government bodies.
- 1997 – Adoption of the Law on the Budget System, which includes items regulating municipal budgets.
- 1998 – Adoption of the Law on Financial Equalization, which defines the amounts and procedures for allocating state subsidies to municipalities.
- 1999 – Adoption of the Electoral Code, including items regulating elections to local self-government bodies.
- 2004 – Adoption of the Law on Municipal Service.
- 2005 – Amendments to the Constitution, including more freedom for communities to set their own taxes and the establishment of the capital city Yerevan as a separate community (beginning in 1995, each of Yerevan’s districts is a separate community).
- 2007 – Launch of a digital Community Management Information System by the Ministry of Territorial Administration of Armenia with support from GTZ (Deutsche Gesellschaft für internationale Zusammenarbeit). By mid-2014, more than half of local communities had been using this system.
- 2008 – Adoption of a Law on Local Self Government in Yerevan City, finally implementing the decision of the 2005 constitutional amendments. Under the new law, the city of Yerevan became a community, whereas the districts of Yerevan lost the status of communities.
- 2008-2010 – Amendments to the Law on the Budget System, which increased the levels of discretion of local authorities.
- 2008-2014 – Preparations to implement a reform that envisaged merging small communities across the country in order to enlarge communities and reduce their overall number.
- 2013-2014 – The Freedom of Information centre of Armenia and the Committee to Protect Freedom of Expression recognized the Ministry of Territorial Administration as the most open state body in Armenia.
- 2014 – The Ministry of Territorial Administration was merged with the Ministry of Emergency Situations. The minister of territorial administration resigned, the former deputy minister became deputy minister of the merged body, thus becoming the de-facto head of territorial administration, albeit without ministerial rank.
Chapter 7 of the Constitution is dedicated to Local Self-Governance, which includes the following:

- **Article 104**: ‘Local self-government shall be exercised in the communities’. [...] Article 104.1: ‘A community shall be a legal entity, have the right to own property and other economic rights’. [...] 
- **Article 106**: ‘The community shall generate its budget independently. [...] Communities shall establish local taxes and duties within the scope defined by law. Communities can set forth fees for their services’. 
- **Article 110**: ‘The law shall define the principles and procedures for consolidation or separation of communities, as well as the terms for the election of local self-government bodies of the newly-formed communities’.

Armenia also has a law on ‘Local Self-Government’, which contains the following:

- **Chapter 7 of the Law on ‘Local Self-Government’** is dedicated to relations between state and local government bodies. It lists the governmental units in the communities (head of the community, Yerevan mayor, and the municipal council).
- **Chapter 2** describes the functions of the municipal council.
- **Chapter 3** describes the status and functions of the head of the community and their administration, while Chapter 4 defines the power of the head of the community.

Chapter 5 of the **Law on ‘the budgetary system’** defines the procedures for the composition of local budgets and expenditures.

Chapter 2 of the **Law on ‘taxes’**, which was added in 2010, describes the size of local taxes. Article 13.2 states that a community collects land and property tax, but its size depends on its cadastral price and can be reviewed in some cases by the community in each particular case.

According to the law, a budget is proposed by the municipal council and by the head of the community. The law stipulates that the budget draft must be discussed with any members of the community who wish to participate in the decision-making process. In practice, the budget is usually decided upon by the mayor.

The involvement of the municipal council in the process is usually minimal, mostly due to low motivation. The community council members are not paid; besides, in most small communities, the budget expenditure is composed
primarily of administrative costs (up to 90% for communities with less than 500 inhabitants), so that there is little or nothing to discuss.

Community incomes are composed mainly of land tax, property tax, tax on hotels, license payments, compulsory payments of goods, services and rendering a service. Central government sets the margins (minimum and maximum value) of the land and property tax however, the right to decide the size and basis for these taxes belongs to the community. Local administrations mostly rely on these mechanisms when drafting the budget. They are also allowed to draw on other sources of income ()

Local government bodies perform some state service functions (like primary and pre-school education). The relevant costs are covered by transfers from the central budget. State obligations and administration costs take up most of the communal budgets.

General Division of Powers

Central level

The president is the head of state and has supreme authority over the entire government and state bodies. The National Assembly has legislative power; it adopts laws and approves the state budget.

The government (including the Ministry of Territorial Administration and Emergencies) is directly involved in self-government issues, including in the provision and supervision of funding. The Government appoints the heads of provincial administrations.

Local level

At the level of provinces (marz), there are administrative bodies (marzpetaran) that represent the central government. This is not a separate level of governance. Under the law, province administrations operate as consultative bodies for municipalities. The municipal council has the right to approve or reject the community budget in the presence of the mayor. In most small communities the council does not have any say with regard to the budget.
a) Local exclusive competences

- Pre-school education;
- waste management;
- cultural activities;
- local administration financing;
- town beautification.

b) Competences shared with the central government

- Infrastructure projects including road maintenance;
- utilities (water, gas, electricity);
- agricultural activities;
- social welfare for the very poor;
- services;
- economic affairs (including support for local businesses).

c) Any delegated functions by the central government:

- Financing of schools and universities,
- all social welfare except the above (including old age pensions),
- financing of the army,
- the police and courts,
- healthcare.

**Systems of multilevel governance**

**Representation**

LRAs are not directly represented at the national level however, there is a Communities Association of Armenia (caa.am), which unites and represents local communities. It serves both as an NGO and as a think-tank. It is involved in advocacy and cooperates with the government on local governance issues at the national level.

**Information:**

During the legislative process, the LRAs obtain the information directly concerning them via letters from the corresponding department of the Ministry of Territorial Administration and Emergency situations. Other information is located on the MTA website, which is considered to be the most informative site of a state body in Armenia (see http://khosq.am/en/monitorings/preliminary-results-of-the-2014-monitoring-of-
official-websites-of-the-ra-state-bodies). When the most important reforms are being implemented, the ministry or NGOs use direct communication and organize workshops for representatives of local self-government bodies.

All laws are posted on the parliament’s website (www.parliament.am) in three, and sometimes four, languages: Armenian, Russian, English and optionally French. However, in the case of most legal amendments, only Armenian versions are available. There is also an Armenian-only website (www.arlis.am) that hosts all current legislation, with all amendments. Most laws, especially those concerning budgets and finance, are widely available in print form in kiosks and in book stores (mostly in Armenian).

The laws concerning municipal budgets have been in the stage of development during the last decade and especially over the last 5 years.

Consultation

There is a deliberative body, Regional (Marz) council, which operates under the authority of the Regional Governor (Marzpet). The council consists of the Heads of Communities (Mayors) and the Regional Governor. In Armenia, there is only one level of local government, and the Regional Governor is a representative of the central government at a local level, rather than constituting a local self-governing authority. The council facilitates direct communication between the national and local authorities. However, the council has consultative powers, rather than being directive in nature.

Coordination

The coordinating body meets on a regular basis (once a month) and represents mayors of all municipalities, regardless of their size. The body is a council of Marzpet (Regional Governor), who is meeting the communities’ mayors.

Relations with the EU/Representation at EU level

Armenia was one of the countries preparing to sign an Association Agreement with the EU in 2013. By June 2013, all negotiations, including those concerning harmonization policy, had been completed. However, Russia opposed Armenia becoming signatory to the AA. After negotiations with Russia and following a large-scale arms trade deal between Azerbaijan and Russia, the Armenian president declared Armenia's willingness to join the Customs Union/Eurasian Economic Union. Nevertheless, Armenia declared its intention to continue negotiations with the EU and to proceed in that process as far as possible, while taking into consideration the changed circumstances. Armenia's preference was
to sign only the ‘political ‘part of the AA, excluding its economic dimensions, but this arrangement was not agreed upon in 2013. Since then, there has been progress on visa facilitation issues, and Armenia has adopted a visa liberalization plan. In 2014, taking into consideration the objective and subjective rationales for Armenia's decision, the EU declared its willingness to continue working on integration policy and by the end of that year, the EU allocated €140-170 million for Armenia's reform and capacity building plan in 2014-2017. This funding will be spent on private sector development (35%), public administration reform (25%), justice sector reform (20%), and complementary support for capacity development and civil society (20%). In 2015, negotiations commenced once again. In May 2015, the president of Armenia, Serzh Sargsyan, visited the Riga EU-EaP summit. He took part in all of the discussions, declaring ‘common understanding on the scope for a future agreement between the EU and Armenia’. Armenian officials hope to complete the negotiations by the end of 2015.

Local authorities have been represented at the EU level in the Conference of Regional and Local Authorities for Eastern Partnership (CORLEAP). Armenia also has a diplomatic representation in Brussels.

**Subsidiarity**

Subsidiarity is an EU principle embodied in the EU treaties. As such, it is not applicable to Armenia.

**Bibliography**


The Constitution of Azerbaijan states that it is a presidential republic with three branches of power – executive, legislative and judicial. The President of Azerbaijan is the head of executive power of the Republic of Azerbaijan. The President appoints the Prime Minister and members of the Cabinet of Ministers, with further approval from the parliament. The President also appoints heads of Local Executive Authorities. The President submits the budget of the country to parliament for approval. The President also submits candidacies for the Head of Courts (Constitutional; Appeal and Supreme), the Head of the Central Bank and the Ombudsman, to parliament. The President appoints the judges of the local court without the approval of parliament. The President is elected for a 5-year period without term limitations (Constitution of Azerbaijan Republic, Article 109). The Parliament of Azerbaijan, called Milli Majlis, consists of 125 deputies. It is elected based on a majority voting system, with a term of 5 years for each elected member. Responsibilities of the parliament include, but are not limited to, the adoption of laws, budget and other initiatives. The Parliament is not responsible for the formation of government, but the Constitution stipulates that the Cabinet of Ministers is to be approved by the Milli Majlis (Constitution of Azerbaijan Republic, Articles 104-107).

