

Needs Assessment of Municipal Services Development

Azerbaijan

Tovuz, Mingechevir, Goychay

Weitz Center for Development Studies

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Acronyms

AGR	Average Annual Growth Rate (in %)
AZM	Azerbaijan National Currency (AZM)
CoE	Council of Europe
EF	Eurasia Foundation
EU	European Union
GTZ	German Agency for Technical Cooperation
IDP	Internally Displaced Person
IFES	An international, non-profit organization that supports the building of democratic societies
IMC	International Medical Corps
IMDP	Integrated Municipal Development Plan
LEA	Local Executive Authority
MoA	Ministry of Agriculture
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoJ	Ministry of Justice
MoYST	Ministry of Youth, Sports and Tourism
NGO	Non-Government Organization
OECD	Organization for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
OXFAM	Oxford Committee for Famine and Relief
SME	Small and Medium Enterprise
SPPRED	State Program on Poverty Reduction and Economic Development
SSC	State Statistics Committee
UNICEF	United Nations Children Fund
USAID	United States Agency for International Development
USD	US Dollars
WB	World Bank

TABLE OF CONTENTS

A	Executive Summary	5
B	Introduction and methodology	9
Section I	Community needs and municipal services	14
1.1	Services provided by the state and by the municipalities	14
1.2	Services delivery in Tovuz, Goychay and Mingechevir	17
1.2.1	Education	18
1.2.2	Health	21
1.2.3	Infrastructure	25
1.2.4	Promotion of SME development and entrepreneurship	28
1.2.5	Additional services	29
1.3	Social aspects and organization	30
1.3.1	General overview	30
1.3.2	Economic hardships	31
1.3.3	Women	32
1.3.4	Dynamics and characteristics of local grassroots leadership groups	34
1.3.5	Community mobilization and its challenges	35
1.3.6	The role of local NGOs	37
1.3.7	NGOs and municipalities	39
1.3.8	Summary and Conclusion of the findings of social aspects and community organizations	40
Section II	Main obstacles and resources in addressing Community's needs	41
2.1	Access to sources of funding	41
2.1.1	District financial resources	41
2.1.2	Municipal funding sources	42
2.1.3	Budget forecasts	44
2.1.4	Summary of findings regarding district/municipal finance	44
2.2	Municipal enterprises	45
2.3	The coordination councils	47
2.4	International investment	49

Section III	Possibilities for Development	50
3.1	Capacity-building and training	51
3.2	Options for SME promotion by municipalities	52
3.3	Coordination councils	52
3.4	Promotion of Municipal enterprises	53
3.5	Support for NGOs	54
3.6	Proposed Pilot Projects	55
3.6.1	Integrated Municipal Development Plan (IMDP)	56
3.6.2	Regional Resource Development Center	64
3.6.3	Coaching for Municipal Chairmen	70
3.6.4	Community-based Health Point	74
Section IV	Annexes	76
4.1	Goals and objectives	76
4.2	Budget tables	78
4.3	Municipal income and expenses tables	79
4.4	Municipal enterprises in Mingechevir	80
4.5	Data collection for formulation of an IMDP	80
4.6	Funding of municipalities	86
4.7	Model statute on block associations of municipalities	87

A Executive summary

This report is the result of combined funding from the Organization for Security and Co-operation in Europe (OSCE) and the Eurasia Foundation (EF), with technical assistance provided by IFES and the German Agency for Technical Cooperation (GTZ).

The main purpose of the report is to assess the needs for municipal service delivery in selected municipalities in Azerbaijan and to propose options for the provision of additional services and pilot projects according to the financial, technical, administrative and social capabilities of the municipalities. The services that are analyzed include: education, health, local infrastructure and SMEs. The analysis focuses on three regions: Tovus, Goychay and Mingechevir.

The study is based mainly on field visits to eight municipalities in the three districts, interviews and discussions with hundreds of respondents and government officials as well as the use of existing studies and evaluations.

The final output of the report is a summary of potential interventions that the municipalities can initiate, plan, fund and implement within the current legislative limitations and with modest external (including international) funding.

The report provides the international organizations, government agencies, local executive authorities, municipalities and local NGOs with a relevant assessment of the services currently provided by the municipalities and services that are needed by the population and a summary of programs and projects that can be immediately and beneficially implemented.

MAIN OBSERVATIONS

Municipal services:

One of the main strategies of the government's policy for the reduction of poverty as outlined in the "State Program on Poverty Reduction and Economic Development (SPPRED)" is to intensify service provision and community participation by promoting local governance and municipal decision-making processes. At present, the municipalities do not have the legislative framework, the financial resources or the professional and administrative capabilities to fulfill their responsibilities as perceived by the population. Neither the national government nor the state authorities consider the municipalities to be formal government entities. They have limited tax collection powers and a poor financial base. They operate within a vague under-developed system of laws and regulations and are subordinated to a parallel system of state authority.

Nonetheless they are the only locally-elected entity and residents expect them to provide improved and affordable basic public services.

The team's investigation indicates that the level of service delivery (in the surveyed municipalities) is generally poor in terms of delivery, accessibility of service units and the equipment and facilities provided. Most of the services are provided by the government through the Local Executive Authorities (LEAs) Municipalities are extremely limited in the scope and range of service interventions they can offer. That said, the extensive analysis conducted by the assessment team reveals that in certain and defined sectors, the municipalities can initiate and formulate sustainable programs that will directly benefit their constituent communities.

Social aspects:

The assessment conducted by the team indicated that most of the inhabitants of the surveyed regions identify poverty and unemployment as primary problems. The people are not fully aware that they are entitled to negotiate with officials and have an ongoing dialogue with the authorities. Those who are united within block associations, community groups and NGOs, and those that have graduated from capacity-building programs, have a better understanding of the dialogue options open to them and the potential benefits of the democratic principles.

However, there is a substantial gap in the potential capacity for social mobilization and development between the smaller rural municipalities and the larger urban ones like Tovuz and Mingechevir. In these last two, there are substantial activities in the establishment of local grassroots groups supported by NGOs, both local and international. Training and capacity-building programs by organizations such as IFES and GTZ have been influential in developing democratic thinking among municipal councilors and block association leaders.

Financial resources:

Fund allocation for rural services delivery in Azerbaijan is very low compared to countries with similar development levels, with per capita state budget allocations averaging USD40-43. The state district budgets are determined and strictly itemized at the national level through the Ministry of Finance with very little local control. Although annual district budgets have increased consistently between 2000 and 2004, state grants to municipalities have decreased, with municipal budgets per capita averaging USD.50. Tax and fee collection rates from individuals (the only taxes allowed to municipalities under the current law) are also relatively low, due in part to the lack of enforcement measures accorded to municipalities under the law. Selling and leasing of land and the establishment of municipally-owned income-generating activities have become some of the applied solutions, with little consideration given to long-term sustainability plans.

International assistance:

Development and expansion of the roles of municipalities in the sphere of community development and services provision will require international funds and, just as importantly, the expertise and experience that these institutions can provide. International funds should be limited to those areas in which seed funds are required in order to demonstrate the viability of a project or where initial amounts can generate additional funds from local sources. The sustainability of an investment and its multiplier effect must remain the main indicators for allocation decisions. International organizations should try to coordinate with one another the types of activities that are financed and the geographical locations of their interventions. A list of projects that these funds might target is provided below.

PROPOSED PROGRAMS AND PROJECTS

- 1) *Training:* Training must address the issues of economic and social development of municipalities, especially regarding medium-term strategic and integrated planning of the municipality, maintaining sustainable and efficient public service delivery systems and the establishment and operation of viable income-generating enterprises. Training modules should include all of the relevant stakeholders in the activity, namely municipal councilors, municipal professional staff (where relevant), LEA and block association representatives and personnel from local NGOs and other active community groups.
- 2) *Promotion of SMEs:* Although SME promotion is a vertically-integrated intervention that requires national, district and municipal cooperation, several of the components can and should be implemented by the larger urban municipalities. Examples of such components include capacity-building, training and financial support for SMEs through the establishment of accessible municipal-level micro-credit schemes.
- 3) *Municipal enterprises:* There seem to be opportunities for municipal enterprise development as an additional source of funds. The recommendation is that municipal enterprises should be considered in the larger municipalities of Tovuz, Goychay and Mingechevir. Smaller rural municipalities should refrain from running their own businesses at this stage until their knowledge of the business environment and potential risks involved have been developed.
- 4) *Support for NGOs:* Priority should be given to programs that provide immediate and tangible benefits to the communities. Introduction of revenue-raising techniques such as fees-for-service or the creation of income-generating enterprises should be actively promoted. Moreover, small grants should be integrated with training and capacity-building. Partnerships among the

municipalities, LEAs, government agencies, the private sector and local NGO groups should be promoted.

- 5) *The proposed pilot projects* will strengthen the abilities of municipalities to plan and manage socio-economic development, and to increase their influence and respect among relevant stakeholders and communities. They will also promote enhancement of social and economic mobility through empowerment and self-sufficiency activities.

The pilot projects described in section 3.6 include:

- Integrated Municipal Development Plan (IMDP)
- Regional Resource Development Center
- Coaching for Municipal Chairmen
- Community Health Point

B Introduction

This study was funded by the Organization for Security and Co-operation in Europe (OSCE) and the Eurasia Foundation (EF), with technical assistance provided by IFES and the German Agency for Technical Cooperation (GTZ).

The main aim of this study is to assess the socio-economic needs of the targeted communities, to identify the main obstacles and resources available to municipalities and to assess possibilities for development within the current local governance framework. The emphasis is on the potential prospects of the municipalities to provide suitable, efficient and sustainable services to the community. The analysis focuses on three regions: Tovuz, Goychay and Mingechevir.

Provision of public services requires cooperative and complementary efforts from diverse stakeholders and public agencies. In most countries, the responsibility of delivering community services rests on the national government, the local government and non-governmental organizations. In Azerbaijan, the local government level (specifically municipalities) is a new administrative body struggling to establish itself within the Azerbaijani bureaucracy as a legitimate and influential participant. The parallel system of authority, a vague and incomplete statutory system and a dearth of active civil societies can make it that much more difficult.

The upgrading of the status of municipalities is also a priority of the Government of Azerbaijan and is expressed in the State Program on Poverty Reduction and Economic Development (SPPRED) and reads, "The government has been trying to decentralize management within the public sector. The creation of municipalities can be considered an important step in this process. As part of the process of decentralization, the municipalities can contribute to the strengthening of local governance and decision-making by improving allocation of resources at the local level, promoting regional development and allowing local communities to participate more actively in decision-making."

The state authorities and LEAs are part of the state government, answerable to the President, and responsible for implementing state programs, while the municipality is a "non-government organ" elected and answerable to the members of the local community that may address issues of local concern in ways that do not conflict with national or district concerns.

The first municipal elections in Azerbaijan were held in December 1999. Most municipalities actually started functioning in the beginning of 2000, only five years ago.

According to the current legal framework (specifically the Law on the Status of Municipalities), municipalities have certain latitudes in creating municipal programs and delivering services to their constituents. Their responsibilities include those necessary for dealing with social, economic and environmental issues not addressed by government and state authorities and those necessary for complementing and supplementing state authority programs. The main areas for municipal interventions include:

- elaborating and implementing social, economic, and environmental programs at the local level;
- developing and maintaining programs in the sphere of education, health care, culture, social security and sports; and
- establishment of legal entities in various income-generating activities for the financial benefit of the community.

The prime sources of funding for a municipality include:

- taxes (land tax, property tax, and taxes on profits of municipal enterprises and organizations,
- royalties on the extraction of natural resources,
- fees for street advertisement, hotel duties, parking fees, etc., and
- subsidies and grants from the state budgets or other contributions and donations.

Previous studies have clearly indicated that the resources and assets that have been put at the disposal of municipalities are inadequate for the task required. These deficiencies have been frequently addressed by the government (SPPRED): “Municipalities still do not have full use of the property which is allocated to them and the funding which they are entitled to from the central budget.”

International organizations have also addressed the situation, stating that “Municipalities are expected to solve the social problems endemic to the country without the requisite resources to do so.”¹ Council of Europe (CoE) recommendations have likewise stated that “the financial independence and tax-raising capacity of municipalities in Azerbaijan is very limited; the only revenue available to most municipalities comes from non-lucrative local taxes and charges.”

In addition to funding challenges faced by municipalities, the elected municipal leaders must function in parallel with powerful and established local executive

¹ “Baseline Assessment of Municipalities” by Katherine Triantafillou, Kamran Bagirov and Jeffrey Carlson (IFES Baku and IFES Washington DC), funded by USAID, May 2002).

authorities (LEAs), who are appointed by the President. The division of responsibilities between the two bodies is unclear.

This assessment study examines the needs of the population in the three districts regarding services provision, evaluates the capacity of the municipalities to deliver the services and proposes possibilities for future development.

Section I describes current community needs and municipal services, summarizing the key services that are provided by the state and municipal authorities, focusing on municipal services delivery in the three districts and the requirements of the population for additional services that are not currently provided.

Section II investigates the main obstacles and resources in addressing community needs.

Section III presents options for future development with suggestions for specific pilot projects.

The recommendations of the study should be beneficial to most of the agencies and stakeholders active in the rural areas of Azerbaijan: the international organizations in the midst of an evaluation process regarding future assistance to municipalities and local organizations; the municipalities themselves which are attempting to deliver affordable and efficient services to their constituents under difficult financial and administrative constraints; and the government agencies and SPPRED administration in their attempts to upgrade the decentralization process in Azerbaijan and increase the effectiveness of public interventions and participation in the development process.

The assessment has been conducted by the Weitz Center for Development Studies in Rehovot, Israel. The Weitz Center is a non-profit NGO specializing in rural development for less developed regions. The assessment team included Mr. Michael Gorelik, specializing in rural development and services delivery systems, and Ms. Ruti Sofer, specializing in human resources development and the social aspects of development.

The major data gathering and assessments were conducted by the assessment team between August 26th to September 14th 2004. The final analysis and drafting of the report was concluded in January 2005.