The Law on Municipal Elections and the Law on the Status of Municipalities were the first local government laws to be adopted (July 2, 1999). The Law on Municipal Elections sets forth general principles, the rules governing electoral commissions, procedures for drawing up voter lists and eligibility requirements for candidates. The Law on the Status of Municipalities regulates the role and structure of municipal bodies and outlines state guarantees of legal and financial autonomy. The law pays special attention to the adoption and execution of municipal programs concerning social protection, social and economic development and the local environment. It also contains articles pertaining to municipal bodies and officials, forms of citizen participation, economic foundations of municipalities, municipal property and the local budget. The other normative legal document pertaining to municipal government is the Model Municipal Charter (October 15, 1999). This document specifies common issues to be incorporated into all municipal charters, such as territorial boundaries, municipal assemblies, standing and temporary council commissions, executive bodies and administrative procedures. The Law on Municipal Service regulates the activities of municipal employees, their rights, duties, labour conditions and social benefits, and outlines the structure of the executive apparatus and the organization of municipal service (November 30, 1999). The Law on Local Referenda defines the issues that may be decided by local referendum and establishes procedures for organizing referenda, publishing the results and enacting them into law (November 30, 1999).
foundations of municipal finance are established by a triad of laws: the Law on the Transfer of Assets to Municipalities, the Law on Municipal Finance and the Law on Municipal Territory and Lands. (December 7, 1999) The Law on the Transfer of Assets establishes standards for determining municipal property and transferring it to municipal ownership. The Law on Municipal Finance defines principles of local finance, the basis for the local budget and the division of powers between the local council and local executive bodies. This law also regulates legal issues concerning the adoption, implementation and monitoring of local budgets. The Law on Municipal Territory and Lands, together with the list of all municipalities in Azerbaijan and their territories, defines municipal boundaries (June 13, 2000). According to this law, the State Land Committee and the local branch of state administration draw up documents for urban planning and construction which clearly indicate municipal territories and land to be transferred to municipalities. These documents are then made available to local governments. Other laws also regulate issues of municipal property, such as the Law on Land Reform, in which article 7 is wholly devoted to the issue of municipal lands. This law was adopted in 1996, prior to the establishment of municipal governments. Other laws have been adopted over the last 6 years outlining municipal functions, including the Law on the Management of Municipal Lands (June 29, 2001); on Municipal Taxes (December 27, 2001); and the Law on the Merging of Municipalities (May 29, 2009). Beyond the above-mentioned laws and a number of other documents, numerous changes have been made to the existing legislation that took into consideration the existence of the municipal level of authority.

As a member of the Council of Europe, Azerbaijan signed the European Charter of Local Self-Government on 21 December 2001 and ratified it on 15 April 2002. The charter entered into force in Azerbaijan on 1 August 2002. Within that framework, CE made several recommendations on the status of municipalities. The most recent one was issued on October 16-18, 2012.

**General division of powers**

Azerbaijan’s system of governance nominally can be called two-tiered. The top or highest tier of the government is the executive power headed by the President. The President appoints the Cabinet of Ministers and other high-ranking officials. The Local Executive Authority, is an extension of executive power. The legal status of local state administration in Azerbaijan is determined by the Provision on Local Executive Authority, adopted on 16 June 1999. In June 2012, the President approved the new Regulation, which granted additional powers to Local Executive Authorities, strengthening their dominant position in Azerbaijan’s local affairs. According to the legislation, the president of Azerbaijan establishes territorial branches of state administration in regions,
cities and city districts and appoints a head to manage their operations. These heads in turn appoint local administrations in the villages and settlements situated within their territory. Heads of local state administration carry out executive duties in regions, cities and city districts; ensure rights and freedoms of citizens; further the economic, social and cultural development of a given territory; and coordinate the activities of municipalities and territorial divisions of state administration. The Local Executive Authorities only nominally can be referred to as a local tier of government as they do not have independence and simply implement decisions of the central government. The third nominal tier of governance is municipalities (Bələdiyyə). In 2008, there were 2,757 municipalities in Azerbaijan, but in many mergers took place to reduce shortages in human resources and financing under the Decree of the President on the 14th of April 2009, resulting in 1,718 municipalities in Azerbaijan today. According to the report of the Congress of Local and Regional Authorities, the regulation ‘provides local authorities with almost all the functions of local government, including those that would fall within the scope of the powers of municipalities’.

According to Article 124 of the Constitution and the Law on Local Executive Authority adopted on June 16, 1999 and later amended by new regulations, the head of these authorities should perform the following functions:

- carry out orders of the president of Azerbaijan;
- implement state programs authorized by the president of Azerbaijan as well as local programs;
- establish and dissolve local state administration departments, services, enterprises and organizations; appoint and dismiss their heads;
- annul any documents that run counter to existing legislation;
- organize elections, national referenda and public discussions as established by legislation;
- submit issues and proposals concerning local development to the appropriate executive bodies;
- execute other duties as established by the legislation.

Chapter 9 of the Constitution addresses major issues of local self-government, such as the legal status of municipalities, types of local self-government bodies, their basic powers and their relationships with other official entities. The following functions are assigned to municipalities as per the Constitution:

- Recognition of authority of municipality members, loss of their authority and termination of their authority according to legislation;
- Approval of in-house regulations of municipality;
• Elections of the chairman of municipality, his/her deputies, permanent and other commissions;
• Establishment of local taxes and duties;
• Approval of local budget and reports on its implementation;
• Possession of municipal property, use and disposal thereof;
• Acceptance and implementation of local programs of social protection and social development;
• Acceptance and implementation of local programs of economic development;
• Acceptance and implementation of local ecological programs. (Constitution, Articles 142-146).

Municipalities also may be endowed with additional legislative and executive powers. However, implementation of such authority/competences will be controlled by the Local Executive Authority (LEA).

Articles 142-145 of the Constitution define the key principles of local self-government, including those related to municipalities and their competences. Moreover, the European Charter on Local Self-Government (ratified by Azerbaijan in 2002) requires Azerbaijan to guarantee autonomy and exclusivity of powers held by municipalities. This clause is not reflected in the Law on Municipalities. Meanwhile, Article 124 of the Constitution states that the head of the LEA is responsible for implementation of central government decisions and policies. The same clause allows the President to define the limits of competences of LEAs. That means that the setting of boundaries and limits of municipal powers is subject to Presidential discretion. (Constitution, Articles 124; 142-145).

In Azerbaijan, the majority of socio-economic functions fall within the scope of the authority of the LEAs. On some issues, the LEAs are required to take into consideration the views and suggestions of municipalities. However, due to the fact that funding from state budget directly goes to the LEA, and this branch of power rather than municipalities is responsible for submitting proposals to the state, the role of municipalities is limited. (Quliyev, 2015) Again, the biggest problem in this case is ill-defined roles, responsibilities and competences of the LEA and municipalities. Thus, the current framework leaves municipalities little discretion over a significant portion of the responsibilities granted to them by the Law on the Status of Municipalities. (Yusifli, 2013).

According to the Law of the Azerbaijan Republic “On the Status of Municipalities”, municipalities are endowed with powers to take decisions, including via the holding of referenda. The municipal scope of competences in
the implementation of public matters is limited and most public services and their implementation or regulation fall within the scope of the direct responsibility of state bodies. No substantial public administration reforms have taken place over the 24 years since Azerbaijan has gained its independence. Neither municipalities nor Local Executive Authorities possess independence in decision making. Due to the lack of finances as well as political and administrative powers, municipalities cannot decide on local issues. The LEAs cannot take independent decisions and usually consult the central government prior to taking decisions.

Central level

- Registration of Citizens’ legal documents and acts.
- Sanitation and epidemiology.
- Standardisation and metrology.
- Geodesy and cartography.
- Police.
- Fire protection.
- Communication regulation (telephones, postal and telegraph).
- Public traffic management.
- Education (primary and secondary).
- Universities.
- Health care.
- Housing management and regulation.
- Public utilities.
- Employment.
- Melioration.
- Roads maintenance.
- Renovation activities or regeneration.
- Environmental protection.
- Allocation of land plots for individual house building.
- Museums.
- Parks and vegetation.
Local level

Exclusive competences: Maintenance of cemeteries (only rural ones; urban cemeteries are still under the control of LEAs). The law on the status of municipalities enumerates dozens of functions that fall under the competence of municipalities including those shared with regional authorities such as local road maintenance, renovations, parking and others. However, in reality only a few (namely maintenance of rural cemeteries) of them are solely implemented by local governments.

Shared competences:

- Road maintenance.
- Renovation activities and gentrification.
- Allocation of land plots for individual house building.
- Parks and vegetation.

All of the functions listed in the section above are functions shared between municipalities and LEA.

Systems of multilevel governance

Representation: Local Executive Authorities do not have common representation. Each Head of LEA is appointed by the President and is subordinated to the President through the Presidential Administration. In previous years, the President used to organise meetings with all heads of LEAs. There is no organisation or Association representing the interests of LEAs.

Information: Once the law, the presidential decree or the relevant instructions are adopted, these documents are published in the official newspaper. Furthermore, LEAs receive instructions and letters from the Presidential Administration and Cabinet of Ministers, requiring the LEAs to implement the above-mentioned order or law.

Consultation: At the LEA level there is no statutory provision on the consultation process. The LEA merely implements the decisions taken at the central level.

Coordination: N/A
**Relations with the EU/Representation at EU level**

Within the framework of Eastern Partnership and with the aim of promoting local democracy, an EU-funded project aimed at building ‘capacity for increased participation by citizens and increased accountability of elected bodies’ was able to establish advisory councils in a number of local communities. Azerbaijan is also represented in CORLEAP through the Chair of the Association of City-Municipalities of Azerbaijan; Chairman of the Committee of Human Rights International and Inter-Parliamentary Relations of the Ali Majlis (Parliament) of the Nakhchivan Autonomous Republic (Azerbaijan); and Chair, Sheki city municipality. Azerbaijan also has an embassy in Brussels that represents the interests of the country in negotiations with the European Union.

**Subsidiarity**

Subsidiarity is an EU principle embodied in the EU treaties. As such, it is not applicable to Azerbaijan.

**Bibliography**


Local and Regional Democracy in Azerbaijan,” CG (23) 12 FINAL, the Congress of Local and Regional Authorities (2013).


Belarus

According to the Constitution of Belarus, Belarus is a presidential republic. The transition from a semi-presidential system to a more presidential system took place after the referendum of 1996, when a change in Constitution led to substantial increase in the powers of the President.

The Constitution establishes the principle of division of power: legislative, executive and judicial bodies work independently within the frame of their competence.

**General Division of Powers**

The president is the head of state. The parliament, the legislative power at the national level, is the National Assembly (Natsionalnoe Sobranie, Национальное собрание). It is comprised of the Lower House: the House of Representatives (Palata Predstavitelei, Палата представителей), and the Upper House: the Council of the Republic (Soviet Respubliki, Совет Республики). Executive power at the national level is concentrated in the government, through the Council of Ministers (Soviet Ministrov, Совет Министров) made up of 24 functional and sectoral Ministries and 7 State Committees.

Executive bodies function at the three main territorial levels of authority: (1) the primary level (pervichnyy), which includes village, town and city territorial levels of authority; (2) the so-called basic level of authority (bazovyy), which includes cities located within the country’s administrative regions, as well as districts (rayony) that form part of administrative regions; and (3) oblast authorities corresponding to the country’s administrative regions (oblast), and including the Minsk capital city. At the sub-national level there are 1,328 self-governing local Councils of Deputies (mestnye Sovety, местные Советы) at these three territorial levels - 1193 primary units (township, village, town); 128 basic units (city, rayon); 7 regional units (oblast and Minsk city).

The Law of the Republic of Belarus “On Local Government and Self-government in the Republic of Belarus” No 617-II (February 20, 1991) established the principle of local government and self-government in Belarus and made provisions for the transfer of power the local Councils of Deputies. According to the Constitution of the Republic of Belarus which was adopted on March 15, 1994, local bodies have the following functions: “resolve issues of local significance, proceeding from national interests and interests of the people who reside in the corresponding territory; implement decisions of higher state bodies”.

56
Subsequent decrees led to a number of changes in the organisation and the division of powers at the sub-national level:

- The Decree of the President No 383 “On Reforms of Local Government and Self-government” (September 19, 1995);

- The Decree of the President No 434 “On Unification of Administrative Units of the Republic of Belarus which have a common administrative center” (October 20, 1995) – which resulted in the abolition of district Councils of Deputies in cities and the establishment of district administrations that are accountable to the upper executive committees, and the unification of rayons with cities and towns in a single administrative unit. Under the constitutional amendment further to the 1996 referendum the president was empowered to influence local government and self-government through ‘staffing’ decisions and the cancellation of acts conflicting with national laws.


Main documents:

- The Constitution of the Republic of Belarus, Section V, Articles 117-124;
- The Law of the Republic of Belarus “On local government and self-government in the Republic of Belarus” No 108-3 (January 4, 2010);
- The Budget Code of the Republic of Belarus No 412-3 (July 16, 2008).

System of local election: Local citizens elect Councils of Deputies for four years through secret ballot. The number of deputies depends on the number of people residing in a territory: the system is based on single-member districts. As of 2014 (recent elections), there were 18,816 districts (and 18,809 deputies elected). Members of the Council of Deputies elect the Chair of the Council of Deputies from among the deputies by secret ballot. At the regional level, candidates are proposed by the members of the same Council of Deputies; at the local level, candidates are proposed by the members of the same Council of Deputies and by the Chair of the higher Council of Deputies. At the primary level, the Chair of the Council of Deputies is the Chair of the executive committee of the same level. He or she is elected by secret ballot among the deputies. The deputies of the Council of Deputies from the primary level and the Chair of the executive committee of the basic level propose candidates; then the Chair of the executive committee approves the elected person. If the Chair
of the upper executive committee does not approve the candidate, then it falls to
the Chair to propose the candidate for the Council of Deputies.

The president establishes the procedure for the appointment of officials to local
executive and administrative bodies. The president appoints and dismisses the
Chair of the executive committee at the regional level. When the president
makes an appointment, the Council of Deputies of the same level approves the
chair in an open vote. If the Council of Deputies does not approve the Chair
twice, the president makes the final decision.

The Chair of the executive committee at the regional level appoints and
dismisses the Chair of executive committee at the basic level (in agreement with
the President). The Council of Deputies at the same level approves the Chair by
open voting. If the Council of Deputies does not approve the Chair twice, the
Chair of the higher executive committee makes the final decision.

Central level

- Directs local executive bodies on certain issues;
- Controls local bodies in the field of law enforcement;
- Creates conditions for the training of local bodies employees;
- Assists local bodies in the organization of their activities;
- Regulates the relations of local executive bodies and other state bodies
  subordinated to the Council of Ministers;
- Delegates their powers to local bodies, if necessary

Local level

Local Councils of Deputies:

- Approve regional development programmes;
- Approve the procedure for communal property use;
- Address issues relating to administrative and territorial structures;
- Organise local referenda.

Local executive committees:

- Develop and introduce for approval by the Councils of Deputies
  management schemes for the local economy and communal property, as
  well as proposals for the organization of the protection of public order;
• Develop and introduce for approval by the Councils of Deputies projects or programmes of economic and social development, the local budget and report on their implementation to the Councils of Deputies;
• Ensure compliance of laws, decrees and other acts with the Constitution;
• Organize the income of local budgets and its target use;
• Decide on issue of local securities and conducts auctions;
• Manage communal property;
• Decides on the establishment, reorganization and liquidation of enterprises, organizations, institutions and associations of communal property;
• Issue permits for the location of enterprises, organizations, institutions and associations on local territory;
• Decides on issues of land management and land use (in accordance with the laws of the Republic of Belarus).

Exclusive competences:

• Approve regional development programs;
• Approve the procedure for communal property use;
• Organise local referenda.

**Systems of multilevel governance**

Local authorities are highly dependent on central authorities. Communal property is just geographically allocated state property. Local authorities have limited capabilities for getting revenue from own sources and to make independent spending decisions.

Local authorities have exclusive competence to set local taxes, but in practice this possibility is limited to only three small taxes and fees that are not a considerable source of revenue. A huge part of sub-national government revenues are dependent on central government.

While expenditure decisions may be taken, higher bodies can block these decisions Almost all levels of authority have overlapping powers.

Local authorities do not use all the opportunities that are formally granted to them. For example, they can create associations, while in practice no such organizations have been created.
Representation

The main body of regional representation in Belarus is the Council of the Republic (the upper house of the National Assembly). Six oblasts and Minsk city elect eight representatives each to the parliament. Elections are held by secret ballot at the sittings of deputies of local Councils of Deputies of the basic level of every region (oblast and Minsk city). Eight members of the Council of the Republic are appointed by the president. Local Councils of Deputies have the right to establish associations of councils of deputies in the form of an NGO, while in practice no such organizations have been created.

Information

Legal information is transmitted from the upper bodies on a “top-down” basis.

Consultation

There is no statutory established consultation process with LRAs.

Coordination:

There are two main bodies that coordinate relations between national and local authorities. The Council for Cooperation of Local Self-Government Bodies in the Council of the Republic seeks to coordinate relations with self-governing units, to explain state policy in the field of local self-government and contribute “to ensuring a balanced approach to serve both state and local interests in the process of elaboration and implementation of social and economic programmes”. The Council of Ministers coordinates the relations with sub-national executive and administrative units.

Relations with the EU/Representation at EU level

The relations between the EU and Belarus are developing gradually. Negotiations on a Partnership and Cooperation Agreement were completed in 1995, but the document was not ratified. Belarus is a participant in the European Neighborhood Policy, but its participation is limited. Currently, relations between Belarus and the EU are based on the General Affairs and External Relations Council Conclusions. While the EU is ready to deepen the relations with Belarus, this process is hampered by the absence of clear demonstration of respect for democratic values and the rule of law by the Belarusian authorities. Technical cooperation is carried out under the European Neighborhood and Partnership Instrument. Belarus is not a member of the Council of Europe and is not obliged to comply with its standards of local government.
Belarus is represented by its Mission in Brussels, at regional level the country is represented in CORLEAP by deputies from Councils of Deputies (Councils of Deputies, oblast level).

**Subsidiarity**

Subsidiarity is an EU principle embodied in the EU treaties. As such, it is not applicable.

**Bibliography**

Constitution of the Republic of Belarus of 1994


Decree of the President No 383 “On the reforms of local government and self-government” (September 19, 1995).

Decree of the President No 434 “On the unification of administrative units of the Republic of Belarus which have a common administrative center” (October 20, 1995).

Budget Code of the Republic of Belarus No 412-3 (July 16, 2008).

Tax Code of the Republic of Belarus No 166-3 (December 19, 2002).


Georgia

In October 2013 amendments were made to the Constitution of Georgia, which changed the state system from that of a [strong] presidential to a semi-presidential system. Previously, the president was the head of government and head of the state, and he had the right to initiate laws. Now the president is solely the head of state and does not have the right to initiate laws, and the Prime minister is currently the head of the Government. According to the new amendments the Prime minister is presented by the President to the parliament and is appointed by the parliament.

Article 2.3 of the Constitution of Georgia states: “Constitutional law shall determine the territorial state structure of Georgia on the basis of the principle of delimitation of powers after the complete restoration of jurisdiction of Georgia over the whole territory of the country.”

Article 2.4 of the Constitution determines that “the citizens of Georgia registered in a self-governing unit shall regulate matters of local importance through local self-government, without prejudice to state sovereignty, according to the legislation of Georgia. State authorities shall promote the development of local self-governance.”

Articles 1011, 1012, 1013 of the Georgian Constitution include the definition of self-government and grants independence/autonomy to local self-governments from central government.


The Budget Code of Georgia includes a precise definition of local self-government incomes.

The Law on State Property determines the rules and procedures related to the ownership and exercise of power over state property, including the property owned by the local governments.

The Electoral code also contains provisions related to the administration of elections at the local level. Georgia is divided into District electoral committees and Precinct electoral committees.
**General Division of Powers**

On 16 October 1997, the Georgian Parliament adopted the Organic Law of Georgia on Local Self-Government and Government. According to the Law, local self-government is made up of two levels. The first level comprised regional cities, settlements, communities and villages outside the communities (a total of 1,111 territorial units) while the second level encompassed Tbilisi and the cities outside the scope of regions (a total of five) and 67 regions.

On 16 December 2005, the Georgian Parliament replaced the 1997 Law on Local Self-Government with the Organic Law of Georgia that was enacted after the local self-government elections of 2006. According to the 2005 law, local self-government was not exercised at the level of villages, communities, settlements and cities. Therefore, only one level of the two-tier system of self-government was active. In other words local self-government was occurring only at the municipal level, in the 67 municipalities (the municipalities are the legal successors of the former regions) and five cities.