Map 1: Location of Municipalities Targeted Within this Assessment



ASSESSMENT METHODOLOGY

The heterogeneous and diverse nature of the municipalities, beneficiary groups, stakeholders and assessment objectives obliged the experts to utilize a variety of methodological tools and assessment procedures. The methodology was participatory in nature, including meetings and interviews with more than 210 people (Annex 4.1) and consisted of the following steps:

1. Mapping and listing the main stakeholders in each municipality and district. These included local community leaders, municipal counselors, local executive authorities and departments, local and international NGOs and particular target groups of the communities.
2. Conducting in-depth interviews with selected officials, decision makers, elected leaders and other influential stakeholders. The open interviews included:
 - Review of the current national, regional and municipal laws and regulations,
 - Appraisal of the local situation regarding development potentials, bottlenecks and obstacles, and
 - Critical examination of the programs, processes and outcomes.
3. Conducting group meetings with relevant target groups. The selected target groups included: women, mothers, teachers, nurses, farmers, laborers, entrepreneurs, businessmen and community leaders. Groups gathered in their respective communities, such as village gatherings, tea houses, markets, health points, etc.
4. Conducting informal interviews with individuals from the local communities who were chosen randomly during their regular daily routine. These informal interviews were held in a relaxed and casual atmosphere and designed to suit the specific circumstances of the respondent.
5. On-site visits and examinations of the physical conditions, equipment and operations of the various service units, including kindergartens, schools, health points, hospitals, cultural centers, business centers, sports facilities, libraries and other service delivery units.
6. Collection and analysis of relevant published materials such as previous needs assessment reports, working papers of the various agencies, publications, policy papers, budget summaries and diagrams.

Section I: Community Needs and Municipal Services

1.1 SERVICES PROVIDED BY THE STATE AND MUNICIPALITIES

The Government's policy for the reduction of poverty is outlined in the "State Program on Poverty Reduction and Economic Development (SPPRED)" in six key strategies:

1. Facilitation of an enabling environment for the growth of income-generating opportunities,
2. Maintenance of macro-economic stability,
3. Improvement in the quality of, and equity in, access to basic health and education services,
4. Improvement of infrastructure,
5. Reform of the existing system of social protection to give more effective protection to the vulnerable, and
6. Improvement of the living conditions and opportunities of the refugee and IDP population.

The SPPRED strategies recognize the important role of the municipalities in this process: "The creation of municipalities can be considered an important step in this process. As part of the process of decentralization, the municipalities can contribute to the strengthening of local governance and decision-making by improving allocation of resources at the local level, promoting regional development and allowing local communities to participate more actively in decision making."² Moreover, re-defining the role of the state, improving transparency of the public administration and promotion of decentralization are presented as the main strategic objectives of institutional reform.

The state program puts special emphasis on social policies and services delivery. Regarding the educational sector, ensuring equity in the quality of primary and secondary education by guaranteeing textbook provision to all pupils, introducing new educational technologies and a more decentralized flexible budgeting system, initiating teacher training programs and improving access to education are among the main development goals.

The main elements of the health sector reform is to ensure rationalization of health services in order to reduce the number of hospital beds and reallocate staff and

² Program on Poverty Reduction and Economic Development 2003-2005, pp. 25

resources to outpatient services, introduce preventive interventions, improve access to and quality of basic health services and improve health management techniques and promotion of community participation.

Roles of the Local Executive Authorities (LEAs) in Service Delivery:

The local (district) Executive Authorities are the part of the state organs performing state executive duties within their jurisdictions. Heads of local Executive Authorities are appointed by and are solely subordinate to the President of the Republic of Azerbaijan. The LEAs are responsible for the elaboration and implementation of development programs for cities and regions in the social, economic and environmental fields. This may include the general development of urban or rural areas or specific tasks such as the development of city infrastructure (e.g., roads, telecommunication, etc.). In practice, the LEAs are responsible for virtually all development activities within the district, including:

- infrastructure,
- physical assets, and services such as
- education,
- health,
- welfare,
- housing, and
- community services.

The responsibility includes planning, investment and the subsequent operation of the units. The main financial sources are allocations and subsidies from state budgets.

Roles of Municipalities in Service Delivery:

The municipalities are expected to fill any possible gaps in the state program and to complement and supplement the services provided by the state. The law on the status of municipalities indicates that municipalities are expected to be involved in local economic development programs that are intended to resolve important local development issues which are not mentioned in the economic development programs implemented by the state or issues in addition to the state's program. These programs can include:

- pre-school education,
- vocational education,
- health,
- culture,
- maintenance and use of dwellings and other buildings,
- organizing the development and maintenance of local infrastructure,
- water works and apartments,
- welfare services, and

- cultural activities³

A municipality is responsible for implementing local programs not covered by state programs, among them: elaborating and implementing social, economic, and environmental programs at the local level. These programs should respond to specific local community needs and aspirations.

Comparison of the responsibilities of municipalities in Azerbaijan with those of comparable local government bodies in other European countries points to the dearth of powers, influence and responsibilities of the Azerbaijani units. This is also reflected in the recommendations of the Congress of Local and Regional Authorities of Europe: “The powers and responsibilities of Azerbaijan’s municipalities are very limited, failing to account for any substantial share of public affairs as stipulated in the European Charter of Local Self Government. Moreover these powers are neither full nor exclusive, in fact all municipal duties are discharged merely as backup to or under the supervision of the devolved authorities.”

The State Program on Poverty Reduction and Economic Development also addresses this issue “...there is still no clear definition of the role and functions of municipalities and no clarity between the authority of the municipalities and that of the local executive bodies and no clear definition of their relationship with the central government agencies.”

The assessment team frequently witnessed the level of subordination of the municipalities to the LEAs in the regions. In Goychay, for example, the municipality is in the process of upgrading its town sewage system. Although the LEA has not been involved in the initiation, planning or funding of this project, it demands (and receives) veto powers over all decisions. Likewise, in Mingechevir, the LEA approves the size and design of rubbish bins installed by the municipality.

Judging strictly by the law it would seem that the municipalities have a significant amount of autonomy in initiating, developing and implementing municipal schemes as long as they do not conflict with the development programs and responsibilities of the state. This is where the problematic situation arises. State authorities are responsible for almost every service and program that the government is obliged to provide, receiving necessary manpower and finances for its implementation. Practically any issue that the municipality decides to tackle will “conflict” with the state programs. This state of affairs impacts the lives of the municipal inhabitants

³ IFES’ “Baseline Assessment” (2002) and Law of the Azerbaijan Republic on the Status of Municipalities July 28 1999, unofficial IFES translation.

and the functioning of the local government system in a myriad of ways. The limited options open to the municipal authorities today are therefore considered by the assessment team to be part of the constraints influencing the municipalities' activities and will be at the core of this report.

1.2 SERVICES DELIVERY IN TOVUZ, GOYCHAY AND MINGECHEVIR

The range of services that are required by the population in the three districts that were surveyed are similar to other districts and municipalities in the country, and to a large extent to other countries of similar development levels. The assessment has revealed that education and health are the most prominent areas of service delivery and were often stated as the most important. Another sub-sector that was frequently mentioned by the inhabitants and municipal leaders includes basic infrastructure. In the urban municipalities this consists of public amenities, parks, playgrounds and maintenance of dwellings. In the small rural communities, roads and potable water were usually mentioned. Social programs that were identified included youth activities and support to disabled and disadvantaged groups. Economic programs included support for SMEs and entrepreneurship promotion.

Evaluation of the range, level and quality of services that are required by the population involved analysis at three separate levels. Determination of the needs of the population was conducted through rapid appraisal methods (according to a functional breakdown of the inhabitants based on place of residence, socio-economic level and gender). Opinions and attitudes of local professionals, officials and international and local NGO representatives were noted, as were the professional evaluations of the assessment team members. The social aspects and aspirations of the population are set out in Section 1.3.

In summary, the local population in each of the three districts exhibits a surprising level of acceptance and tolerance of the difficulties that they endure regarding provision and accessibility to services. The frustrations that they experience (and conveyed openly to the team) from needs that were not met by municipalities were usually not attributed to the authorities. There seems to be a general understanding (and even empathy) towards the "new" municipalities and their limitations.

The main grievances that were directed towards the municipalities did not differentiate between state and municipal responsibilities, although most of the respondents stated that they prefer to approach the state authorities for requests since they feel that is where the power lies. The main issues that were raised included:

- economic aspects (unemployment, underemployment and poverty),

- insufficient or lack of basic infrastructure (potable water, irrigation, roads, sewage),
- amenities (parks, playgrounds, public green areas),
- education, and
- health.

A notable point is that disapproval of current services provision systems were generally expressed in terms of the lack of equipment, facilities or hardware on one hand, and the costs on the other hand. For instance, deterioration of school buildings and lack of computers was often a base for criticism. The level of teachers and pedagogical methods or the composition of the curriculum were not.

1.2.1 EDUCATION

Overview:

Education is the public service that attracts the most attention and is given the highest priority from state and municipal officials, parents and inhabitants in general. This was expressed in the rapid rural appraisal that the assessment team conducted, the relative share of budget allocation to the sector, the formal and published state objectives and the interview results. The delivery of education is planned, funded and implemented from the national level through the Ministry of Finance and Ministry of Education. Even the districts and local executive authorities do not have any significant say in the prioritization or modification of the system.⁴

Assessment criteria:

The team analyzed the level of provision of this service according to the following assessment criteria.

- I. Budgets (annual budgets from both LEA, state and municipal sources): the funds allocated to education, budget trends during the past 4 years, budget distribution according to type of educational institutions, allocation of budget according to salary, investment and operational expenditures and costs of service to parents;
- II. Location of educational units by type, urban and rural, accessibility to the population;
- III. Physical conditions of the schools and classrooms regarding pedagogical materials, equipment, facilities, furniture and infrastructure;
- IV. Standards and norms (compared to national standards): Enrollment rates, pupil/teacher ratios, pupil/classroom ratios, classroom sizes, etc.; and
- V. Perceptions, needs and requirements of parents, children and officials.

⁴ Various investment items (buildings, furniture) are ostensibly provided by the district; however, this is done only after prior agreement and authorization from the national level.

Main findings:

Tables 1 and 2 set out the basic educational indicators for each district.⁵ Comparison of the ratios indicates that the pupil/teacher ratios are between 7 in Tovuz and Goychay to 10 in Mingechevir. Pupil/classroom ratio is approximately 21, 28 and 22 in the three districts respectively.

Table 1: Basic Educational Indicators, Tovuz, Goychay and Mingechevir 2004

Unit/Item	District		
	Tovuz	Goychay	Mingechevir
Secondary Schools	85	40	20
Classes	1,822	1,073	980
Classrooms	1,425	750	801
Pupils	30,804	21,045	17,500
Teachers	4,384	2,897	1,700

Source: Education Departments of the Districts

Table 2: Basic Educational Ratios, Tovuz, Goychay, Mingechevir 2004

Indicator	District		
	Tovuz	Goychay	Mingechevir
Pupil/School	363	626	875
Pupil/Class	17	20	18
Pupil/Classroom	21	28	22
Pupil/Teacher	7	7	10

Source: Calculated from statistics, Education Departments of the Districts

These ratios compare favorably with developed European countries (pupil/teacher and pupil/classroom ratios at 16 and 31 respectively). At first glance, this situation may be presented as “progressive”⁶, but the lack of funding for non-salary items has caused poor physical conditions, lack of basic pedagogical materials, supplies and textbooks. As a result, the deficit of basic school funding brings about a gradual but consistent deterioration of the system’s quality and access.

Physical Conditions, Location and Accessibility:

The Soviet era educational planning system of investing in schools and producing teachers is the main factor that is still shaping the educational system today. The number of secondary units is sufficient. Most municipalities have at least one secondary school and travel time for most children is less than 20 minutes (in some isolated municipalities it is much more). The assessment team's visits to 11 secondary schools highlighted one adverse effect of the skewed education budget,

⁵ The ratios were computed from aggregated school statistics. They generally correspond to the formal district statistics and the samples from the schools that the team visited.

⁶ State Program on Poverty Reduction 2003-2005, page 56

that is, the need for most educational institutions to operate with two shifts as a result of the lack of classrooms to provide for the total number of students.

In addition, basic pedagogical equipment is lacking. Classroom furniture (chairs, desks, cupboards, blackboards) is insufficient, computers and the standard laboratory equipment are usually absent and libraries are inadequately equipped. Many schools do not have a regular water supply and maintenance of the existing equipment and facilities is inadequate. School infrastructure is deteriorating - inadequate roofing, broken windows and a general atmosphere of disrepair is apparent. Several of the headmasters boasted of having active and dynamic involvement of parents through committees and periodic gatherings, but the team's assessment is that for most schools there are no currently active committees. The parents' representatives were usually gathered when a specific need arose and fund collection was required.

Standards and norms:

The Ministry of Education standard calls for 100% enrollment rate at the secondary level. All children between the ages of 6-17 must to be enrolled in the formal educational system (including vocational) and everyone should graduate at age 17. Although the heads of the educational departments in each district surveyed stated categorically that practically all children participate in the educational system, additional inquiries by the team indicate that the enrollment rates are approximately 81%, 76% and 85% in Goychay, Tovuz and Mingechevir, respectively. The teams' investigation revealed that poverty is the main reason for students' absence from school, as parents need their children to assist in providing for the household.

One trend which has advantageous outcomes is the fact that the annual school entering population is decreasing. The educational and state authorities clarified that this was due to outbound migration of families from their districts to Baku. The assessment team's analysis indicates that the low birth rate and small number of children per family is the main factor (outbound migration is difficult to verify due to unreliable data) and that this trend is projected to continue. This implies that the educational system will not require additional institutions, equipment or teachers for an expanding student body, but only for improving on the existing infrastructure and material base.

The main challenges identified by the team in providing educational services include:

- low standard of maintenance and construction in most schools,
- lack of equipment, school furniture, laboratories, libraries and computers,
- low ratio of students to teachers,
- lack of textbooks and reference books, and

- absence of efficient and institutionalized community participation in the system.