The Parliament of Georgia adopted the new Law on Local Self-Government Code on 5 February 2014. It came into force on 15 June 2014, when local self-government elections took place. Important changes were made from the point of view of involvement of the electorate unlike in the previous elections in which the Mayor of Tbilisi had been the only elected figure, gamgebelis and mayors were elected directly in 2014.

Georgia signed the European Charter of Local Self-Government on 26 October 2004. It was ratified on 8 December 2004 and entered into force on 1 April 2005, with “reservations” on Article 4 paragraph 6, Article 5, Article 6 paragraph 2, Article 9 paragraph 6 and Article 10 paragraphs 2 and 3. Georgia has not signed the Additional Protocol to the European Charter of Local Self-Government on the right to participate in the affairs of a local authority.

The Georgian Government (Saqartvelos Mtavroba) is the main executive body in the country. The Prime minister (Premier Ministry) is the head of the Central Government. The Georgian Parliament (Saqartvelos Parlamenti) is the country’s central legislative body.

Local Government is realized only at a single-level: that of the Municipalities – Self Government cities (Tvitmmartveli Qalaqi) and self-government communities (Tvitmmartveli Temi). The municipalities consist of three organs: the Council (Sakrebulo) is the representative legislative organ; the City Hall (Gamgeoba) carries out the local administrative responsibilities and is headed by the Mayor (Gamgebeli), the executive organ. Henceforth the designations in
Georgian will used throughout this text. The Head of the local government in the cities is called the Mayor (Meri).

The Regional Consultation Council (Sabcho), which does not constitute a level of local government, is a consultative body of the governors (Rtsmunebuli) operating at the municipal level. The Prime Minister of Georgia appoints the Rtsmunebuli.

Central level

- The Government of Georgia can apply to the parliament with a proposal to create or abolish a municipality based on consultation with the local self-governing unit and the local population;
- The Government of Georgia can apply to the parliament with a proposal to alter borders between municipalities based on consultation with the local self-governing unit and the local population;
- The Government of Georgia has authority to dismiss a Municipal Council and “Gamgebeli”/Mayor if the budget is not approved within three months after the beginning of the fiscal year.

Local level

According to the Local Self-Government Code, the assembly of the municipality (Sakrebulo) is elected for a four-year term based on direct, universal, equal and secret ballot by the citizens registered in the municipalities of Georgia. Gamgebelis and Mayors are elected for a four-year term by a direct, universal, equal and secret ballot.

The special competences of the Sakrebulo can be classified in four functions:

- Administrative functions: Establishment of the local government organisation and establishment and control of functioning of other local government organs, such as the adoption of the Rules of Procedure, articles concerning the staff; and the creation and abolition of administrative units within the self-governing unit.

- Legislative functions: Passing all important general legal acts regulating the functioning of the local governing units including the introduction of local taxes and fees, the regulation of the rules of motor transportation, the regulation of parking; approval of the list of objects to be privatized in the self-governing unit; determination of the initial privatization price and the level of rent on the property of the self-governing unit; and management of the forest and water resources, etc.
- Financial functions: Adoption or approval of the budget and programs of local government activities, etc.

- Operational functions: Everyday activities related to the functioning of the local government unit such as concluding various types of contracts and agreements, etc.

Article 16 lists local authorities’ own competences, which include:

- land and fund management related competences: the approval of programs for investment, funds, inter-municipal projects; disposal of land resources; demarcation and alteration of borders; land use and building regulations; management of forest and water resources of local importance; the issue of permits for construction and supervision over their construction.

- urban infrastructure, transport and security related competences: regulation of traffic and transport including the issue of permits for passenger transport; regulation of outdoor trade and markets; ensuring municipal fire safety and rescue activities of the self-governing unit; regulation of outdoor lighting, sewage and garbage dumping systems, collection and utilisation of solid waste and maintenance of cemeteries; maintenance, construction and development of local roads.

- cultural affairs: organising the work of libraries, museums, theatres, galleries, educational facilities, sport-recreational objects of local importance and the establishment of pre-school and non-school educational institutions; and

- social affairs: mobilising municipal resources in the spheres of health and social care on the territory of self-governing unit.

Self-governing entities are completely autonomous in planning their budgets, and have their own independent budgets. The own revenues of the local self-governing entities include local taxes and fees, cohesion transfers and other receipts. Finances allocated from other budgets to the budget of self-governing unit include special and conditional transfers and other receipts. However local self-government bodies remain dependent on transfers from the national budget as local revenues are too small and the equalisation system does not work. Thus the fiscal independence of local self-governing units is restricted and fiscal decentralisation does not function effectively.
Local exclusive competences:

- Preparation, review and approval of the municipal budget.
- Management and maintenance of municipal properties.
- Management of local natural resources.
- Establishment and abolition of local taxation.
- Urban planning.
- Management of municipal waste.
- Ensuring local water supply.
- Management of the pre-school education in the territory of the municipality.
- Management of local motor roads.
- Management of local public transport.
- Management of outdoor market and exhibition.
- Issuance of building permits.
- Management of outdoor advertisements.
- Organization of cemeteries.
- Registration and providing shelter for the homeless.

Systems of multilevel governance

Representation

At national level, local authorities are represented in the National Association of Local Authorities of Georgia (NALAG), which was set up in 2003 by the Congress of Local and Regional Authorities of the Council of Europe at the request of the CoE and the EC. The NALAG aims to develop the local self-governance system and to develop democracy at the local level in Georgia.

Information

In recent years, Georgia has made substantial efforts to improve the transparency, accountability, and public outreach of municipal governments. For instance, a USAID-funded Good Governance in Georgia program brings together municipalities, government ministries and civil society actors to increase the public awareness of local decision making. The project works closely with civil society organisations and other public stake holders.
Consultation

Georgia has a Regional Consultation Council ("Sabcho"), which is a consultation body of the governors (Rtsmunebuli) operating on the municipal level.

Coordination

There are no specific mechanisms for coordination among the national and local governments.

Relations with the EU/Representation at EU level

In June 2014 the EU and Georgia signed an Association Agreement and a Deep and Comprehensive Free Trade Agreement, replacing the previous Partnership and Cooperation Agreement governing EU-Georgia relations since 1999. The Mission of Georgia to the European Union, based in Brussels, is the Georgian diplomatic representation.

Georgia is the 41st Member State of the Council of Europe, and is represented in the Congress of Local and Regional Authorities. Georgia is also represented in CORLEAP.

Subsidiarity

Subsidiarity is an EU principle embodied in the EU treaties. As such, it is not yet applicable to Georgia.

Bibliography


The Budget law 2015 of Georgia.
Grass FactCheck. FactCheck of Irakli Gharibashvili “For the first time, 12 city mayors and up to 60 gamgebelis will be directly elected by the Georgian population. This is a step forward which has not yet been achieved by approximately 15-17 EU Member States.” 16 June 2014. Available at: http://factcheck.ge/en/article/for-the-first-time-12-city-mayors-and-up-to-60-gamgebelis-will-be-directly-elected-by-the-georgian-population-this-is-a-step-forward-which-has-not-yet-been-achieved-by-approximately-15-17-e/.


Grass FactCheck. FactCheck of Giorgi Tevdoradze: “In line with the internationally recognised criteria, one of the parameters defining a self-governing city is its population. This draft law, unlike the previous one, completely neglects this criterion.” 5 February 2014. Available at: http://factcheck.ge/en/article/in-line-with-the-internationally-recognised-
criteria-one-of-the-parameters-defining-a-self-governing-city-is-its-population-this-draft-law-unlike-the-previous-one-completely-neglects-this/


Local and Regional democracy in Georgia, The Congress of Local and Regional Authorities, Recommendation No 334 (2013); Debated and adopted by the Congress on 19 March 2013, 1st Sitting (see document CG(24)10, explanatory memorandum), rapporteurs: Nigel Mermagen, United Kingdom (L, ILDG) and Helena Pihlajasaari, Finland (R, SOC).

Local and Regional democracy in Georgia, The Congress of Local and Regional Authorities, Recommendation No 157 (2004), Debated and adopted by the Standing Committee of the Congress on 4 November 2004 (see Document CG (10) 22 rev., draft recommendation presented by I. Micallef (Malta, L, EPP/CD) and D. Shakespeare (United Kingdom, R, EPP/CD), rapporteurs).

Local and Regional democracy in Georgia, The Congress of Local and Regional Authorities, Recommendation No 188 (2004), Debated and adopted by the Standing Committee of the Congress on 4 November 2004 (see Document CG (10) 22 rev., draft recommendation presented by I. Micallef (Malta, L, EPP/CD) and D. Shakespeare (United Kingdom, R, EPP/CD), rapporteurs).

Local and Regional democracy in Georgia, The Congress of Local and Regional Authorities, CG(24)10FINAL, Strasbourg, 19-21 March 2013, 24th Session.
Moldova

Moldova became a sovereign state in 1991. The Constitution of 1994 established Moldova as an independent republic. The Constitution provides for a single-chamber Parliament consisting of 101 members, a President elected by the Parliament. The members of Parliament are elected every four years on the basis of proportional representation, with a threshold of 6% of the popular vote. The government is formed by the Prime Minister, the Deputy Prime Minister and the ministers. The Prime Minister and the government are nominated by the President after consultation with the parliamentary majority. The nomination of the government requires the approval of Parliament. Constitutional amendments passed in 2000 increased the powers of Parliament, by enabling it to elect the President (previously, the President was elected by popular vote) and reducing the powers of the executive branch.

During the transition period, the Republic of Moldova implemented three administrative-territorial reforms:

- **1994:** In 1994 changes to the soviet system of administrative organization were made, but with no essential changes of territorial structures. The first autonomous territorial unit (Gagauzia) was created; it included three districts (dolay) which are still part of the internal division of the Gagauzian region. The Soviet model in the remaining administrative territorial units had been maintained largely unaltered. By 1998 the country’s territory was divided into 38 raioane (districts), including five in the breakaway Transnistrian region.

- **The Law on Territorial-Administrative Organization, 30 December 1998:** The 30 districts on the right bank of the Nistru river were amalgamated into 9 judeţe (counties), to which later a tenth county was added. The territorial reorganization in 1999 was accompanied by a significant administrative reform, resulting in a new division of competences and resources, following closely the Romanian model. With the aim of conformity with European standards and subsequent to the adoption of the European Charter of Local Self-Administration, Moldova returned to the pre-communist model of administrative-territorial structure. The hope was that larger counties (equivalent to NUTS III) would be able to better cope with developmental and service provision issues as compared to smaller districts (equivalent to NUTS IV). The minimal population size of communes was increased to 2,500 inhabitants. The new law adopted on 30 December 1998 changed the territorial-administrative structure of the country and the number of units – from forty second level units to ten administrative units, thereby increasing
the economic capacity and autonomy of local governments. The new law stipulated the delimitation of competencies of public authorities at different levels. An important aspect of the law was the decrease of the number of villages from 925 to 644, again, thereby increasing the financial capacity of first-level units of local government. Another important stipulation was the creation of the institution of prefect, the representative of the central government in a given territory tasked with facilitating the implementation of the administrative decentralization reform. The prefect was endowed with the power to manage the county’s public services without interfering with the activities of local authorities. The prefect was endowed with powers of supervising only the legality, rather than the time-frame of the adopted acts.

- 2001/2003: In December 2001, the newly-elected Communist government carried out another round of administrative-territorial reforms, which took effect after the local elections in 2003. The reform actually restored a quasi-Soviet model of territorial division of authority, while local autonomy was significantly reduced (The Law on Local Public Administration adopted on 18.03.2003).

**General Division of Powers**

Moldova is a unitary state with local governments operating at two tiers. There are thirty five territorial units corresponding to the second level of local government authority: thirty two districts (rayons), two municipalities (municipii) -Chisinau and Balti, one autonomous territorial unit (UTA Gagauzia), and one unrecognised territorial unit (Transnistria) which does not consider itself subject to the jurisdiction of Moldova. These thirty five units are divided into 896 first-level territorial units–towns (orașe) and villages (sate), which have no direct financial relations with the centre. They liaise with their respective second-level units regarding budgeting and other financial issues. In total, there are 931 local authorities in Moldova.

The main laws and decrees regulating the distribution of powers and the budget processes of the various administrative levels are:

- The Constitution.
- Law on the Budgetary System and the Budgetary Process of 1996 (henceforth called the Budget Code).
According to the Constitution (Art. 109) of the Republic of Moldova, public administration at the level of administrative/territorial units is based on the principles of local autonomy, decentralization of public services, and consultation with local citizens on matters of local interest.

According to the Law no. 436 of 28 December 2006 on Local Public Administration, local government operates at two levels: the first level consists of public bodies with general or special powers created and functioning on the territory of a village or town/municipality with the purpose of promoting the interests of the local community and addressing local issues. The second level consists of public bodies with general or special powers created and functioning on the territory of rayons (districts), the Chisinau municipality and the special legal-status autonomous territorial units with the purpose of promoting the interests and resolving the problems of the population of the given territorial administrative unit.

**Second level of administration:** Each rayon (district) elects a council which coordinates the activities of the local councils in order to provide public services at a district or municipal level. The councils are elected on the basis of universal, equal and direct suffrage by secret ballot for a term of four years. The Head of the rayon is elected by the local council.

**First level of administration:** Mayors of towns (municipalities), villages (communes) and councillors in town (municipal) and village (commune) councils are elected via universal, equal, direct, secret and freely expressed vote, for a four-year term.

The delimitation of the competences among the first and second level authorities is unclear, contradictory, and in some cases even lacking. Some of the activities listed as falling within the sphere of local competences are not clearly defined, and in some cases are assigned to the level immediately above the particular local authority. The confusion and duplication of responsibilities and competences is also characteristic of de-concentrated state authorities.

The Law on Public Administration stipulates that subnational administrative units in Moldova enjoy financial autonomy and have the right to initiative in all matters concerning local administration. However, three key indicators of local autonomy (independence of local budgeting; control over local revenues; authority to determine local expenditures), show that budgetary processes in particular in Moldova are still centralized to a great extent.
Central level

The national level consists of ministries and the State Chancellery (led by the Prime Minister) and a large number of other agencies. Some agencies have the status of CPA (Central Public Authority) and are not subordinated to any ministry.

Public services are delivered by both central and local governments. The central government has authority, inter alia, over defence, law enforcement, transport, telecommunications, infrastructure of national importance, environmental protection and cultural heritage, and other areas of national importance. The central government is also responsible for the provision of higher education and healthcare, as well as for social security benefits (pensions, unemployment and disability). Service delivery is carried out by various state and non-state agencies (some with CPA status, not subordinated to a ministry) as well as by regular branches of ministries.

Local level

Moldova is also divided into three regions but these are not administrative territorial units. The three regions – North, South and Central – do not represent administrative jurisdictions and they are mostly used in the context of planning, evaluating and implementing regional development policies.

Local governments are responsible for delivering a range of key public services. Local responsibilities are outlined in the Law on Local Public Finance and differ depending on the status and level of local authority. The mandates mainly include territorial development and town planning; providing utility services; construction and maintenance of roads, streets, bridges; providing social services to the population; construction and maintenance of social housing; primary and secondary education (pre-school, primary schools, gymnasiuums, secondary schools, lyceums and maintenance of local cultural institutions, libraries and museums and the organization of public cultural activities); maintenance of parks and green spaces, as well as cemeteries; physical education and sports; and public order.

Following are the key types of public functions of the respective authorities:

- Centralized functions (national level).
- Decentralized functions/local exclusive competences.
- De-concentrated functions.
- Delegated Functions.
Local exclusive competences:

According to the Law on Local Public Finance (No. 397-XV of Oct 16, 2003, Art 8, last amended on 1 November 2013); and the Law on Administrative Decentralization (No. 435-XVI of 28 December 2006, Art 4, last amended on 26 April 2012) the first level of the local public administration (mayoralties of towns and villages) has the following responsibilities:

- Fire protection; aspects of military administration.
- construction and maintenance of local public roads, streets, bridges within the local area; local public transport.
- water management; waste management; public sanitation.
- urban planning; construction and maintenance of water supply and sewage systems; maintenance of parks, green spaces, and cemeteries; social housing construction and maintenance.
- maintenance of libraries, museums, other cultural institutions and carrying out programs in culture, physical culture and sports.
- education - construction, operation, and maintenance of kindergartens.

Responsibilities of the second tier of local public administration (rayons and ATU Gagauzia) include:

- Public order; coordination, organization and supervision of aspects of military administration.
- rayon-wide roads, construction, operation and repairs; rayon-wide local public transport.
- construction of long-distance gas pipelines and other heat and power facilities of local importance.
- coordination and implementation of sports and youth programs; maintenance of theatres and TV stations; provision of grants to the bottom tier ear-marked for personnel expenses in libraries and other cultural institutions other than museums.
- construction, operation, and maintenance of primary schools, gymnasiums, lyceums, after-school and other educational institutions, boarding schools.
- social protection and maintenance of social institutions.

Competences shared with the central government

De-concentrated services: The Government Regulation No 735 of 16 June 2003 covers de-concentrated authorities subordinated to particular ministries. The delivery of some de-concentrated services is closely linked to activities of local
government bodies. Service delivery is also shared between de-concentrated offices of ministries and the relevant local governments. In these instances local government bodies either:

- Take part in decision making and administration of services delivery (e.g., via the local social assistance fund, ecological agency, state construction inspection and civil status office); or
- have responsibility for the partial financing of service provision (municipal police).

There is significant overlap in the location and placement of these offices. Each region (rayon) has decentralized offices of at least eight-ten organizations. Currently, each organization has authority over a particular de-concentrated office.

**Delegated functions**

A substantial part of the implementation of central functions is delegated to local governments (LPAs); for example, the administration and maintenance of schools and hospitals, and the organization of social assistance to low-income groups belong in this category. When performing delegated functions, local government possesses limited autonomy, and operates as an agent of central government.

According to the Law on Administrative Decentralization (No. 435-XVI of 28 December 2006, Art. 6, last amended on 26 April 2012) it is mandatory for the state to ensure that any delegated functions are backed by adequate financial resources.

The legislation of the Republic of Moldova does not clearly stipulate what the key differences are between decentralized services, the de-concentrated and delegated ones. There is a tendency amongst CPAs to consider, in practice, the district decentralized services/institutions as being de-concentrated services/institutions, vis-a-vis which they possess authority. There is also the issue of inadequate provision of funding. As a consequence, the exercise of the relevant functions is difficult and sometimes even impossible for the small ATUs or those that are resource poor.
**Systems of multilevel governance**

**Representation**

At the national level, the LPAs are represented by the Congress of Local Administration of Moldova (CALM). CALM is a non-governmental organization that had been registered as a non-commercial entity on 10 May 2010. To date, half of the mayors of the first level of LPAs have become members of this entity. The organization is actively involved in the process of drafting legislation.

Another organization which represents the interests of LPAs in Moldova is the Union of Rayon Councils in Moldova (UCRM), which was established in 2012. It is composed of heads of the rayons.

**Information**

The Rayon Council is charged with the dissemination of information regarding draft legislation and plays the role of a ‘bridge’ between the national and local governments. There are no specific communication mechanisms established between the national and local governments and usually communication is in writing.

**Consultation**

Each initiative either at the central or local level has to be published on an official web-site. According to the Law on transparency in government decision making, each initiative should be subject to consultation with the local population. Local authorities are obliged to publicise their initiatives online within fourteen days of holding public hearings and consultations.

**Coordination**

There are no specific mechanisms for coordination among the national and local governments.

**Relations with the EU/Representation at EU level**

Moldova is represented within the Council of Europe and is a member of the Congress of Local and Regional Authorities. LPAs from Moldova are represented in CORLEAP. The Government of Moldova also has a permanent Mission to the EU.
The EU Association Agreement was initialled on 29 November 2013 in Brussels. It was signed on 27 June 2014 and is being provisionally applied since 1 September 2014. It will officially come into force once ratified by all 31 signatories. The Agreement also contains a Deep and Comprehensive Free Trade Area, which co-exists with the EU Regulation on Autonomous Trade Preference until 31 December 2015.

Subsidiarity

Subsidiarity is an EU principle embodied in the EU treaties. As such, it is not yet applicable to Moldova.

Bibliography


Law on public finances and fiscal-budgetary responsibilities. 08.08.2014. Monitorul Oficial Nr. 223-230 art Nr : 519. Available at: http://lex.justice.md/md/354213/.


Local Government in Moldova. IDIS (2000).