Possible interventions:

Municipalities have a very narrow leeway in which to operate within the current education structure. Although international and national NGOs quote the seemingly compliant and encompassing statutes, a more detailed examination confirms that for most practical purposes municipalities will continue in their marginal educational interventions. According to the laws, municipalities are responsible for the following: "developing and maintaining programs in the sphere of education, health care, culture and sports, creating conditions necessary for raising children and youth, and developing and maintaining programs on assistance to preschool and extracurricular activities."⁷

In essence, any program that municipalities propose must receive district approval and cannot impinge on any district program which is already in progress. Construction, salaries, curriculum and maintenance are all under district mandate. The non-formal education sector is not dealt with by the state authorities and its statutory standing is vague. The municipality, in coordination with community groups and NGOs, can initiate interventions within this sub-sector. These can include: extracurricular activities such as advanced tutoring, vocational and skills training, instigation of parents committees, and youth and sports centers. Collaboration can be sought with the Ministry of Education, the Ministry of Youth, Sports and Tourism and the Ministry of Economic Development. For examples of how these initiatives can fit into pilot programs, please refer to Section III, "Possibilities for Development."

1.2.2 HEALTH

Overview:

Health is considered the second most important public service by state authorities, municipal administration and the general public. This was reflected in interviews with public officials, in the share of state and municipal budgets allocated to the sector and expressed clearly and forcefully by the inhabitants in the group interviews and social mapping exercises.

Assessment criteria:

The team analyzed the level of provision of this service according to the following assessment criteria:

- I. Budgets (annual budgets from both LEA, state and municipal sources): the funds allocated to health, budget trends during the past four years, budget

⁷ Article 4 of the Law on the Status of Municipalities, November 2002, unofficial IFES translation

- distribution according to type of health units, allocation of budget according to salary, investment, drugs and equipment, user fees and costs of treatment;
- II. Physical conditions of the health units regarding buildings, equipment, facilities, furniture, vehicles, drugs and medicines;
 - III. Location of hospitals, clinics, ambulatory units and health points by type, urban and rural, accessibility to the population;
 - IV. Standards and norms (compared to national standards): population per doctor, per nurse, per bed, population per health unit; and
 - V. Perceptions, needs and requirements of the inhabitants.

Main findings:

The current health care system consists of three major unit types: hospitals, health centers (ambulatory centers) and village-level health points. Tables 3 and 4 set out the basic indicators in the three districts targeted within this assessment. The average population per bed is between 110 to 200 in Tovuz and Mingechevir respectively. The average number of inhabitants per doctor ranges between 309 in Mingechevir to 536 in Goychay. These proportions are extremely low and compare favorably with any of the health systems in high-income developed countries.

Table 3: Basic health indicators 2004

Unit/Item	District		
	Tovuz	Goychay	Mingechevir
Population	150,000	103,000	120,000
Hospitals	22	8	7
Beds	1,365	800	1,200
Doctors	400	192	388

Source: Departments of Health, Districts of Tovuz, Goychay & Mingechevir

Table 4: Basic ratios 2004

Ratios	District		
	Tovuz	Goychay	Mingechevir
Population/bed	110	129	200
Population/doctor	375	536	309

Source: Calculated

Physical conditions, location and accessibility:

The assessment team conducted a detailed analysis that indicates the deficiencies and distortions of the system regarding the numbers and location of hospitals, professional personnel, financing considerations and the low quality of service delivery. The units are overstaffed on one hand, but under-funded, under-equipped and lack almost all basic equipment, facilities and medicines on the other hand. Hospitals and medical units are underutilized. The average occupancy rates per rural hospital are between 10-30%. A 200-bed institution will host around 20-25

inpatients a night. Some hospitals have completely stopped inpatient services. The doctors are on duty (50-100 physicians per hospital) and the beds are there, but the patients are not. The number of hospitals and nurses surpass the actual needs of the community.

Tovuz district, for example, cannot viably sustain a health care system that includes 22 hospitals, almost 1,400 beds and 400 doctors. The same applies to Mingechevir, a city/district of 120,000 (including IDPs) with 15 health units, 1,200 beds and 388 doctors. In most countries, a small rural town (similar to Tovuz or Mingechevir) would optimally be served by 2 hospitals and 5-6 clinics. The health units, beds and doctor ratios per population that exist in Azerbaijan and in the three districts could be the envy of any Western European country. But the conditions of the units are poor by any standard. Most hospitals and ambulatory centers lack the most basic medical equipment, and most of the equipment that is available does not operate due to insufficient maintenance funds. Most medicines and drugs are not to be found, buildings are deteriorating and furniture is not available. During the assessment team's visits they often found 3-4 patients in a 200-bed hospital, treated by 50-60 doctors.

Another illuminating example is the rural hospital in the municipality of Alimardanle in the Goychay district. This rural municipality has a population of 3,150 persons. The municipality boasts one hospital with 50 beds and a staff of 64 (including 9 doctors and 28 nurses). The hospital receives only a few outpatients per day and inpatients are not accepted. The actual occupancy rate is therefore 0%. The hospital does not have any equipment whatsoever, while the pharmaceutical stock is completely depleted. Patients can only receive basic diagnosis and consultations. Laboratory tests, treatment or operations are referred to the central hospital in Goychay.

The State Program on Poverty Reduction and Economic Development 2003-2005 elaborates the new health sector reform which focuses on improving access to and quality of primary health care services, as well as on developing cost-effective health care services. These programs are only now being partially implemented in a few districts of Azerbaijan, while the rest are still suffering from the deficiencies of the previous system.

Goychay is one of 5 recipient districts in Azerbaijan that is part of a World Bank/UNICEF primary health care project. Partial results are already evident, including rehabilitation of the central Goychay hospital and selected health centers and purchase of equipment, medicines and other perishable assets. At this point, the project seems to exhibit real and tangible results. The question, as always, is sustainability once the international funds have been spent.

The main challenges identified by the team in providing health care services include:

- deteriorating buildings,
- poor maintenance of existing buildings and equipment,
- informal (and illegal) collection of “user fees,” frequently above and beyond the capabilities of the rural households,
- centralized planning, funding and monitoring of the system creates shortages of funds for recurrent non-salary expenses,
- salaries of the health care system’s employees are among the lowest in the Azerbaijani public service;
- low occupancy and utilization rates in both hospitals and ambulatory centers,
- the health referral system is inefficient and disorganized - for example, patients prefer to travel directly to the central district hospital (or even to Baku), thus passing over the closer units. In Goychay and Mingechevir, many respondents stated categorically that in any major medical event they travel directly to Baku, and
- poorly equipped health facilities at all levels are characterized by shortages of equipment, medical supplies and medicines. Some hospitals cannot accept inpatients for lack of food.

Possible interventions:

It is the opinion of the assessment team that this particular public service is the least efficient regarding both qualitative and quantitative aspects. The need for a major overhaul of health delivery services is apparent. Still, there seems to be a wider margin for municipal involvement within this sector in comparison to the education sector, at least at the primary health care level. Municipalities and community groups can be active within the centrally-controlled health delivery system. At present, the system suffers from an overabundance of curative higher level institutions (hospitals) and a dearth of community/village level basic health care points. This is the opening and the opportunity for municipal interventions, for example:

- Municipalities should concentrate on the establishment and operation of small, basic, community level units in cooperation with community groups, block associations, NGOs and international organizations.
- Sustainability through fee collection is crucial (regular monthly “insurance” or fee-for-use programs). An example is the International Medical Corps’ (IMC) Community-Based Health Financing program.
- Coordination and cooperation with state authorities and the Ministry of Health is essential. Initial experimentation is now being conducted by several INGOs. In Mingechevir, for example there is cooperation between the block association, the municipality and state health authorities in the construction and maintenance of an urban health point.

- A medical revolving fund for preventive health care should be established. This method is widely practiced in other countries and has lately been introduced to Azerbaijan by various international NGOs.
- Delivery of basic preventive health care services and training (health education, family planning, nutrition, hygiene, mother and child care training) should be introduced.

1.2.3 INFRASTRUCTURE

Overview:

The major infrastructure concerns are common and shared in each of the districts. The more obvious differences are generally between towns and rural municipalities, regardless of district location. Infrastructure development requires high levels of professional skills and experience. The main infrastructure systems analyzed by the team were electricity, water (potable and irrigation), sewage and roads. The housing maintenance service (ZhEKs) is also included in this section. Although it is formally the state district's responsibility to develop and maintain infrastructure, various infrastructure components are gradually being "reassigned" by the state authorities to municipalities. This reallocation is not the outcome of an official directive; rather, it is conducted unilaterally by the LEAs due to lack of funds.

Assessment criteria:

The utilization of the various infrastructure systems was analyzed according to the following criteria:

- I. Availability and accessibility of basic infrastructure
- II. Location of infrastructure units with regards to the current population
- III. Physical conditions of the existing systems
- IV. Budgets; the funds allocated to investment and to maintenance of infrastructure systems

Main findings:

Construction of infrastructure and its subsequent maintenance is costly. In most instances observed by the team, it was state/district departments that implemented the development programs or sustained most of the financial obligations. Local roads and water transportation facilities (pipes and canals) are generally not maintained by the state, which shifts the responsibility to the municipalities; however, the required funds and equipment are not put at the disposal of the municipalities.

Lack of potable water was one of the main issues that was reported by practically every rural municipality visited (Alimardanle and Girzan in Tovuz, Mallikand and Kurdamish in Goychay). The solutions of the villagers is to travel to the nearest

river and fetch water from there, to use the water from the irrigation canals or to dig their “own” canals. Although most LEA and municipal councilors recognized the difficulties and stated that provision of water headed their priority list, not much has been done, the reason usually being attributed to the shortage of funds. The team’s analysis indicated that between USD60,000 to 110,000 would be required in each rural municipality in order to upgrade the system. Renovation of the systems was mainly conducted in the town municipalities of Tovuz (by the local self government) and Goychay (through funds provided by international organizations). Maintaining and cleaning irrigation canals is another costly venture that must be conducted annually. The proportion of water delivery-related items in the non-salary portions of the annual budgets of most rural municipalities exceeded 40%.

Maintenance of roads is similar in nature to the water supply system in that it is expensive and is usually funded by the state authorities. In many cases, the districts shift the responsibility of maintaining the roads to the municipalities. Again, this is done informally due to lack of funds. Rural municipalities do not have the financial capacities to tackle road maintenance on an ongoing annual basis. It is done only if a grant is available from external resources. In some cases, the municipalities renovated the roads with gravel as a provisional and cheap solution. The resulting deteriorating village roads are evident. Sewage systems are considered to be mainly “town issues.” Apparently they were not mentioned in rural municipalities since sewage pits are used and the municipalities do not feel obligated to solve what is seen as a household responsibility.

Maintenance and upkeep of municipal apartment houses has not been changed since the Soviet period. Maintenance is the responsibility of a branch of the state government called the ZhEKs, or the Housing Maintenance Services. The ZhEK is responsible for maintaining the common areas of the apartment houses, including the roof, basement, stairs, the area around the buildings, and the infrastructure (water supply, sewage systems and electrical wiring outside of the individual housing units). A considerable number of cooperatively owned apartment houses in the urban municipalities of Mingechevir, Tovuz and Goychay have service agreements with the ZhEKs. ZhEK budgets come in part from payments by residents. These fees are determined by the national government and are proportional to the area of the resident's apartment. This results in payments of fees by the inhabitants irrespective of the quantity and quality of the services.

The ZhEK administration has no incentive to improve services or to make them more cost-effective. Citizen participation in this process is limited to the submission of proposals or complaints to the ZhEK administration or the LEA’s office. Practically all residents interviewed complained about the inefficiency of the system and the substandard levels of services they were receiving, although the

average amount of money that was paid by each household was also very low. Transfer of the ZhEK responsibilities to the urban municipalities (in their entirety or on a partial basis) may be an option that will empower the municipalities, reinforce the resident-municipality link and increase the municipality's income from taxes and fees.

The assessment team's opinion is that state authorities prefer to tackle (and finance) infrastructure systems that cater to the town rather than the rural population. Town infrastructure projects are cheaper on a per-capita basis and benefit a higher number of inhabitants. Moreover, there seems to be an emphasis on investments in decorative construction projects that do not yield direct financial or social benefits. In both Tovuz and Goychay, impressive and expensive public project renovations were in progress (face lifts to town squares, new monuments and water fountains). Town municipalities do not have the resources to tackle most infrastructure issues. Waste disposal, public gardening, renovating public parks, setting up of public benches and garbage bins are all part of the simple and inexpensive tasks with which the municipalities (Tovuz and Mingechevir) are now starting to experiment. The assessment team views this as a favorable process that will prepare the municipal authorities for the more complex and costly infrastructure development management in the future. The rural municipalities lack both the initial investment required to develop roads, water and sewage systems, as well as the annual recurrent funds necessary to maintain and operate the existing ones.

Possible interventions:

Options for involvement in local infrastructure development by municipalities must be analyzed according to the size, location and capacity of the municipality to undertake such ventures. The assessment team evaluated each municipality according to its past performance, its financial capabilities and human resources capacity. Predictably, the urban municipalities (especially Mingechevir and Tovuz) already have a record of municipal involvement in development of basic and simple ventures, such as parks, playgrounds, garbage disposal facilities, signs, etc. They are interested in widening their scope of involvement to include various roads, pathways and more significant investments. In Mingechevir, the initial accomplishments in the development of parks and public facilities has generated the confidence and skills to tackle more significant projects.

Rural municipalities, however, should progress with caution and prudence. Infrastructure development should be undertaken only if a reliable organization (international organizations, state authorities, etc.) is willing to take upon itself the planning and funding of the project, and only if subsequent operational expenses have been accurately assessed. Small-scale participatory projects such as household/village-level irrigation schemes, small-scale sewage systems or village

roads can be tackled by rural municipalities. These projects should be within the current professional and technical expertise of the councilors and, if completed successfully, will serve to increase their experience, boost their confidence and provide a positive example to the municipal population. Issues of long-term maintenance and sustainability of the projects must be carefully considered.

1.2.4 DEVELOPMENT OF SMEs AND ENTREPRENEURSHIP PROMOTION

Overview:

Small and medium-sized enterprises (SMEs) are considered to be one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations and they generate employment, help diversify economic activity and make a significant contribution to exports and trade.