Government Regulation on the structure and scope of public services, decentralized ministries, departments and other central administrative authorities. No 735, 16.06.2003. Available at: http://lex.justice.md/md/321070/.

Law on Local Public Finance (No. 397-XV of October 16, 2003, last amended on November 1, 2013.)
Ukraine

Ukraine is a parliamentary-presidential unitary republic. According to the Ukrainian Constitution the highest state authority is the Supreme Council (Verhovna Rada) of Ukraine and the President is the head of state.

The Verkhovna Rada is the only legislative body (Art. 75), the Cabinet of Ministers is the supreme executive body (Art. 113). The status of the President of Ukraine is stipulated in article 102 which states that he/she is the guarantor of state sovereignty and territorial integrity of Ukraine, and of the rights and freedoms of citizens.


General division of powers

The administrative system of Ukraine consists of 24 regions (‘oblast’), one autonomous region (Republic of Crimea/Avtonomna respublika Krym), two cities with a special statute (Kyiv and Sevastopol), and 490 districts (rayons), 460 towns (mysta), 111 districts in the towns (rayoni v mystah), 885 villages (sela) and 10279 hamlets (selishcha).

Sub-national government in Ukraine is composed of:

- regional and district councils (rady);
- city, town, village councils and their executive bodies.

The central executive power is represented by local regional and district state administrations (oblasni, rayonni dergavni administracii).

The existence of two different systems of local government - local administrations, representing the executive power, and local self-government can be a source of conflict.

In 2014 the Cabinet of Ministers of Ukraine approved the "Concept of local government and territorial organization reform". Ukraine is guided in this
process by the standards contained in the European Charter on Local Self-Government.

A three tier territorial system was laid out:

- Basic (administrative units -communities);
- District (administrative units -rayons);
- Regional (administrative units-oblasts, Autonomous Republic of Crimea, Kyiv and Sevastopol).

Article 140 of the Constitution stipulates that local self-government is exercised through local councils in villages, towns and cities and their executive bodies. Although the Constitution (pt. 3, Art. 140) does not determine village's and hamlet's heads as local authorities, in the Law ‘on Local Self-Government" (pt. 1, Art. 5) they are defined as local governments, "the main authorities of the territorial community" (pt. 1, Art. 12), enforced with the power to solve local issues (Art. 42), to manage local budgets and extra-budgetary resources, and to enforce contracts etc. Thus municipal heads at the basic level act as independent entities responsible for resolving local issues. Regional and District councils represent the interests of communities and do not have their own executive bodies. Instead, the Law "On Local State Administrations" stipulates that regional and district administrations exercise executive powers in the relevant policy areas.

Deputies of the hamlet, village, town, city, district and regional councils are elected by local residents through general, equal and direct voting, by secret ballot. Chairmen of the Regional and District Councils are elected by the respective council’s members and preside over the executive staff of their councils. Heads of the regional and district state administrations are proposed by the Cabinet of Ministers and appointed by the President of Ukraine; their tenure remains valid while the current president remains in office.

Ukraine's legislation on self-government is complex, in certain parts contradicting itself and at times not particularly clear. For instance, there is some contradiction between the constitution and other laws, e.g. “Law on Local Self-Government”.

Central level

The central level powers include ministries, state committees, central bodies of executive power (equivalent to state committees) and central bodies with special status.
Local level

Under Ukrainian legislation, municipal authorities can decide on their policies independently. In reality, as most of the village and some urban communities do not have enough financial resources to provide all necessary services to their residents, these functions are managed and financed by the district level – state administrations. Thus, enormous administrative powers are concentrated at the level of regional and district administrations; the former are directly subordinated to the president and are not accountable to the voters and the political forces in the region.

The local exclusive competences are governed by the Constitution of Ukraine (Art. 143) and the Law ‘On Local Self-Government’. They determine that local governments:

- approve programs of socio-economic and cultural development and supervise their implementation;
- approve budgets of the respective administrative units and oversee their implementation;
- manage the property that is in communal ownership;
- establish local taxes and fees in accordance with the law;
- approve local privatization programs;
- manage housing and communal services, trade services, transport and communications;
- manage building and construction;
- manage education, health, culture, physical culture and sport;
- regulate land relations and the sphere of environmental protection;
- provide social protection' services;
- conduct foreign economic activity;
- solve issues relating to administrative-territorial structure;
- ensure law and order, protection of rights, freedoms and legitimate interests;
- provide local referendums and implementation of their results;
- establish, reorganize and liquidate communal enterprises, organizations and institutions, as well as monitor their activities;
- resolve other issues of local importance ascribed to their jurisdiction.

District and regional councils do not have executive powers, thus their powers are limited. They approve the programs of socioeconomic and cultural development and control their implementation; approve (but not compile) district and regional budgets.
According to the ‘Law of Ukraine on Local State Administrations’ the main competences shared with the central government consist of:

- the drafting of the local budgets, programs of socio-economic development and allocation of the necessary expenditures;
- property management, privatization, promoting entrepreneurship and implementation of regulatory policy;
- the regulation of industry, agriculture, construction, transport and communication;
- the regulation of science, education, culture, health, physical education and sports, family, women, youth and minors;
- the management of land use, natural resources and environmental protection;
- the conduct of foreign economic activity;
- the provision of social protection, employment, and wages.

The Constitution of Ukraine entitles central executive authorities to delegate functions to local councils. Delegated responsibilities include administrative, financial, personnel, etc. (74 positions according the Law). Among them:

- enforcing obligations regarding payments to local budgets for businesses and organizations regardless of ownership;
- monitoring of compliance with prices and tariffs;
- promotion of investment activity in the territory;
- promotion of recruitment of citizens for military service;
- organization and control of border and coastal trade;
- enforcement of land and environmental regulations.

Delegated responsibilities are accompanied by enhanced control by the central government over local authorities. The State finances the exercise of such delegated powers in full from the State Budget of Ukraine. The share of own revenues of local budgets directed to cover delegated responsibilities is steadily growing: 2009 – 26,3%, 2010- 25,6%, 2011 -33,4%, 2012-42,6%, 2013-43,4%.

**Systems of multilevel governance**

**Representation**

The Law "On Associations of Local Self-Government" provides the right of communities to create regional associations. Associations interact with government agencies in developing and implementing public policy in regional development to harmonize national, regional and local interests.
Article 14 of the law stipulates that such associations have the right to prepare opinions for draft laws and other legal acts on issues relating to regional development. Association seek to influence the Parliament of Ukraine and the Interdepartmental Commission for local governments, which operates under the Cabinet of Ministers of Ukraine. Through these bodies they try to positively influence the annual State budget in the interests of the cities of Ukraine as well as government policy on LRAs.

**Information**

Art. 4 of the Law of Ukraine "On Committees of the Verkhovna Rada of Ukraine" determines that committees of the Parliament of Ukraine interact with other state agencies, local governments, enterprises, institutions and organizations in the exercise of power. Information is also provided to the LRAs by deputies representing the regions, as well as representatives of associations.

**Consultation**

The Advisory Council on Local Government is a permanent advisory collegial body under the Parliament of Ukraine with the following tasks: analysis of government policy on local government and making recommendations on how to improve Ukraine's legislation on local self-government and guarantee the interests of LRAs.

**Coordination**

Because of numerous bureaucratic problems coordination between national executive authorities and regional associations remains low. The rules allow national authorities to ignore the political stage of discussions with associations.

**Relations with the EU/Representation at EU level**

The legal basis for cooperation between Ukraine and the EU on regional development, regional and cross-border cooperation is determined by the provisions of Article 70 of the Partnership and Cooperation Agreement and the section on "Cross-border and regional cooperation" of the Association Agreement between Ukraine and the EU, signed in XX. As part of the Association Agreement, the EU and Ukraine also signed a Deep and Comprehensive Free Trade Area in June 2014. The implementation of the DCFTA was postponed by the EU in September 2014 until January 2016.
According to obligations undertaken by Ukraine in its relations with the EU, the empowering of local authorities according to the principles of decentralization and subsidiarity should be the most urgent task of reform, determined at the Constitutional level.

In addition, in 2014 the Ukrainian Prime Minister and President of the European Commission signed a state building contract with the EU. Under this contract Ukraine gets €355 million from the EU for carrying out reforms. One of the obligations of the contract is the adoption of an effective and comprehensive reform of the civil service and service in local government based on European principles of public administration.

The fully-fledged Mission of Ukraine to the European Union was established in Brussels in 1996. Since July 2010 it has been headed by Kostiantyn Elisieiev.

There are 3 representatives of Ukraine in CORLEAP. These include the representative of the Ukrainian Association of Local and Regional Authorities.

**Subsidiarity**

Subsidiarity is an EU principle embodied in the EU treaties. As such, it is not applicable.

**Bibliography**

Конституція України [The Constitution of Ukraine]. Available at: [http://zakon4.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80].

Закон України «Про місцеве самоврядування в Україні» [Law of Ukraine "On Local Self-Government in Ukraine"]. Available at: [http://zakon4.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80].


Висновки за результатами аналізу та експертизи проекту Закону України "Про Державний бюджет України на 2007 рік" [The findings of the analysis and examination of the project Law of Ukraine "On State Budget of Ukraine for 2007 "]]. Available at: http://www.acrada.gov.ua/control/main/uk/publish/article/768209;jsessionid=11D6F79E1635722A58D5CCA1DA316DAA.


Інформаційна довідка щодо державного та гарантованого державою боргу України (станом на 31.01.2014) Міністерства фінансів України [Statistic data on public and publicly guaranteed debt of Ukraine (as of 01/31/2014) of the Ministry of Finance of Ukraine. Available at: http://www.minfin.gov.ua/control/uk/publish/archive/main?&cat_id=392721&stind=21].


86


Слобожан О. Аналіз державного бюджету України на 2013 рік [Slobozhan A. Analysis of the State Budget of Ukraine for 2013]. Available at: www.auc.org.ua.


Хмельовська О. Держказначейство відкидає усі звинувачення на свою адресу і заявляє про 12 млрд грн боргів місцевої влади. [Hmelovska A. Treasury rejected all accusations and claims about 12 billion local government debt]. - Тиждень 11-07-2013. Available at: http://tyzhden.ua/News/84286.


Annex B: Overview of fiscal decentralisation fact sheets
**Armenia**

There are two levels of territorial authority in Armenia – the central government (*karavarutyun*) and the local level community (*hamaynk*). The community is the only self-government tier in Armenia. There are 915 communities, including 866 villages, 48 towns and the capital city of Yerevan.

**Legal acts governing fiscal decentralisation**


**Qualifying fiscal decentralisation**

The process of fiscal decentralization in Armenia commenced in the mid-1990s with the adoption of the Local Self-Government Law and subsequently the passage of laws specifically governing local budgets, duties and fees, and financial equalization mechanisms. The existing legislation does not provide municipalities with sufficient instruments of financing themselves and their activities. Furthermore, Armenia has very few income sources (due to absence of transit and grant incomes and low customs tax rates), which is why most taxes are collected at the central government level.

Municipal fiscal autonomy has remained low in recent years; furthermore, there has not been a notable trend of an increase of local government revenues as a share of GDP and of total public expenditures. In 2010, the share of local government revenue as a percentage of GDP was 2.45%; in 2011—it stood at 2.31%; in 2012—at 2.39%; and in 2013—at 2.32%. According to the latest figures (2014), the share of local government revenue as a percentage of GDP remains low at 2.36%.

The low level of municipal revenue autonomy is also revealed by the fact that own revenues (local taxes, local charges and fees) constitute only 16.3% of municipal revenues and earmarked revenues (shared taxes) amount to 4.1%. According to latest available figures, direct transfers from state budget constitute 48.7% of local revenues. The remaining share of revenue (31%) is derived mostly from grants, business activity income, donations, and state assistance for the implementation of specific municipal projects.
The composition of municipal expenditures reflect the range of competences devolved to the sub-national level in large cities like Yerevan, Gyumri, Vanadzor and some other towns, however, expenditures in the considerably large number of Armenia’s local governing bodies corresponding to communities with populations of less than 1000 inhabitants mostly cover local administration costs.

The largest area of overall municipal expenditure by functional classification (as of 2014), is pre-school education, subsided from central government budget and amounting to 30% of all municipal budgets. The second largest area of expenditure (23%) is ‘general government expenditure’, that is, the wages of administrative staff and mayor and the costs of running the municipality. The third group are housing/communal amenities (13%); 10% is allocated to economic affairs, 10%, to environmental protection (mostly waste disposal), 7% to culture, recreation and religion, 4% to social welfare.

The 1998 law on financial equalization that provides for state subsidies to municipalities takes account of population size, property and land taxes collected in a community; zonal aspects of the land, such as location above sea level and quality of land. All communities are entitled to state subsidies.

**Deficit, debt at the sub-national level and borrowing capacity**

Many communities have debts but overall, municipal budgets over the last 10 years have been balanced. Deficit in one year would be compensated by surplus in the next. In 2012, municipal budgets had a deficit of 2% (as a share of the budget, or 0.05% share of GDP); while in 2013, there was a 2.5% surplus (or 0.06% of GDP).

Local governments have the possibility of accessing debt markets. Specifically, municipalities have the right to finance their deficit according to the Law on Local Self-Government of Armenia (current version adopted in 2002). The right to credit was included in the first version of the law and is now operable after a series of amendments to it had been adopted. (Article 57).

Municipalities can issue local obligations within the scope defined by the central government. Annual figures for outstanding debt for Armenia’s municipalities are quite low however. The national government controls the limits of borrowing, stipulating the limit of +/- 5 million Euros annually for all the communities including the capital, Yerevan. In 2014, deficit amounted to -0.3 billion drams (-0.5 mln. Euros). Borrowing as part of projects funded by external lenders like the World Bank is incurred by the national government, which then disburses grants to municipalities, while some internationally
funded projects, with partial or full fee covering, are being conducted by the municipalities themselves (e.g. World Vision, etc.)
Azerbaijan

Azerbaijan has two key tiers of government, including the central government headed by the chief executive, and the Local Executive Authority (LEA), which represents an extension of the national executive branch of power. There is also a third—effectively nominal—tier of governance, represented by municipalities (Bələdiyə). However, municipalities are de-facto subordinated to the LEA.

Legal acts governing fiscal decentralisation

The foundations of municipal finance are established by a triad of laws: the Law on the Transfer of Assets to Municipalities; the Law on Municipal Finance; and the Law on Municipal Territory and Lands. (December 7, 1999). The other key legal document dealing with fiscal issues in the country is the Tax Code of Azerbaijan, which does not however enable fiscal autonomy and fiscal decentralization.

Qualifying fiscal decentralisation

The degree of fiscal centralization has remained considerably high in Azerbaijan. The high degree of centralization in Azerbaijan and the closed nature of the country’s political system accounts for the fact that very limited systematic over-time data are publicly available on the revenue, expenditure, and borrowing aspects of municipal governance. Only a very limited range of municipal functions are independently performed by municipalities. The vast majority of municipal functions are shared with central authorities or LEAs. In some cases, municipalities can be involved as implementing bodies, but the funding tends to come from LEAs.

Azerbaijan’s municipalities have limited revenue autonomy. The majority of functions related to the provision of key public services fall within the scope of the authority of the LEAs. On some issues, the LEAs are required to take into consideration the views of municipalities. However, funding from state budget goes directly to the LEAs, and it is the latter, rather than municipalities, that are responsible for submitting budget proposals to the state. The role of municipalities is therefore limited to being ceremonial.

The current share of local government revenue as a percentage of GDP is between 0.05-0.5%. In 2014, 1715 municipalities collected 49.06 m manats (0.08% of GDP. Azerbaijan’s GDP in 2014 totaled around 59 bn manats). Out of this number, 27.3% fell on taxes. The remaining share of municipal revenue falls within the revenue scope of the LEAs. Local charges and local taxes
constitute between 2 to 10% (based on the data for 2002-2012) of overall national income. Available data (from 2002) indicate that around 35-40% of municipal revenues come from taxes (namely property tax on land), with a record minimum collected in 2007 (18%), and maximum in 2003 (48%).

Over the last five years, local government revenues, relative to national GDP, have decreased in percentage share terms but increased in absolute values. Due to the sharp increase in Azerbaijan’s GDP (because of high oil prices) the share of local government revenues naturally decreased although in absolute terms there has been some increase.

Precise data on municipal expenditures are not available. The two main municipal expenditure items are salaries for employees and mandatory fees to the State Social Protection Fund. Information on local budget expenditures has not been recently made publically available on the websites of local authorities. However, available information for the years 2003-2005 indicates that the biggest share of all expenditures in 2003-2005 (between 40% to 30%) fell on administrative costs of running municipalities such as the payment of salaries. The second biggest share of all expenditures (between 12% to 23% of all revenues) fell on repair and pavement of municipal roads.

The composition of municipal expenditures does not reflect the range of competences devolved to the sub-national level. The current fiscal legislation provides municipalities with little discretion over a significant portion of the responsibilities granted to them by the Law on the Status of Municipalities. Municipal expenditures are completely detached from municipal competences and responsibilities.

**Deficit, debt at the sub-national level and borrowing capacity**

There are no legal barriers to municipal borrowing, but formal mechanisms for applying for, or for receiving loans, until recently have not been stipulated in the legislation.

According to the Law on The Budget (Article 34.2-24.5), municipal deficit can be covered from state budget within the particular threshold stipulated by the government. In December 2014, amendments to the law on the budget system were adopted, which cover municipal subsidies. According to the amendments, subsidies will be calculated taking into account the number of people living on the territory of a municipality, their share in forming financial resources of the country, income and expenditures of a municipality, location of the municipality on state borders or in the highlands, living standards of the local population, expected social and economic projects, etc. However, the amendments contain
no information as to the per capita fiscal capacity threshold within which subsidies would be activated.
Belarus

**Legal acts governing fiscal decentralisation**

The main legal acts governing fiscal decentralisation are the Budget Code of the Republic of Belarus and the Constitution of the Republic of Belarus.

**Qualifying fiscal decentralisation**

Local government revenues derive from own revenues, assigned revenues and the state budget. In 2014 the breakdown was as follows: under own revenues, non-tax revenues made up 9.6% and local taxes around 1%; assigned revenues amounted to income tax and profit tax of 47.2%, property taxes of 9.6% and commodity taxes of 28.5%; and inter-budgetary transfers made up 37.3%. In 2012 the share of local government revenue as a percentage of GDP was 17.5%. More recent data is unavailable. However, in the preceding period it is evident that local government revenues as a share of GDP have remained largely stable. The composition of local government expenditures does not exactly reflect the range of competences. While the main part of the expenditures on health, education, housing and community amenities falls on local bodies, policy is determined at the national level.

**Fiscal equalisation mechanism**

As a unitary state, fiscal equalisation mechanisms per se do not exist. However, inter-budgetary transfers (subsidies from central budget to local budgets) do exist aimed at the equalisation and balancing of local budget revenues and are based on the number of residents of a territory. The amount of transfers for each local budget is calculated based on the difference between expected revenues and expenditures at the local level. Expected revenues are based on the taxation and economic capacities of a territory, expenditures are based on the standard of budget sufficiency (the per capita threshold). The budget sufficiency per capita takes into account the difference in the cost of goods and services provided by the government as well as the ecological, economic and social conditions of a territory. This per capita threshold (budget sufficiency) is defined for specific government expenditures for each oblast and Minsk city.
Deficit, debt at the sub-national level and borrowing capacity

The 2008 Budget Code lays out local government borrowing capabilities and there have been no significant innovations since that time. Under article 65 of the Budget Code, local governments are able to access internal debt markets. Local governments do not need to obtain permission from the national government to access the debt market. However, local government debt limits have to be approved by the Ministry of Finance (Budget Code, Article 65). As of 2012 gross local government debt stood at 8.31% of local government revenue. From 2005 to 2010 local government debt rose relative to local government revenues. However in both 2011 and 2012 debt levels started to decrease. In recent years there was a local government budget surplus.
Georgia

**Legal acts governing fiscal decentralisation**

The main legal acts governing fiscal decentralisation are the Law on local government budgets, the Law on property of local municipalities, the Law on distribution of revenues between central and local governments, the Law on the budget system of Georgia, and the Tax Code of Georgia.