Assessment Criteria:

Promotion of entrepreneurship and SME development were evaluated according to the following assessment criteria

- I. Availability of national, state and municipal programs for SME promotion.
- II. Budgets (annual budgets from both LEA, state and municipal sources): the funds allocated for SME development for credit, loans, marketing, training or physical units
- III. Needs and requirements of the local business community

Main findings:

The main support measures for SMEs in Azerbaijan are limited to the following:

- SMEs may apply for financial support and credit through the National Fund for Small Enterprise Support,
- SMEs operating in the construction industry, utilizing new technology, educating and training human resources are exempt from paying taxes, and
- SMEs in the field of food processing, manufacturing household goods and construction materials, as well as small innovative enterprises, are exempt from paying taxes during their first two years of operation.

In the three urban municipalities surveyed by the team, SMEs are mostly trade oriented. Only a small part of them are involved in the production of commercial goods or services.

The privatization departments of the Ministry of Economic Development in both Mingechevir and Goychay stressed the importance of the training they conducted for start-up and established entrepreneurs, emphasizing the assistance and credit

provided by the National Fund for Small Enterprise Support. More detailed analysis by the team indicated that in both districts only 4 and 3 enterprises respectively managed to get credit from this organization out of several hundreds who applied.

There is a general agreement among businessmen, SME owners and entrepreneurs in the three districts that the main impediments to SME development are lack of credit and lack of appropriate collateral. This situation is particularly difficult in the regions since the banks require that assets for collateral be located in Baku. Moreover, information services and networking to provide information on products, markets, credit, export requirements, customs regulations, partners (both domestic and foreign) are very poor. Additional bottlenecks identified by the team include lack of legislation and a limited understanding of entrepreneurship among the national, district and municipal authorities.

Possible interventions:

SME promotion is one of the sectors that can benefit greatly from close coordination between the national government, LEAs, municipal authorities and international organizations. The majority of interventions (such as provision of credit or collateral) are above and beyond the financial and organizational capacity of most municipalities. They are and will continue to be provided by national (and often international) agencies. Municipal level support to SMEs will be limited to training, micro-credit schemes and provision of an enabling environment, space and basic services to start up businesses. Detailed municipal interventions are set out in Section III page 47.

1.2.5 POSSIBLE ADDITIONAL SERVICES PROVIDED BY THE MUNICIPALITY

The selection and recommendation of additional services that can and should be provided by the municipalities was conducted according to the following criteria:

- Their ability to provide fast and immediate results that can be observed by the population. This will boost confidence and earn the trust of the population in the municipality as a reliable service providing agency. "Fast" refers to a timeframe of 5-10 months (the period generally required for initiating, planning, funding and establishing a basic public service);
- Their ability to address issues that are important to the local residents;
- Their consideration for the interests of the LEAs and state agencies; and
- Those that have the potential for collaboration with community groups, block associations, NGOs and the general public.

The sub-sectors that were identified by the team include:

- community-based health programs and health units,
- non-formal education for children, adults and teachers,

- gender and youth programs where both international and local NGOs are already active,
- support to IDPs and disabled people, where the current activities of international and local NGOs provide a chance for an initial, straightforward municipal contribution, and
- ZhEK activities in the larger urban municipalities, although this will require major economic analysis, training and establishing of the system.

1.3 SOCIAL ASPECTS AND COMMUNITY ORGANIZATION

This section assesses the needs of the inhabitants by examining them through the “eyes” and perspectives of the people themselves. It was important to the team to understand the point of view of the community members. What do they think they need? What are their wishes? What are their attitudes toward the current delivery of public services and, especially, what are their expectations from the municipalities?

This section examines the development of local community grassroots groups and NGOs, the level of interactions among them and their relations with their municipal representatives. In an attempt to gather reliable field data, the following interviews were conducted:

- 1 Interviews with randomly-selected citizens, such as farmers, market shoppers, tea house guests, women at health points, parents in schools, etc.;
- 2 Group interviews with professionals, including nurses, teachers, librarians, doctors, trainers and municipal staff;
- 3 Women’s groups as available;
- 4 Community leaders, including block associations and disadvantaged group representatives; and
- 5 Leaders of NGOs, including those addressing the field of the handicapped, disabled women, war veterans and youth, and those who work in tandem with international organizations.

1.3.1 GENERAL OVERVIEW

The responses of the inhabitants interviewed reflect the current transitional phase in Azerbaijan from a centralized Soviet system to a modern Western society. At present, it is not clear to them how to maintain an ongoing dialogue and engage in negotiations with the authorities. “What may not be understood is the role of government and citizens in the complex relationships we call democracy and local self government. In other words, people may not understand that they are entitled to have government and government officials serve their needs not just through

the public ritual of voting for elected officials but by ongoing communication with those officials.”⁸ In general, the citizen interviewed were accustomed to a vertical top-down delegation of power, while in Western democracies the direction is bottom-up.

Most people expressed strong patriotic attitudes and found justifications for the hardships caused by the current decentralization process. There seems to be an understanding and tolerance of the current hardships. Disappointment from needs that were unmet by municipalities was not attributed to the authorities. The standard cliché heard by the assessment team was: “Municipalities are new. They are like a toddler who is just starting to walk.” Most of the people interviewed stated that they prefer to approach the state authorities with requests since they feel that that is where the power lies.

Group interviews with members of small rural municipalities exposed a general lack of democratic thinking, shortage of means and mechanisms for the formulation of creative ideas through mutual discussion, brainstorming and sharing of ideas, and insufficient community building skills and social strategies. In comparison, group interviews with local leaders who have received previous training indicated a deeper comprehension of these issues. An example is the IFES training courses conducted for the block association leaders as part of IFES’ Civic Education program funded by USAID. Graduates of these courses (17 were interviewed) indicated that they generally apply some of the participatory and negotiation techniques in their community work.

1.3.2 ECONOMIC HARDSHIPS

Nearly all respondents recounted their financial difficulties and the economic challenges they face. Those who are employed complained about their inadequate salaries, saying that they are insufficient to cover family expenses. The unemployed do not envisage employment in the near future and they anticipate a continuation of the current stagnation. Poverty and unemployment are the main concerns of most respondents.

Payment for so-called “free” public services is also an area for contention. For example, many people understand that the fee system for medical treatment was abolished in 2003; however, nearly respondents universally reported that they continue to pay for medical treatment, with amounts ranging from \$5 to \$50 per treatment. Childbirth can cost over \$100. One farmer expressed it concisely: “Every time my wife delivers, I have to sell a cow.” The team noted that patients often justified the payments due to the perceived “unfairness” of the low wages of the medical staff.

⁸ IFES’ “Baseline Assessment of Municipalities” (2002).

Another burden on the household budget (as indicated by many respondents) is the purchase of school books. The state government provides books up to grade 6, but between grades 7-11 it becomes the obligation of the parents to purchase their children's textbooks. For many, the cost is prohibitive. Interviews with parents, children, teachers, education officials and at book stalls showed that frequently one set of books will be purchased for two or more children, or that books will not be purchased at all. In these cases, children in the same classes share the books among themselves.

The team also identified a certain contradiction between the low level of education and health delivery systems to an observed satisfaction from these services which was expressed by the inhabitants. The majority of respondents criticized the low level of equipment and lack of modern technology on one hand, while complementing the level of professionalism in these sectors on the other. This contradiction may be explained by acquiescence to, and acceptance of, the current situation by the inhabitants, although it is beyond the scope of this assessment to investigate this theory in more detail.

Relationships of mutual assistance were often mentioned as a means to ease individual hardships. Teachers, nurses, librarians and kindergarten teachers proudly proclaimed that whenever one of them encounters a financial crisis the others will immediately collect money and provide support (needs generally include health expenses, funeral costs, books, etc.). This scheme operates informally and irregularly according to specific circumstances. A similar pattern is applied among the IDPs who live in temporary residences.

Another (slightly more formalized) self-help scheme is via the block association communities, which promote mutual assistance as part of their community functions. The collected funds are used to organize community events such as day trips, books and toys for children, funeral expenses and circumcision treatments. The leading members of the block associations collect money by passing from door to door. This collection is only for in-house expense items of the block association (an example: "Nur Community," a block association in Mingachevir, collects 1,000 AZM/month from each family in the block). The respondents did not mention any involvement of the municipality. Further analysis revealed that most collections were conducted only after requests to municipalities were not fulfilled. Associations for the handicapped utilize similar strategies.

1.3.3 WOMEN

Women are crucial to their family's welfare and the functioning of the state welfare system. Despite this important role, women are usually subordinated to men in the

economy, society, culture and family. Women, like men, are preoccupied with matters of unemployment, insufficient food, health issues and the future of their children. All teachers and nurses interviewed were women. Their superiors were men (not unlike many other countries). Women residing in rural areas and employed in government positions were almost always the only providers of the household. Still, most of the household work and child care is their responsibility. On the farm, women work just like the men and share the same hardships. Back home the traditional division of labor emerges again.

In spite of the fact that teachers earn very low wages, they consistently wish for their daughters to follow them and become teachers. This suggests that their aspirations and ambitions may be restricted by their low expectations of future social mobility for women.

Despite women's lower social status, many are active at the local leadership levels. This can be explained by the fact that in most countries women tend to care and take responsibility for children and family needs and, therefore, take on community leadership roles. A majority of block association leaders (in the regions visited and also nationally) are women who have been elected and seem to naturally fulfill the roles. These women have all undergone training in community organization, mobilization and project submission, were open to more knowledge and education on various development aspects and utilized participatory approaches in the functioning and operation of their associations' management.

For example, the leader of an IDP block association who attended a course on drafting project proposals submitted a request to the international NGO "Save the Children" and received the sum of US\$1,000 for rearranging classrooms for residential accommodation purposes. Another IDP leader who attended a workshop in Tbilisi managed to recruit OXFAM's support for a small, community income-generating business. The team's analysis indicated that women are active at the local level leadership roles but absent in higher management levels and decision-making positions. The formal municipal leadership is their glass ceiling. None of the municipalities visited had female councilors elected.

Businesswomen express their determination to participate in relevant courses that would equip them with better knowledge about computers and business expansion techniques. Still, they did not know how to proceed in finding such training opportunities and had ever searched for these options at their own initiative. The activities that were mentioned as the ones most desired by the women interviewed included: a women's center for meeting and sharing ideas of mutual interest, sport activities for women, beauty salons, and English and computer skills classes.

1.3.4 DYNAMICS AND CHARACTERISTICS OF LOCAL GRASSROOTS LEADERSHIP GROUPS

The local grassroots groups included in our analysis include block associations and local NGOs. The interviews included community leaders, block association leaders, IDP community members and leaders, NGO members and leaders working with handicapped groups.

General Overview:

The team identified significant variations in community activity between Tovuz, Goychay and Mingechevir. Mingechevir was by far the most active. In Mingechevir, the assessment team documented intensive activity run by local community leaders with the support of local and international NGOs. IFES' activities (Local Governance Program 2002-2003 funded by USAID) in training, consultancy and information dissemination is clearly visible. IFES is also very active in coordinating between and among the local NGOs. The general observation in Mingechevir is of groundbreaking community work motivated by values of justice and equality supported by NGOs, community workers and trainers (and by international NGOs).

In Tovuz, GTZ's many years of support is clearly manifest. Their professional input includes planning, consulting and training. The "technical working group" of the coordination council is the active mobilizer of the community and is also supported by GTZ. (The coordination council should not be considered as a characteristic NGO since the members are elected by the population and it functions at the district level.)

The team was not exposed to tangible community organization in Goychay, but initial emerging grassroots cooperation was identified. Our impression is that this may be due to a lack of involvement of one dominant international organization. It should be pointed out that although both GTZ and IFES maintain a relatively small local staff in Tovuz and Mingechevir, their impact is substantial. Their presence and activities were noted, acknowledged and appreciated by LEAs, municipal chairmen and councilors and many involved and uninvolved inhabitants. One of the reasons that attention is drawn to locally NGO-initiated interventions is probably due to the general dearth of non-government development activities. In an environment of scarcity, even a small increment is conspicuous. This is a point that should be thoroughly considered by international organizations. Even modest interventions that engage a small local staff with a limited budget can create wide-ranging impacts.

Observations about local groups in Mingechevir, Goychay and Tovuz included:

- Many local leaders are innovative, determined in their principles, confident in their own leadership skills, and receptive to absorb new ideas and

knowledge. They have managed to create and cultivate close contacts with community members.

- Local leaders are generally open to social change. At this time they are unsure of where and how it will happen.
- It seems that local leaders are well respected by members of the communities and that the interaction between them is easy and smooth. For instance, the leaders of the “Nur block association” and “Heydarabad IDP community” receive high esteem from their members. The members share their problems with the leaders (both are women) and pay the required fees.
- Several communities (for instance, the Nur and Heydarabad associations detailed above) succeeded in establishing small community centers located geographically within the neighborhood area. They conduct meetings and specific community programs such as day trips for children, purchase of books and toys and funding of funeral services.
- Participatory methods are apparent. They are manifested through deliberations and dialogues with members of the community, determining their opinions and needs and mobilizing them for various labor contributions.

Community leaders recognise and acknowledge the assistance and guidance provided by International NGOs. Community leaders in Mingechevir commented on the assistance provided by IFES through training and capacity building, as well as the support from other international organizations like Save the Children, World Vision and IMC. In Tovuz, community leaders were involved in municipal projects that were funded by GTZ and they are proud to have the opportunity to participate in the various training programs run by international NGOs (for example, citizen participation in decision-making, proposal presentation, strategic planning). The team established that the learning process enriched their scope and comprehension of problems and issues above and beyond their usual terms of reference and augmented their leadership skills. There seems to be a strong bond of trust between the professional teams, namely trainers and community workers, and their communities.

1.3.5 COMMUNITY MOBILIZATION AND ITS CHALLENGES

The term “community” in its current meaning as social groups that negotiate democratically with the authorities is entirely new in the Azerbaijani setting. It was initially introduced in the wake of the war with Armenia and the ensuing influx of IDPs and refugees. Tens of thousands of refugees have had to reside in tents, schools, dormitories, public housing, etc. Many are still suffering from post-war trauma symptoms and others are handicapped. Many have limited means of income.

The municipalities found themselves in an almost impossible situation of attempting to assist the newcomers with the insufficient funds they had for their own citizens. Some municipalities opted to ignore the new problem. Others attempted to assist them in community building and organizing. The municipality of Mingechevir, with the assistance of IFES and other international organizations, took upon itself to train, empower, form communities and mobilize them. Initially, the process was initiated and supported by international organizations (IFES, Eurasia Foundation, etc.), but at a later stage, as the practice trickled down to the local NGOs and block associations, the procedure reversed. Today it is the inhabitants who are pressing and demanding to form block associations, register them with the municipality and to become active community members.

The assessment team identified that block associations and local NGOs are both active and instrumental in the social mobility process. Block associations comprise of a group of citizens (usually around 1,500) residing in 5-6 apartment blocks in a defined geographical area. They democratically elect a committee and a head to lead and represent the community. Block associations may include IDPs within their ranks, and some associations are exclusively for IDPs. The potential effectiveness of block associations as platforms for social participation and mobilization is that their official status is established clearly by law and the statutes of the municipalities. In some of the block associations visited by the team, the association leaders were knowledgeable about the law and how to utilize its clauses for the benefit of their community. (Statute on block associations in Annex 4.8) A group of 30 block associations is combined within an umbrella organization operating from an office provided by the municipality (in Mingechevir, it is provided by Save the Children).

At present, NGOs are the most common type of association. Tovuz and Goychay are only beginning to witness the emergence of local NGOs, a significant amount are already operating in Mingechevir. These entities frequently maintain complementary relationships among themselves. For instance, block associations can apply for grants from NGOs and NGOs can fund programs for block associations and occasionally for unregistered community groups.⁹

A rapid SWOT (strengths, weaknesses, opportunities, threats) analysis (Table 5) was conducted with community mobilizers and trainers to pinpoint the weaknesses and opportunities of block associations.

Table 5 SWOT for Block Associations Completed by Community Workers

⁹ Another potentially strong group of social mobilizers include informal, non-registered organizations, which were not analyzed in this report.

<p>Strengths:</p> <ul style="list-style-type: none"> • Their actual existence and the fact that they stimulate others to create similar communities • Embracing many population groups and topics • Many skills in project development, fundraising, mutual support • Links with municipality and LEA • Sustainability of activities 	<p>Weaknesses:</p> <ul style="list-style-type: none"> • Weak administration and management • Few members involved • Minority of young participants • Expect to receive funding from external sources • Lack of public relations
<p>Opportunities:</p> <ul style="list-style-type: none"> • Municipalities can assign them to do additional activities • They can lobby and apply pressure towards authorities • Provision of new legal status by Parliament • Cooperation with private sector 	<p>Threats:</p> <ul style="list-style-type: none"> • Some municipalities attempt to infringe on their independence • Activities will decelerate if lack of funds occurs • Sources providing external funds may try to subordinate them • External interests may exploit and manipulate their mandates

Analysis of the SWOT indicates that the initial skills and motivations of community leaders in block associations can be beneficial for municipalities. There is an opportunity for the municipality itself to include block associations in their strategic planning and services delivery system.

Block associations differ from NGOs according to various parameters. Block associations are elected and they represent a specific community within a defined geographic area or neighborhood. NGOs are not limited by territorial boundaries and can function nationally. Functionally, block associations are voluntary associations established by the initiative of local citizens with the intention to assist resolutions of issues within the powers of municipalities. They can also be registered as a legal entity through the municipality. The NGOs do not necessarily work within the framework of municipalities and have a much wider functional scope. Moreover, they are registered through the Ministry of Justice, which may add another level of political scrutiny to their activities.

1.3.6 THE ROLE OF LOCAL NGOS

Local NGOs are emerging as major stakeholders in rural, urban and municipal development in Azerbaijan. Major bilateral and multilateral financing institutions are seeking suitable local organizations for cooperation, and this process is

accelerated by the financial and administrative assistance awarded to them by international NGOs and international funding organizations. For instance, organizations such as the Eurasia Foundation provide resources to locally-registered organizations (NGOs, universities, libraries, municipalities, etc.) for local initiatives related to the development of civil society, private enterprise and public administration. IFES actively promotes NGO activities through discussion groups under its Civic Education and Local Governance Programs funded by USAID. Topics have included human rights, principles of democracy, roles and responsibilities of municipalities, public participation in block associations, citizen participation in the environment, organization of elections, etc.

The team identified the roles and tasks that strong, transparent and motivated NGOs can shoulder, and the assistance that they can provide to municipalities and block associations. Unfortunately, there are many bogus and phony so-called NGOs whose sole aim is to tap and exploit the financial windfall offered by international organizations. Both municipalities and international organizations must verify the identity, competence and transparency of organizations before collaborating with them. The Eurasia Foundation sets an example of active commitment to this standard through their program officers and grants managers who conduct tight financial monitoring for every project from inception to final operation.

That said, the assessment team established that certain NGOs (especially in Tovuz and Mingechevir) have formed strong commitments to values of social justice, civil society principles, equality and commitment to democracy. For instance, the invalids association in Mingechevir is an organization that endeavors to improve social justice and equality for handicapped residents in their communities. Leaders of NGOs have been trained by a wide range of international organizations on human resource skills, financial management and taxation, team work, outreach strategies, and network building. Most are familiar with project proposal submission formats and implementation. In various activities they have been found to be more resourceful than municipalities. Moreover, NGOs seem to be attracting relatively young and motivated members.

NGOs have the potential to operate mechanisms of cooperation through which they form partnerships between 3-4 organizations. This enables them to carry out new, bigger and more complex projects where each contributes its relevant knowledge, interests and investment to achieve a common goal.

1.3.7 NGOS AND MUNICIPALITIES

NGOs exhibit differing and often diverse attitudes towards the municipalities. Some were very critical towards what they saw as insufficient support from the municipalities. They declared that from their standpoint, one of the major roles of

the municipalities is to organize social activism, to lead capacity building processes and support grassroots communities. Others were more “understanding” of the difficulties (lack of finance, skills, capacity, etc.) that the municipalities confront in their efforts to handle social mobility activities. Still others expressed appreciation of the fact that they had an office, equipment and in some cases financial support from the municipalities (for example, the veterans associations which was housed within the municipality of Mingechevir).

The following SWOT Table (Table 6) was identified by NGO members and community workers (with the assessment team's coaching). It provides a balanced picture of the status of local NGOs.¹⁰

Table 6 SWOT for NGOs

<p>Strengths:</p> <ul style="list-style-type: none"> • Passionate about their work • Growing interest of international NGOs • Majority of youth • Voluntary potential • Openness to changes • Independent to choose their own activities • Some have strong technical base and human resources 	<p>Weaknesses:</p> <ul style="list-style-type: none"> • Lack of public relations and general community outreach • Lack of financial resources • Most of them (in the region) are not registered • Lack of organizational structure • Lack of relevant skills such as: language, computer, management • Weak administration, decision-making mechanisms
<p>Opportunities:</p> <ul style="list-style-type: none"> • Creating association or assembly of NGOs • Creation of individual financial resources • Cooperation with private sector • Involvement in various state programs • Ability to provide paid services to the population 	<p>Threats:</p> <ul style="list-style-type: none"> • Lack of general understanding about their role in civil society (from community and also government) • Lack of community mandate to pursue issues for common benefit • Leaders and members can lose interest in their work • No sustainability of activities • Dependency on donors • De-legitimization of elected structures

One of the more significant strengths identified is the quality of manpower and potential capacity for change within these organizations. The growing interest of

¹⁰ A more detailed analysis of the NGO environment throughout the country can be found in USAID's Azerbaijan Civil Society Sector Assessment, 2005.

international NGOs and development agencies coupled with their youthful motivation promotes the potential benefits of collaborating with municipalities. Municipalities can take upon themselves the role of coordination between NGOs by identifying areas of mutual interests and promoting the pooling of resources in order to minimize fragmentation of interventions and attain the required critical mass for development activities. Collaboration can be conducted in training and capacity-building, volunteer recruiting and training, marketing, etc., in the establishment, investment and operation of income-generating ventures and in joint mutual activities for children, invalids, youths, etc.

1.3.8 SUMMARY AND CONCLUSIONS ABOUT SOCIAL ASPECTS AND COMMUNITY ORGANIZATIONS

The rapid urban and rural assessment conducted by the team indicated that most of the inhabitants of the surveyed regions identify poverty and unemployment as their primary problems (other published sources verify that this is typical to the whole country). They do not see a solution in the near future. Generally, there seems to be satisfaction with the professional levels of education and health services delivery, combined with criticism on the lack of modern equipment and its maintenance. The attitude is characterized by understanding and acceptance of the perceived financial constraints of the system.

Citizens are not fully aware that they are entitled to negotiate with officials and have an ongoing dialogue with the authorities. They do not see themselves as part of the system and the authorities are considered external to their daily lives. Those who are united within block associations and local NGOs, or who have graduated from capacity-building programs, have a better understanding of the dialogue options open to them and the potential benefits of the democratic principles.

There is a significant gap in the potential capacity for social mobilization and development between the small rural municipalities and the large urban ones like Tovuz and Mingechevir. In the latter two, there are substantial activities in the establishment of local grassroots groups supported by NGOs (local and international). Training and capacity-building programs by IFES and GTZ has been influential in developing democratic thinking among municipal councilors and block association leaders. Both leaders and members of various block associations and NGOs have managed to raise funds and other resources for projects. IFES' regional coordinators have recently begun to identify, classify and coordinate the active NGOs in Mingechevir. Although this activity is too recent to evaluate, initial assessments by the team indicate that the inhabitants are aware of this network and realize that they have to approach different organizations in order to achieve different results.

Section II: Main Obstacles and Resources in Addressing Community Needs

Several factors have been identified as obstacles to municipalities in their attempts to increase their interventions in addressing community needs and public services delivery. The major problems that the team identified include scarcity of financial and human resources, and the lack of communications and cooperation with other relevant stakeholders. The main obstacle, which is the statutory status of the municipalities and the dominant role of the state authorities, has been mentioned before and will not be discussed in this section.

2.1 ACCESS TO SOURCES OF FUNDING

Very little funding is allocated by state, municipal and private sources for service delivery and community projects in Azerbaijan. Comparison of the annual amounts (2002-2004) on a per capita basis in Azerbaijan with other regions and countries of similar development levels indicates that "social" budgets in Azerbaijan are only 60%-70% of those in other countries.¹¹ Most of the funds utilized for district and municipal service delivery are state funds allocated through national budgets and subsidies.

2.1.1 DISTRICT (LEA) FINANCIAL RESOURCES

The financial sources of local executive authorities are comprised almost exclusively of allocations from the state budget through grants, subsidies and non-budget allowances. Table 7 presents the total annual budget and the corresponding per capita figures for each of the districts for 2003.

Table 7: Population, budget and per capita, Tovuz, Goychay & Mingechevir 2004

Indicator/district	Tovuz	Goychay	Mingechevir
Population	150,000	103,000	120,000
Annual budget 2003 (\$M)	6.5	4.85	4.25
Budget/capita (\$M)	43.3	40.4	41.3

Source: District departments of budget and finance

The per capital expenditure is similar in all districts surveyed within this assessment. This is to be expected in a system that allocates funds centrally according to service units and staff, which are in turn distributed in line with strict national norms in relation to the size of the user population. The budget includes

¹¹ from "World Development Indicators 2004," World Bank, CD-ROM edition and "World Development Report 1978-2004", World Bank CD-ROM edition.

all the main service functions: education, health, social protection, culture and arts and infrastructure. The entire budget is itemized according to detailed budget specifications and is distributed by the Ministry of Finance. Between 70% and 90% (Mingechevir and Tovuz respectively) of the executive authorities' budget comes from national subsidies. Only 10% to 30% is collected through local taxes and fees.

The local executive authorities have only marginal control over its spending patterns. Reassigning funds from one category to another (from medical equipment to medicines, for example) is a long and almost impossible bureaucratic undertaking. This leaves almost no margin for district authorities to invest funds in site-specific interventions. Moreover, 80%-85% of the district budget is used for salaries. The average budget per capita (total annual budget divided by total population) is between USD40-43. Tables 4.3.1 and 4.3.2 (Annex 4.3) present the district budgets according to sectors.

2.1.2 MUNICIPAL FUNDING SOURCES

The prime sources of funding for a municipality (apart from state subsidies) are the monetary assets obtained through taxes and fees. These include land and property tax payable by individuals residing in municipal areas, royalties on the extraction of natural resources, and tax on the profits of municipal enterprises and organizations. Additional sources include fees for street advertisement, stands, resort and hotel duties and parking fees. Municipal property includes property granted by the state and derived from other sources such as housing and community funds, social and cultural facilities, public facilities, land plots, engineering and communications and infrastructure facilities to name only a few.

Municipal budgets:

In comparison with the state district funds, the municipal financial resources are negligible, usually representing between 3% and 10% of the corresponding district amounts. The average budget per capita (total annual municipal budget divided by total population) is only slightly over USD0.5. This exceptionally low number illustrates the financial constraints of the municipalities. Tables 4.4.1, 4.4.1 and 4.4.3 (Annex 4.4) present the 2000 to 2003 budgets according to itemized allocations.

Income:

During this four year period (2000-2003), the Mingechevir town budget increased by 14%. The annual variation is noteworthy: a 10% decrease between 2000 to 2001, followed by a 133% and 18% increase from 2001-02 and from 2002-03

respectively.¹² The corresponding share of state subsidies to municipal income in the budget is also illuminating. In the year 2000 state subsidies accounted for over 89% of the total budget while municipal income ventures made up the remaining 11%. By 2003, the proportion was practically reversed. Only 11.8% came from state subsidies and 82.2% was generated by the towns' own taxes and enterprises.

This trend reveals that since the initial establishment of municipal structures in 1999, the state has been steadily reducing its fund transfer to all municipalities surveyed in this study. Concurrently, the municipalities are increasing their own income-generating potential in an attempt to balance their budgets. So far, this has been done primarily through selling and leasing of land and, to a limited extent, by expanding their tax base. The estimated proportion of taxes collected annually out of the total budget is estimated at between 20%-50% in the town municipalities and not over 50% in the smaller rural ones.