**Qualifying fiscal decentralisation**

Local government revenue derive from own revenues (local taxes, local charges and fees), assigned revenues (shared taxes), the central state budget and other revenues (e.g. grants and loans). In 2014 local taxes amounted to 16.2%, shared taxes 8.9%, inter-budgetary transfers 58.5 and other revenues 16.3% compared with 13.8% local taxes in 2013, 8.5% shared taxes, 64.1% inter-budgetary transfers and 167.3 from other sources. In 2014 the share of local government revenue as a percentage of GDP was 4.9%. Since 2009, local government revenues have decreased by 1.7 percentage points. On the whole, the composition of municipal expenditures reflects the range of competences devolved to them. However, the needs of local municipalities are higher than their revenues and part of their competences is financed from the central budget.

**Fiscal equalisation mechanism**

The Law on local government budgets lays out the country’s fiscal equalisation mechanism. It takes into account a range of factors including the size of population, the area, the number of children aged from 0-6, the number of young people aged from 6-18 years, the status of the capital and roads of local importance. In addition to ambiguities surrounding the definition of the transfer. The mechanism, which is financed from the central state budget, is activated when local governments own revenues are not enough to cover its expenditure. However there are ambiguities concerning the definition of the transfer mechanism and its method of calculation has changed over time.

**Deficit, debt at the sub-national level and borrowing capacity**

The Law on local government budgets stipulates that local governments can borrow only from the central government or with the consent of central government. There is no other legal act, which defines ways in which local government can access debt markets and there are no limits on non-sovereign borrowing. While reliable statistical data on the outstanding debt of local
municipalities is unavailable, given the very low level of local government borrowing (around 0.5-1.0% relative to revenues and around 0.1% relative to GDP) per year on average, the stock of outstanding debt is likely to be negligible compared to own revenues and GDP. Local government borrowing mostly consists of World Bank financed projects, but as already mentioned local government borrowing is very low compared to both its revenues and GDP.
**Moldova**

Moldova is a unitary state with local governments operating at two tiers. There are thirty five territorial units corresponding to the second level of local government authority: thirty two districts (rayons), two municipalities (municipii) -Chisinau and Balti, one autonomous territorial unit (UTA Gagauazia), and one un-recognized territorial unit (Transnistria). The thirty five units are divided into 896 first-level territorial units–towns (oraşe) and villages (sate).

**Legal acts governing fiscal decentralisation**


**Qualifying fiscal decentralization**

The process of fiscal decentralization reform commenced with the passage of the legislation on public finance and decentralization in the early 2000s. Local government bodies however continue to suffer from an insufficient fiscal base. Local government revenues as a share of GDP are low; in 2013, they represented 1% of GDP. Own revenues (local taxes, local charges and fees) constitute 9% of municipal revenues. Shared revenues—from national taxes collected locally, such as personal income tax; corporate income tax; or VAT—in 2013 constituted 3.5% of GDP.

With the implementation of the school financing reform, half of expenditures at the local level are now at the top-tier level (rayons). Rayon governments accounted for two-thirds of subnational expenditures on education in 2013 (compared with less than 10% in 2012). The rayon governments also continue to dominate subnational expenditures on social benefits. This distribution of expenditures between top- and bottom-tier jurisdictions is consistent with mandated expenditure assignments.

Between 2008 and 2013, 78% of local capital expenditures were financed through budget fund transfers from central government; 5 % from transfers from special funds (Social Fund, Ecological Fund, Energy Efficiency Fund).

In Moldova, fiscal equalization mechanisms are in place to ensure the provision of mandatory services and based on a special formula stipulated in the Law on Local Public Finance. The mechanism takes into account factors like population size, number of pupils in schools, share of the elderly in municipal population,
taxation capacity, etc. Equalization grants constitute roughly two-thirds of the total local revenues. State equalization grants intended for the first- and second-level local budgets go to the rayons (districts). In turn, the rayons set the amount of grants to the first level (towns and villages) in accordance with the legal equalization formula.

There is a structural problem in the financing of local governments. Originally, the equalization system at the central level was supposed to contain transfers from both the state budget and from regions with high revenues compared to expenditures. Since tax revenues do not keep pace with the costs of the mandatory services, the transfer component from rich regions has disappeared. Even the Chisinau capital city municipality, which earlier contributed to the system, now also receives equalization grants from the state budget.

**Deficit, debt at the sub-national level and borrowing capacity**

Local governments in Moldova have the possibility of accessing debt markets. The Law on Local Public Finance (2003, last amended in 2013) allows municipal borrowing for capital purposes both domestically and abroad. It also provides for the possibility of issuing guarantees on borrowing to municipal enterprises and fully- or majority municipal-owned enterprises, as long as debt service, including repayment of principal and interest, is below 20 percent of annual municipal revenues. In order to access debt markets, as stipulated in the law on public finances, municipalities are required to obtain approval from the local council. Nevertheless, while the national government is not required to approve requests for accessing debt markets, the Ministry of Finance exercises supervision over the process of borrowing.

In 2013, the total outstanding municipal debt was quite low, at 0.7% of GDP; a large share of this figure is debt incurred by the municipality of the capital city of Chisinau. In the case of Chisinau, the key issue is outstanding debt to energy companies, which the government plans to tackle by restructuring the heating sector and ensuring that the municipality divests itself of the stake in district heating companies. Over the last few years, there has been a slight decrease in local government debt. Ministry of Finance data indicate that as of the end of 2013, local governments had unpaid bills totaling 37.9 million MDL (or about 0.3 percent of subnational revenues), down from 147.8 million MDL at the end of 2011.
Recent borrowing included loans from international lending institutions. Specifically, in 2013, the municipality of Chisinau took loans from EBRD and EIB totaling 48 million Euros. Generally, municipalities stay within the borrowing limits stipulated by law.

Recent amendments to the legislation change in a number of ways the legal framework for subnational debt. First, with the abolishment of the hierarchical structure of subnational governments, intergovernmental loans are not confined any longer to borrowing from the government level immediately above. This means that the new law allows bottom-tier jurisdictions to borrow from the central government or other bottom-tier governments. Furthermore, issuance of municipal bonds is now allowed for the bottom-tier jurisdictions, and guarantee issuance is also permitted for the bottom-tier municipalities (to municipal enterprises and commercial enterprises whose capital is wholly or majority-owned by the municipality). The rules on subnational debt do not place restrictions on foreign borrowing.
Ukraine

**Legal acts governing fiscal decentralisation**

The main legal acts governing fiscal decentralisation are the Budget and Tax Codes of Ukraine, the Law “On the Principles of Regional Policy” (2015) and “On a Voluntary Association of Communities” (2015). At the end of 2014 significant changes were adopted to Budget and Tax Codes under the Law “On Amendments to the Budget Code of Ukraine on the reform of intergovernmental relations” and the Law “On Amendments to the Tax Code of Ukraine and some other legislative acts of Ukraine on tax reform” respectively, that enhanced the fiscal capacity of local councils.

**Qualifying fiscal decentralisation**

The share of own revenues derived from local taxes (the property tax, individual income tax) amounts to 7% of local budgets, shared taxes amount to 13% and the amount of intergovernmental transfers account for 52.4% of local revenues. The current share of local government revenue as a percentage of GDP was 22.2% in 2014 and 23.8% in 2013. There was an increase in the share of tax revenues over the last five years in the structure of local budgets. Tax revenues increased from 76.5% in 2007 to 86.8% in 2013 (without intergovernmental transfers). The largest source of revenues of local budgets is income tax.

Municipal budgets direct a much higher share of their revenues towards social and culture policy areas (education, public health, social protection and social security, culture and arts, physical culture and sports) – 86.3 % compared with 47.8% in the central budget – 47.8%. These areas constitute delegated responsibilities; their scope and mechanisms of financing are controlled by the state. As concerns spending on housing and community amenities their volume in local budget expenditures has experienced a significant reduction to 3% in 2013. The share of expenditures in local budgets on delegated responsibilities totaled to 78.9%, and the share of expenses for own responsibilities were 21.1%.

**Fiscal equalisation mechanism**

With changes to the Budget and Tax Codes, from January 2015 local governments received a new fiscal equalizing mechanism. In addition to the basic transfers (listed below) and reverse transfers, local budgets receive target subventions on education, medicine and the grants for training workers. At the regional level the special fiscal index is based on corporate income and
individual income taxes per capita of the population. At other sub-national levels, the special fiscal index is calculated on individual income tax per capita of the population. The fiscal equalisation mechanism is financed from the national taxes and duties that come to the state budget and finances transferred to the state budget for horizontal equalisation (reverse grants).

**Deficit, debt at the sub-national level and borrowing capacity**

All municipalities, regardless of population size, have the right to borrow from international financial institutions. Only local governments of municipalities with over 500 thousand inhabitants have access to external debt markets above and beyond international financial institutions. Municipalities are entitled to access debt markets under Articles 16 and 74 of the Budget Code of Ukraine, which was signed in 2010 with numerous late revisions. According to Art. 6 of the Decree #110 of the Cabinet of Ministers of Ukraine the amount and terms of any borrowing or debt restructuring by municipalities should be approved by Ministry of Finance. In 2013 the total amount of local government debts on loans amounted 10 % of total local revenues. After a significant reduction of the subnational debt in 2011 (down to 1.01% of GDP), it started to rise again in 2013 and amounted to 1.5% of GDP.

78 % of municipal debt constitutes internal loans, while external borrowing is 21 %. The largest loans were taken out by local governments from the Treasury (58.6% in 2013). From 2011 to 2013 the share of banks’ loans was significantly reduced from 26% to 5.3% respectively. In addition, the debt obligations of local budgets on securities increased to 35% in 2013. The highest external borrowings come from European Bank of Reconstruction and Development and Nordic Environment Finance Corporation. The total debt of local budgets in 2013 accounted for 21 billions hryvnia, corresponding to 1.5% of GDP.

In 2015 with the changes to the Budget Code a simplified procedure for local government borrowing and guarantees were introduced based on the principle of "tacit consent" in such transactions agreed with the Finance Ministry (Article 74) Besides, all local authorities got the right to borrow from international financial institutions (Article 16).

Local governments adhere to the debt ceiling limit which is set at the level of 200% (for Kyiv - 400%) of the average indicative forecast revenue development budget (excluding the amount of local debt and capital transfers (subsidies) from other budgets. In 2013, 472 of the 692 local budgets did not fulfill the estimated budget indicator that is more than 68%.
References


World Bank. 2012. “Kazakhstan in the Customs Union: Losses or Gains?”