For those town municipalities that have managed to obtain land, the selling and leasing of land has been one of the main income-generating revenues in 2002, 2003 and 2004. Although the tables presented detail the finances of Mingechevir, the vague and imprecise figures available to the experts from Tovuz and Goychay municipalities point to similar trends. The shifting proportion away from state grants are toward internally-generated revenues in the municipal budget is an encouraging trend. But analysis of the composition of the revenue items indicates that approximately 56%, 43% and 33% of the internally-generated income in 2003 in Mingechevir, Tovuz and Goychay respectively was due to selling and leasing of land. This revenue item should be considered as a finite, transitory and nonsustainable asset. Land and property taxes from the physical entities are the main sustainable financial sources of municipalities. But collecting these taxes from individuals is one of the biggest problems that municipalities face at the present. The main reason for this challenge is the lack of regulations and mechanisms that regulate relations between municipal tax payers and municipal tax bodies/department. Therefore, if individuals refuse to pay taxes, the municipal tax bodies/departments do not have any specific mechanism of enforcement available to them.

The composition of municipal expenses is also changing steadily. In the year 2000, salaries accounted for only 32% of the total annual municipal expenses (compared to 80% for the district). The proportion of salaries has increased steadily and by 2003 accounted for over 54%. The reason is attributed to the increase in the number of municipally-employed persons (as a result of the increase in their activities) and salary increases in some of the municipalities. Purchase of good

¹² The data provided to the team in Tovuz and Goychay towns was partial and unreliable, but the general trend is similar.

and services (all other non-wage components) accounted for over 45%. An impressive increase is noted in the non-salary segments of the municipalities visited (93% overall increase in 4 years). This trend is mainly attributed to the selling and leasing of land. Land and property taxes vary greatly on an annual basis and, moreover, municipalities do not have any enforcing power to impose payments if they are not readily provided..

2.1.3 BUDGET FORECASTS

Attempting to forecast the magnitudes of the municipal budgets for the near-term period (3-5 years) is one of the major challenges of the municipal chairmen and the councilors. The main expense items (salaries, procured goods and services) are generally inflexible. The revenue items are inconsistent and hard to predict. State subsidies are decreasing (municipal leaders explained that at the time of assessment in November 2004, they still did not know the subsidy levels for 2005) and taxes and duties which are generally considered regular and committed revenues cannot be fully collected. The law prohibits collection of most other types of fees and levies. Hence, the municipal leaders depend on the selling and leasing of land (where available) as a source of “fast and easy” income. The team’s study has indicated that this selling of land is conducted spontaneously and hastily on an annual basis as a means of plugging gaps in the budget. No consideration is given to future land availability, infrastructure development in the newly sold lands or the long-term versus short-term advantages of selling or leasing.¹³ Other sources of income eagerly explored by municipalities are municipally-owned income-generating enterprises.

2.1.4 SUMMARY OF DISTRICT/MUNICIPAL FINANCE FINDINGS

- Fund allocation for rural services delivery in Azerbaijan is very low compared to countries with similar development levels.
- State district budgets are determined and strictly itemized at the national level through the Ministry of Finance. Local executive authorities have a very limited influence on allocation decisions.
- Education and health expenditures account for over 80% of the total district budget.
- Although annual district budgets have increased consistently between 2000 and 2004, state grants to municipalities have decreased.
- Per capita state budget allocations average USD40-43. Municipal budgets per capita average USD0.5.
- Tax and fee collection rates from individuals (the only taxes allowed to municipalities by law) are very low. This is due to the lack of enforcement measures by municipalities.

¹³ Mingechevir and Tovuz chairmen stated that the immediate objective was to create more taxpayers for both land and property tax.

- Selling and leasing of land and the establishment of municipally-owned income-generating activities are among the applied and practical solutions.
- The selling of land is conducted spontaneously and on an annual basis with little long-term sustainability considerations.

2.2 MUNICIPAL ENTERPRISES

The matter of municipally-owned and operated income-generating enterprises is of great interest to municipal leaders and NGOs alike. Seven of the 8 municipal chairmen interviewed during the study expressed their interest in launching such ventures; however, all confessed that they and their councilors lacked the knowledge and experience necessary to properly manage such enterprises (examination of potential enterprises for municipal development is set out in Section III page 49).

The low income of municipalities, low levels of tax collection and decreasing state subsidies compel municipal leaders to search for alternative avenues for augmenting their budgets. The vague and ambiguous laws and regulations governing municipal conduct have been explored previously. Article 3 of the “Law on the Basis of Municipal Finance 1999” (unofficial IFES translation) sets out the sources and economic basis of the municipalities and clearly affirms that municipal bodies can enjoy the fruits of income derived directly from commercial economic activities (see Annex 81).

The main budget sources of all rural municipalities visited within this assessment (except Mingechevir) consisted of taxes (property and land from private individuals) and state subsidies. All the surveyed municipalities (except Mingechevir) did not have any kind of municipall- initiated or owned commercial ventures.

The chairmen and councillors of all surveyed municipalities acknowledged that one of the reasons for the dearth of enterprises was their lack of knowledge, experience and confidence in the initiation and establishment of such ventures. The absence of significant economic opportunities coupled with the low income of most inhabitants in the rural municipalities reduces the likelihood of identifying viable ventures. At this time, with the present level of legal regulations, municipal professional capacity and economic development, the assessment team's position is that it is highly inadvisable for *rural* municipalities to engage in commercial profit-making ventures. The risks outweigh the benefits.

The main factors which favor the promotion of enterprise development in the *urban* municipalities over the rural ones include: a spatially concentrated higher income consumer population, better infrastructure and accessibility, superior marketing options and a generally more skilled and experienced municipal staff. Within the

three districts of the study, Mingechevir was the only municipality that actually owned, operated and benefited from these enterprises. This is due to a well-timed combination of a motivated, dynamic and creative municipal chairman and councilors and significant and efficient support from international sources (IFES). Moreover, Mingechevir municipality encompasses the entire district. Its size is therefore significantly greater than the other towns (120,000 in Mingechevir compared with 14,000 and 35,000 in Tovuz and Goychay, respectively) and the purchasing power of the inhabitants is considerably higher. The team's analysis indicates that the IFES support (especially in training of the municipal councilors and chairman) aided the municipality in its own initiative of successfully establishing enterprises in Mingechevir. The lack of comparable assistance in the other two towns partly explains the lack of municipally-owned enterprises in Tovuz and Goychay.

During the budget years of 2003 and 2004, the enterprises in Mingechevir apparently constituted a significant part of the city's annual budget (Annex 8). The enterprises (referred to as municipal services) included a vocational training center and computer center, a construction enterprise and a hairdressing salon. Although these businesses were touted as outstandingly lucrative by the municipal leaders, a few unresolved issues remain to be examined.

For example, attempting to determine the real and actual benefits within a recognized financial approach (identifying and accounting all expenses, analyzing shadow prices, etc.) and analyzing long-term sustainability and operational viability was difficult with the information provided to the assessment team. The experts managed to visit the units and received a verbal description of the financial results, but the detailed and itemized reports that were promised were not put at our disposal.

The enterprises were set up during 2001-2002, but to date have not been registered as legal entities due to state executive bureaucracy. The enterprises are fully owned and operated by the municipality. They do not pay any type of municipal or state taxes and the enterprise accounts are not separated in any way from the general municipal budget. Products produced for the municipality (over 70% of production) are transferred to the municipality without the proper auditing and accounting and without a transparent tendering process. Although the proceeds from the enterprises are proudly displayed in the municipal budget as a significant income (and profit), it was difficult for the team to assess the real magnitude of revenues. The issue of unfair competition with private enterprises is also pertinent.

In summary (and taking into consideration the shortcomings detailed above), the municipal enterprises are beneficial and useful. First and foremost due to their

income-generating capacity. All of the enterprises visited by the team seemed to be profitable. Prudent expansion of the enterprises will create more financial autonomy for the municipalities and less dependence on state subsidies (recommendations for future development are set out in Section III pages 49).

2.3 THE COORDINATION COUNCILS

The coordination councils are municipal coordinating bodies combining all municipalities of a district. The statute legislating their responsibilities, roles, duties and organization was passed on April 18th 2000. Most districts in Azerbaijan do not yet have coordination councils at this time. In both Tovuz and Goychay the councils were set up in 2003 and 2001 respectively. The international NGOs partnered for this assessment considered that these democratically-designed institutions can be utilized as a platform for the creation and generation of sustainable community-level interventions, fund collection and distribution.

The experts visited both coordination councils in Tovuz and Goychay, and interviewed the chairmen, active and non-active municipal representatives, members of the professional working groups, trainers, community workers and international funding agencies.

The selection of the Tovuz and Goychay councils proved to be fortunate. The coordination council in Tovuz was initiated, organized, trained and is currently still partly financed by GTZ through fund transfers for operational expenses and grants for municipally-initiated projects. Some members of the coordination councils started to pay membership fees to at least self-sustain the operations of the organization. The Goychay coordination council, on the other hand, evolved entirely through municipal initiatives and does not receive external funding. The contrasting circumstances of their initiation, operation and funding illustrates the sustainability challenges which will confront councils in other districts, and also highlights the role that international organizations can take upon themselves in order to increase the chances of the councils' financial survival. The basic duties of the councils, as defined in the 2000 statutes are detailed in Annex 4.8.

Tovuz Coordination Council:

The Tovuz coordination council was founded July 2003 with GTZ support. It is active in the fields of agriculture, infrastructure, SME development training and public services. It consists of one representative from each municipality (usually the head of the municipality), totaling 62 members. A technical working group, comprised of an executive director, one infrastructure engineer, one expert agronomist and one accountant/secretary, provides services to the council. Members of the technical working group were trained for their functions by GTZ.

Committee meetings are conducted at least once every three months. Meeting dates are decided by the chairman and members are notified by the executive director. The meetings include mainly exchanging of ideas and data; working with donors, designing of projects and training. Currently, about 20 municipalities are not actively participating in the council meetings and some do not pay membership fees for various reasons..

Operational expenses and salaries are currently covered by GTZ's financial transfers to the council. In 2004, the budget of 40 million AZM (approximately USD8,100) covered salaries, utilities, rent, internet, transport, etc. The municipalities pay membership fees to become a member of the coordination council.

This year, USD30,000 was provided by GTZ, for municipality-initiated projects (in addition to the revolving fund and operational expenses). The wheat revolving fund's seed money of USD15,000 was installed by GTZ, with repayment including a 10% interest fee.

To apply for GTZ project funding, the municipality prepares the project proposal and submits it to the technical working group. The proposal is prepared according to a specific and clear format. The technical working group assesses the project according to a standard set of criteria and examine whether or not the proposal has been drafted according to the regulations. The project proposals are then submitted to the regional (monitoring) committee, which consists of 4 council members, 4 government representatives, and 4 donor and civil society representatives. The regional committee evaluates the technical group's assessments and prioritizes the projects according to criteria established with the members of the coordination council.

For approved projects, the council transfers the funds (previously deposited in the CC's bank account by GTZ) to the selected municipalities according to the decisions of the regional council. Selection of a project is publicized in the municipality on pre-prepared posters, including dates of commencement, amounts, aims, etc. The coordination unit stated that since the guidelines are strict, clear and transparent, the rejected municipalities can understand the reasons for the selection of other projects. Thus, needless resentment is avoided.

The role of the technical group is crucial and significant, and the training and mentoring roles of GTZ are very effective and exhibit impressive results on the operation of the technical group. The technical group receives and processes the proposals, they act on a professional basis as consultants and advisors to the municipalities and they take part in municipal meetings and discussions, therefore having a high level of access to local information. The team's interviews revealed

that they also see themselves as mediators between the municipality and the community, when necessary.

When asked what will transpire after the inevitable departure of the international supporting organization, the leaders of the council and technical group members stated categorically that the proceeds of the revolving fund will be sufficient to maintain the council's operational expenses and that, furthermore, the municipalities themselves are expected to increase in strength and raise their remittances.

2.4 INTERNATIONAL INVESTMENT

Development and expansion of the roles of the municipalities and block associations in the sphere of community development and services provision will require international funds and, just as important, the expertise and experience that these institutions can provide. International funds should be limited to those areas in which seed funds are required in order to demonstrate the viability of a project or where initial amounts can generate additional funds from local sources. The sustainability of an investment and its multiplier effect must remain the main indicators for allocation decisions. International organizations should try to coordinate the types of activities that are financed and the geographical locations for their interventions. Even within the three districts and eight municipalities that were visited by the team, overlapping activities (usually in training subjects) was evident and gaps in geographical coverage occurred.

Here again the team distinguishes between larger urban municipalities and the smaller rural ones. In urban municipalities, involvement of the international organizations should be confined to training, consulting and coordinating activities of different groups. Although many deficiencies regarding funds' availability and resource capacity were identified in Mingechevir, Goychay and Tovuz, the potential is there for independent identification of projects, their planning, establishment and operations. The funds of international organizations can best be utilized in the training and capacity-building of municipal staff, in the initiation of ventures, in the empowering of local associations and NGOs and in the coordination of main stakeholders. To a large extent, this is what is currently being done by the four partner organizations in their respective areas. IFES in the training, coordination and consulting for communities and municipalities, GTZ in the training and consulting for the coordination councils, Eurasia Foundation in the capacity-building of the many associations that are funded and OSCE in the training for SMEs.

In rural municipalities, the training component should be augmented by investments in modest and basic service units. The almost complete lack of funds prevents the community leadership from even trying to implement basic projects. At this point, international organizations should consider modest investments in

community-based interventions that would augment the training and consulting stages, such as school renovation, community health units, communal irrigation schemes, housing ventures and so on.

Section III Possibilities for Development

3.1 CAPACITY-BUILDING AND TRAINING

Training must address the issues of economic and social development of municipalities, especially regarding medium-term strategic and integrated planning, maintaining sustainable and efficient public services delivery systems and the establishment and operation of viable income-generating enterprises.

Training modules should include all of the relevant stakeholders in the activity, including municipal councilors, municipal professional staff (where relevant), local executive representatives, block association representatives and local NGO personnel.

Comprehensive training on strategic municipal planning should include data-collection methodologies, integration of conflicting sectoral interests, planning of infrastructure, zoning and master plan formulation, integrated services delivery and identifying and preparation of projects.

Training and capacity-building on finance should include preparing the annual budget, taxation and tax collection methods, sources of revenues, how to access additional revenue sources and short, medium and long-term financial planning.

Public participation in planning and municipal management includes integrating within specific training modules the relevant LEA, municipal, block association and NGO executives. The training should focus on the integration of public participation in the planning process with real development challenges in the area, for instance, in the establishment of a community health unit, establishment and maintenance of a sewage system, establishment of an SME incubator, organization of a local level revolving micro-credit scheme, etc. This type of training and practical decision-making module will achieve three central objectives:

1. bringing together the important stakeholders in the regional development process in an atmosphere of cooperation and teamwork,
2. initiating a detailed development project that is deemed essential for the area by the participants, and
3. increasing the implementation and sustainability prospects of the venture.

Specific training for local NGOs should include training and capacity-building on the laws and regulations governing NGO operations, negotiation skills to work with state ministries and LEAs, and organizational skills to help coordinate multi-partner projects, increase their level of networking, sharing of experience and cooperation to achieve shared goals.

3.2 OPTIONS FOR SME PROMOTION BY MUNICIPALITIES

As a consequence of sectoral underdevelopment and the lack of appropriate supporting mechanisms, only a few state institutions in Azerbaijan work directly with SMEs. There is a lack of knowledge in marketing and financial institutions, and new entrepreneurs face problems due to the lack of skills and know-how. The team proposes interventions targeting the development of SMEs on two distinct levels:

1. Capacity-building and training, and
2. Financial support for SMEs through the establishment of accessible municipal-level micro-credit schemes.

Assistance to SMEs is a vertically-integrated intervention that requires national, district and municipal cooperation. Several of the components detailed below can be implemented by larger urban municipalities. Others will require district cooperation and government and/or international funding.

Training is a key component in all activities concerning SME promotion and is a prerequisite for their success. Training programs, which can be conducted at the resource center outlined in Section 3.6, should be conducted in the following fields:

- **Training packages for municipal staff** on the current applicable laws and regulations in the country, the availability of assistance mechanisms for entrepreneurs such as credit and funding, the creation of an enabling economic environment and the establishment of incubator units.
- **Training for local NGOs and SME support institutions** on the “SME establishment cycle,” in addition to those topics outlined above and below.
- **Training for aspiring entrepreneurs** on vocational training, information technology, feasibility studies, taxation, marketing, and loan and credit strategies.

Financial support for SMEs should include the development of financial instruments and infrastructure at both local and national levels. Municipalities can take upon themselves simple, economical and cost effective measures which will increase the entrepreneur’s access to credit with relatively low risk to the

municipality (risks due to default, etc.). Measures that can be implemented by the municipalities include:

- micro-loans and micro-credit schemes (usually provided to start-up entrepreneurs who lack credit)
- credit schemes (can include revolving funds), and
- creation of incubator units providing the space and infrastructure for new entrepreneurs.

Additional measures that will bring together state and local government alliances (and which will likewise require better funding resources and financial capacity) can include credit guarantee schemes (for SMEs that lack suitable collateral) and grant programs, which should include clear eligibility criteria and carefully established administrative procedures.

The complexity of SME development requires substantial national and international financial and human resources. It is, therefore, one of the areas in which coordinated cooperation is required between state government, municipal authorities and international organizations. International co-financing of regional SME promotion programs is important because it can reduce the risks of the programs, create a minimum amount of critical mass for their implementation and provide foreign expertise to local entrepreneurs.

3.3 DEVELOPMENT OF COORDINATION COUNCILS

The structure and operating procedures of the coordination councils are adequate and seem to provide solutions to the issues of municipal cooperation and sustainable operation. The existing experience and the team's observations indicate that the coordination councils can be instrumental at various levels:

- providing a platform for capacity-building and training,
- supporting rural communities (and individuals) in the formulation of projects,
- identifying, preparing, planning and monitoring small-scale municipal projects,
- enabling coordination within and among municipalities at the district level, and
- promoting participatory approaches and social mobilization.

It is the team's opinion that initiating and creating coordination councils in additional districts based on the Tovuz model will be instrumental in promoting rural development, community participation and transparency. Moreover, the team identified a positively evolving organizational structure in the Tovuz council. The organizational framework is flexible and evolves according to the limitations and needs of the municipalities. Moreover, accounting and transparency regulations are strict and thorough. These rules obligate the small municipalities and influence their own procedures.

Efficiently functioning coordination councils are crucial to small and rural municipalities, which have practically no funds earmarked for development and investment and no skills or knowledge on development issues, budget planning or community participation. The advantages offered by the coordination councils and the economies of scale they offer to the rural municipalities are invaluable. Moreover, the coordination councils can be active in the advancement of several of the project proposals presented in this report in Section 3.6, among them the Integrated Municipal Development Plan (IMDP), SME promotion and municipal mentoring.

The coordination councils (including Tovuz) will not be able to continue sustainable operation without financial support. Taking the Tovuz council as an example, even after years of intensive GTZ financial assistance and professional support, the coordination council is not in a position to assume fiscal sustainability when external financing comes to an end. International organizations and municipalities should realize that external backing for the council's operation will be required for the initial period, and that a regular and stable source of funding is required in the longer-term. This can be achieved through diversifying into additional income-generating activities with other international organizations, local agencies and NGOs, and identifying means and methods of encouraging the LEAs to participate (including budgeted state funding) without losing control of the units.

3.4 PROMOTION OF MUNICIPAL ENTERPRISES

With due consideration of the risks of economic failures and losses, it is the team's recommendation to support and promote these ventures, albeit with due caution and attention to detail. At present, the municipal economic base is meager. Tax collection is difficult, state subsidies are decreasing and other income-generating options are not available. Establishing profitable municipally-owned income-generating enterprises is one of the few options open for augmenting the budget (and permitted to them by law).

The team does not ignore the problem of a public/municipal body owning commercial interests and the inherent conflict of interest in developing competitive business mechanisms and unfair competition with other local businesses. It is also apparent that there is a need for legislation that will supervise the do's and don'ts of municipal income-generating enterprises and the transition from municipal into private ownership. But in the meantime, the opportunities are there and the larger municipalities are experimenting. The team's recommendation is that municipal enterprises should be considered in the town municipalities of Tovuz, Goychay and Mingechevir. Smaller rural municipalities should refrain at this stage from running their own businesses until their knowledge of the business elements and risks involved have been developed. The proposed interventions, such as the Regional

Resource Training Center and the Municipal Chairmen Coaching program, are instrumental in overcoming the skills and knowledge gap.

Each commercial unit should be managed and operated as a “profit unit” within the framework of a registered legal entity. All expenses, costs, opportunity prices and income of each unit should be conducted autonomously and separated from the municipal accounts and budgets. The expected returns for the investment, at least in the initial years, will not be as high as the municipal chairmen hope. Our analysis indicates that they will not be the panacea for all of the municipality woes.

The types of enterprises and the preferred sectors obviously depend on the development level of each municipality, its needs and potentials. Risk minimization should be a primary concern. A low-risk-low-profit venture should always be preferred over a high-risk-high-profit one. If the enterprise has added community benefits, then financial break-even may be sufficient. Priority should be given to:

- Businesses that contribute additional social and community benefits,
- Enterprises that currently do not attract private investment (and will therefore not compete with the private sector),
- Sectors that have a high multiplier effect, boosting development in other sectors,
- Sectors that can utilize existing manpower, equipment and capabilities of the municipalities, and
- Labor-intensive sectors employing unskilled labor (IDP, refugees) and activities that include on-the-job skills training.

Enterprises that can be considered include:

- vocational training centers,
- computer schools,
- municipal health points,
- construction of housing units and housing maintenance (ZhEKs),
- manufacture of construction materials (carpentry, bricks, metal works),
- waste recycling centers, and
- basic tourism accommodations and sites (in the urban municipalities).

Transfer of the ZhEK’s responsibilities to the urban municipalities (in their entirety or on a partial basis) is one of the recommendations of the team. This will empower the municipalities, reinforce the resident-municipality link as client and service provider and increase municipal income from taxes and fees.

3.5 SUPPORT FOR NGOS

Local NGO capacity in the three regions (especially in Tovuz and Mingechevir) has clearly increased as a result of donor assistance. The provision of grants, technical

assistance and training provided through various international organizations has benefited individual organizations. That said, the team proposes several opportunities that local NGOs and international organizations can develop in order to increase their sustainability and relevancy to the needs of their respective communities. International organizations have a key role to play in this capacity building and support initiative. The assessment team recommends that the following considerations be taken into account for support to local NGOs assisting in municipal development activities:

- Local NGOs must recognize the issue of long-term financial sustainability due to the projected decline in donor resources.
- The support and assistance to NGOs should favour programs that provide immediate and tangible benefits to the communities such as social service delivery, youth programs, income generation and community development.
- Revenue-raising techniques, such as fees-for-service or the creation of income-generating enterprises, i.e., development of profit-making ventures, is beneficial since it helps decrease NGO dependency on international donors.
- Partnerships between municipalities, LEAs, government agencies, the private sector and NGOs should be encouraged.
- Small grants (of the type that EF provides) should be closely integrated with training and technical assistance. Linking grants to capacity-building produces substantial impacts for the recipients.
- Training should focus on individual organizational needs. Some of the NGOs that were visited by the team have already passed the stage of basic skills training. The recommendation calls for the implementation of on-site tailor-made training that addresses the specific needs of each organization within the environment that it operates.
- Training and technical assistance should focus on the following topics: devising long-term strategies, designing revenue-generating activities, recruiting and training of volunteers, working with the media, formulating and submitting projects.

3.6 PROPOSED PILOT PROJECTS

The proposed pilot projects selected by the team are those that fulfill the following conditions:

1. The projects are directed towards strengthening municipal capabilities and the influence of the municipality within its jurisdiction.
2. The proposed interventions require the active participation of the inhabitants, communities, block associations or NGOs. This will increase the project's chances of success through greater community involvement

and strengthen community mobilization and empowerment through the planning and implementation process.

3. Programs and projects are suggested that are sustainable with regards to reasonable economic and financial assessments. Initial investment may be required from international organizations, but subsequent operational expenses (and professional capabilities) should be acquired by municipal and other sources.
4. The assessment team views the involvement of the local executive authorities and the central government in the projects as highly desirable for its success.

List of Proposed Projects:

1. Integrated Municipal Development Plan (IMDP)
2. Regional Resource Development Center
3. Coaching for Municipal Chairmen
4. Community Health Point

3.6.1 INTEGRATED MUNICIPAL DEVELOPMENT PLAN (IMDP)

Formulation of an Integrated Municipal Development Plan (IMDP) that creates integrated economic and social solutions and develops social services. The program elaborates the ways and means of achieving future development

3.6.1.1 OBSERVATIONS AND NEEDS ASSESSMENT

Although there are marked differences between the three main town municipalities that were assessed, the following needs are valid for all.

Lack of a municipal development plan and a systematic strategic planning approach

OBSERVATION: The so-called master plans formulated by the executive authorities are vague, one-dimensional and basic. They do not include inputs from the municipalities or other local groups. Most plans were actually land use maps drafted during the Soviet period and since then updated periodically. Municipal leaders do not have access to the maps/plans and are only informed by the state district architect on a “need-to-know” basis. The municipal chairmen invariably referred to the annual budget as the “plan” for the future development in their jurisdiction. The plan horizon was one year into the future at best. Considerations of budget availability, tax collection, services provision or infrastructure needs for the near future were lacking. The proposed programs and projects were site-specific and disjointed. Each program was proposed and was selected due to its own

narrowly perceived benefits rather its more comprehensive advantages (or disadvantages) and synergetic attributes.

NEED: There is a need for the formulation of a development plan that will rationalize budgets, service provision, location of service units and identify viable projects. The needs extend to the training, consulting and assistance in formulating the plan.

Lack of an updated and reliable database

OBSERVATION: The State Statistics Committee (SSC) does not cover all the grassroots-level information required for planning specific municipal programs and projects. Data are collected in an ad-hoc manner according to site specific programs. Reliable and relevant data are not available.

NEED: There is a need for systematic data collection, surveys, classification, compilation and analysis of information (an example of the scope and extent of required data is elaborated in Annex 4.6 on page 82). The output will be decisive for IMDP formulation but also for many other development interventions.

Lack of planning skills

OBSERVATION: Larger municipalities do not have a planning department or specific professional specialists. Smaller municipalities lack staff that are trained in medium-term planning.

NEED: There is a need for the delivery of capacity-building in development and strategic planning to the municipal councilors, professional municipal staff and trainers. Initially, the training should be implemented/funded by international organizations and at later stages by the municipality and district executive authorities.

Lack of contact with members of community and lack of participation of the community members in decision making

OBSERVATION: During the planning of municipal programs and projects or when decisive decisions are taken, councilors and municipal staff take part without involving community leaders or general community members.

NEED: There is a need for creating and maintaining a dialogue with community members (i.e., training on participatory methods) and for NGOs and community groups to take a more active role in fund allocation decisions. This will also improve the transparency and accountability of the municipal authorities.

Reactive instead of proactive approach

OBSERVATIONS: Municipality leaders find themselves compelled to adopt external initiatives since they do not have any ready and solid programs. For example, initiatives of international organizations or local civic groups are almost automatically adopted for lack of any alternative.

NEED: There is a need to equip the municipal leaders and their staff in the strategic development of long-term plans so that they may systematically implement the most suitable development initiatives according to their local needs and resources, rather than only those presented by external sources.

Lack of dialogue and coordination between municipalities and LEAs

OBSERVATION: Government is primarily centralized and vertical. There is a lack of behavioral skills and a common language of cooperation between the municipality and local executive authorities. This cooperation is crucial as the LEAs are the main development agency in the country.

NEED: There is a need for the promotion and encouragement of collaboration between executive powers and municipalities.

Lack of a spatial overview regarding location of service units

OBSERVATION: The establishment and location of new service units or upgrading of existing ones is based on random decisions of executive powers, municipal or NGO initiatives or the programs of international organizations. The overall regional situation is not considered, which leads to accessibility problems on one hand, and overlapping of service delivery units (especially education and health) on the other.

NEED: There is a need for a regional program (as part of the regional development plan) that analyzes and considers the location of service units in neighboring municipalities (or even districts), the transport infrastructure and population requirements in order to provide more efficient, affordable and accessible services.

3.6.1.2 PROPOSED INTERVENTION: **INTEGRATED MUNICIPAL DEVELOPMENT PLAN (IMDP)**

The IMDP is essentially a program that sets out integrated economic and social solutions and development of services for the area in an affordable and sustainable manner. The program elaborates the ways and means of achieving the development goals of the future.

The ongoing decentralization process in Azerbaijan, the increase in the responsibilities of the municipalities and the severe dearth of funds for

development makes it imperative to formulate this type of planning and resource allocation tool. Since it is the role of the state to allocate resources, the IMDP must be formulated in conjunction with the LEAs, the Ministry of Economic Development and the Ministry of Finance. The IMDP does not have to be drafted for each and every small municipality. It can be a district program (aggregating all municipalities within the district) or a regional program (for a group of municipalities). The coordination councils (at least the one in Tovuz) can be utilized as the initiating and leading player in conducting IMDPs in that area.

Goals and Objectives of the IMDP:

The main goal of the IMDP is to optimize resource allocation according to the financial capacity of the region (municipality, district, etc.) by proposing future development directions and identification of integrated programs and projects for implementation. The general objectives of the plan are to:

1. Improve the quality and standard of living of the municipal and district population,
2. Deliver efficient, affordable and accessible services,
3. Strengthen the municipality, and
4. Enhance democratic values.

Plan Phases

A participatory Integrated Municipal Development Plan will generally include the following phases. The structured participatory interventions are conducted in specific phases of the process. (There will be a need for external assistance and guidance to lead this process.)

- I. Compilation of data (participatory);
- II. Analysis of existing physical, economic, social and institutional conditions in the area (municipality, district);
- III. Identification of problems and formulation of objectives (participatory);
- IV. Economic and social planning (formulation of alternative plan options, selection of options through participation procedures); and
- V. Project selection and preparation (selection through participatory procedures).

Phase I: Data Collection (participatory):

This is the first phase in the planning process. It is conducted by the professionals/experts with local counterparts. Its purpose is to provide all the relevant and reliable information that will serve as a basis for analysis of the present situation and future planning that will be utilized in the following stages of the planning process. The required information includes statistical data and information collected from published sources. Field surveys and interviews are conducted and the area is thoroughly studied. Accumulated data will be collected

regarding physical features (topography, climate, soils, water potential), economic administrative aspects (population distribution, political administrative divisions, infrastructure, location of industrial and service units), mapping of active social and community groups, block associations, interest groups, parents' associations and local and international NGOs.

Phase II: Analysis of existing physical, economic, social and institutional conditions:

The accumulated data is processed and analyzed. Economic and social indicators are established. The indicators refer to the level of development (income, savings, levels of poverty), service aspects (education and health provision) and infrastructure. Trends are identified through comparisons with corresponding values in the past. The mutual interdependence between the sectors is identified (for example, the influence of interventions in one sector upon other sectors). Comparisons are made with neighboring municipalities and with the national level (conducted by the professionals/experts with local counterparts).

Phase III: Identification of problems and formulation of objectives (participatory):

This is a structured participatory phase utilizing NGOs, civic groups and block associations led by community mobilizers. The main problems of the municipality are identified, especially the obstacles and bottlenecks for development. Plan objectives are formulated and specific and quantifiable targets are set.

Phase IV: Economic and Social Planning (partly participatory):

A development plan is formulated for each of the three main socio-economic sectors and expressed in economic, physical and spatial terms. Several optional alternatives are developed. Formulation and design of the alternatives is an activity that requires highly skilled and experienced professionals. It should be conducted in close coordination with the municipal councilors, LEA professional staff and Ministry of Economic Development officials. Selection of the preferred alternative (the selected plan for implementation) should be conducted through participation of local inhabitants, civic groups and NGOs.

The spatial hierarchy and organization can then be worked out for the services in the region, taking into account social considerations (local traditions, customs, gender issues, IDPS, etc.). The regional spatial location and future physical development of various sub-sectors is determined and a land use master plan is prepared. This plan/map indicates future physical development of the municipality, specifying zoning areas for agriculture, residential and industrial development.

Phase V: Project proposals (partly participatory)

Upon conclusion of the regional plan, specific projects for development are proposed. The projects can include any relevant sector in the area (for example:

irrigation, roads, agro-industrial processing, education units, health development, SME promotion, etc.). An inventory of viable, feasible and affordable projects is prepared by the expert planners. The final list of projects for implementation is determined by the inhabitants (or their representatives) through a participatory process. All projects conform to the objectives specified in the sectoral plans, all are viable and feasible regarding financial and economic considerations and attainable regarding social considerations. The projects are complemented by physical and architectural layouts.

Funding:

The point of departure of the IMDP is that the final proposals and interventions have to conform to the projected financial capabilities of the municipality/region within reasonable and modest economic projections. The main principle of the IMDP is to optimize investments from within the existing financial framework. Since the existing financial framework is very limited, it will also be necessary to work simultaneously on the financial management capacity of the municipalities.

The projects are prepared and submitted in an attractive and professional project profile format, indicating their economic, social and financial costs and benefits and their assimilation within the state physical and financial appropriations (after all, they were formulated with LEA, state and MoED cooperation). Specific project profiles can be submitted to international organizations for possible investment. These would be the interventions which are not in the state/municipal agenda or within its annual financing program.

IMDP and Municipality Strengthening:

Formulation of an integrated municipal development plan will strengthen the municipalities in various ways:

1. The planning process itself is a professional and teambuilding activity, bringing together the councilors and the professional municipal staff as well as specialists from institutions of higher learning and executive authority departments. It creates shared targets and interests and promotes future collaboration and improved coordination in future ventures.
2. The municipal development plan provides local leaders (municipal, LEA, NGO executives and MoED professionals) with a clear and rational vision of future development as well as viable means for its attainment. It will strengthen their capability to provide local services in the future.
3. This process of intervention will strengthen the status and position of the municipality for its constituents and strengthen its relations with the LEAs.
4. The participatory approaches utilized during the planning process will enhance social cohesion and democratic values of participation among the community stakeholders.

5. The participatory process is a unique opportunity to create a common interest among various entities.
6. In municipalities where communities already have certain organization (coordination councils, for example), this will modify an ongoing structured model of participation (for example in Mingechevir and Tovuz). In municipalities where such a structure is lacking, this process will mobilize and accelerate the establishment of community groups as well as participatory mechanisms.

Community participation in the planning process:

Participation of the community members in decisions influencing their future and wellbeing is one of the main building blocks of democratic values. "Participation is defined as the process by which citizens assume leadership roles along with their local government officials to make decisions and develop policies that directly affect the quality of daily life in their communities."¹⁴ The methodology of citizens' participation proposed in this process will be conducted as follows:

1. Identification and initial training for a selected group of trainers. The object is to form a group of mediators and facilitators for the forthcoming process.
2. With the assistance of the initial group of trainers, citizen target groups will be mapped and recruited for the assignment.
3. The municipal councilors, professional staff, trainers, community representative groups, local and international NGOs will take responsibility for this project.
4. The stages in which public participation will take place:
 - a. Determining the scope and horizon of the plan
 - b. Drafting of problems and bottlenecks to development
 - c. Formulating the plan goals and objectives
 - d. Selection between plan alternatives
 - e. Selection between project alternatives

Final output:

At the end of the process the municipality will have a complete and comprehensive integrated development plan that will provide directions for development, integrate between the various socio economic sectors, identify, plan and prioritize projects for immediate implementation and establish the economic and financial requirements for the sustainable realization of the development process. The proposed interventions will be affordable and based on available funds. Projects will be prioritized according to their benefits to the community and possible funding sources.

It should be noted that this type of project requires a team of highly qualified and experienced planners to teach the local stakeholders and administration how to formulate, implement and monitor the development plan, at least in the initial pilot phase.

¹⁴ from "Manual for Councilors in Azerbaijan," IFES Azerbaijan, funded by USAID, Baku 2003.

Matrix of existing and required structures for IMDP formulation, by Municipality

	Tovuz	Mingechevir	Goychay
Existing structures to involve	Municipality, LEA, State agencies, Coordination council Existing regional commission (GTZ) International & local NGOs	Municipality, LEA, State agencies, International & local NGOs	Municipality, LEA, State agencies, Coordination council International & local NGOs
Existing capacities	Functioning coordination council Involved international organizations Previous training of councilors in project formulation and participatory methods Strategic planning (GTZ) Considerable involvement of GTZ	Active municipal chairman & council Involved international and local NGOs Previous training of councilors in strategic planning, participatory methods and financial management Considerable involvement of IFES	Existing coordination council, although still weak
Existing experience	Formulation and preparations of municipal projects Experience with prioritization processes Participatory experience	Successfully operating municipal enterprises, basic planning being conducted at present	none
Necessary preconditions not existing	Cooperation and coordination with LEA and State agencies Skills training	Cooperation and coordination with LEA and State agencies Skills training	Cooperation and coordination with LEA and State agencies Network of operating local and international NGOs
Major challenges	Bringing together LEA and State agencies Funding	Bringing together LEA and State agencies Funding	Bringing together LEA and State agencies Funding
First steps to take	Training of a multi-disciplinary planning team Coordination with LEA and State	Training of a multi-disciplinary planning team Coordination with LEA and State	Creating an efficient network of active NGOs Training of a multi-disciplinary planning

	agencies	agencies	team Coordination with LEA and State agencies
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3.6.2 REGIONAL RESOURCE DEVELOPMENT CENTER (DISTRICT/MUNICIPAL TRAINING CENTER)

A modular center that provides training programs on relevant social, economic and technological topics and combining additional service units such as a business center, computer center, library and others. Operating at the regional level, through participatory approaches and flexible towards changing needs.

Observations:

Training, capacity building and consulting is frequently cited by the municipalities, LEAs and international organizations as the main force that will boost development in the rural areas and in the municipalities. At present, training is conducted sporadically and infrequently in the municipalities that were surveyed. The team's analysis indicates that there is a lack of knowledge (and experience) in facilitating group work, lack of analyzing abilities and critical thinking by municipal, state and NGO leaders and insufficient experience in various development skills. The general lack of coordination between organizations leads to unbalanced activities, which is coupled with inaccessibility to resources and training centers, especially in Goychay and Mingechevir. The current attitude towards development segregates economic development from social/community development .

The relatively low level of economic activity at the municipal level (at least in Tovuz and Goychay) is not sufficient to sustain an efficient training center. A regional structure should be considered. The Tovuz Business Center is entirely financed by external funds. It is doubtful if it will be able to sustain itself when the existing funding runs out.

Groups of trained young people who have the potential to facilitate development seem to be emerging. Training and capacity-building is seen as a significant tool for change and development by the national and local NGOs and by the municipalities.

Needs:

- Provision of a sustainable and accessible center that will aggregate different spheres of training and capacity-building,

- Concentration of professionals and skilled persons in one place, and
- Delivery of diverse and relevant training topics for various learning activities in one location.

The Proposed Intervention: Regional/Municipal Training Center

A modular center that will provide training programs on diverse and relevant social, economic and technological topics is proposed. This will combine additional service units such as a business center, computer center, library and others. The Center will operate at the regional level, using participatory approaches and being flexible towards changing needs. The center will also facilitate cultural and social activities and will include outreach activities to outlying peripheral areas. (A schematic diagram of the training center's structure is presented at the end of this section.)

Main principles of the Training Center:

- The center will benefit from economies of scale by operating at a regional level and providing services for 3-4 districts. Capacity-building subjects will include social, economic and technological disciplines and will be provided to a wide range of users: trainers, block associations, organized communities, municipal councilors, professional staff of the municipalities, local NGOs, LEA staff and state agencies. Moreover, the center can conduct outreach activities to outlying peripheral areas.
- The structure will be modular, meaning that modules will be added or deleted according to demand and financial capabilities.
- The modular structure will be beneficial for international funding. Each organization can fund a specific module according to its agendas, interests and timetable.
- Participatory approaches will be inherent at all functional levels: public participation in planning and establishing the center, participatory mechanisms in the management and operation of the center.
- Economic sustainability will be attained through income generation. Each activity in the center will be income-based through user fees or external financing.
- Founders and initiators will be International organizations, municipalities, and LEAS. The management board will consist of the founders, local NGOs and community representatives.

Structure and Phasing of the Center's Modules:

As previously stated, the center will be modular and will develop in stages according to the increase in demand for its services and the capacity of the region to establish and sustain the units. The initial modules will be those that are relatively simple regarding operation (i.e., do not require complex coordination between the initiating organizations), the ones that will have the most local

demand and the greatest chance for sustainable operation. The dearth of accessible and affordable skills-training institutions was stated as a major impediment by the municipal leaders local NGO members in each of the municipalities visited. Moreover, our analysis reveals that the demand for relevant skills training can be supplied in a sustainable (fee-for-service) manner. This is demonstrated by the Tovuz GTZ-supported center and the municipality-operated computer center in Mingechevir.

Initial establishment of a resource center should be through the setting up of a new entity. Partners in the entity will include the relevant municipalities, international organizations, NGOs and the LEA as appropriate. Each partner in the association (entity) will contribute funds for the basic seed money and each will have a representative on the managing board of the resource center. We expect that at least initially, international organizations will have to offer a large share of the funds.

First phase:

The first module for development should include the computer center and the vocational training center. The team's analysis indicates that in Mingechevir and Tovuz, these centers can be established entirely through municipal (and coordination council) funds with minimal external assistance.

Computer center:

The computer center will include approximately 15-20 PC's and internet connections, and training will be conducted on the following topics:

- basic computer skills,
- more professionalized computer solutions (financing, costing, project planning),
- Internet technologies, and
- Web site-building for regional promotion

The center will be open to individuals to practice their computer skills and internet use (also an option for additional income).

Vocational training:

The center will provide courses on specific skills training and personal enrichment. Since demand will be the yardstick for curriculum development, it will be flexible to local needs and labor market requirements. Courses may include:

- Languages
- Secretarial skills
- Fashion
- Sales
- Trade and commerce
- Mechanics
- Cosmetics, etc.

Second phase.

Successful launching and operation of the first phase will increase the knowledge, capacity and trust between municipalities and other local organizations and will enable the extension of this venture. The second phase shall include the training center. The center will provide training and capacity-building on a wide range of topics. It will require initial support from external funds similar to the Tovuz GTZ-supported unit.

Training Center:

The center will provide courses for the different segments of the potential participants. Basic topics will include:

- Democracy and society
- Capacity-building
- Municipal management
- Teamwork
- Conflict management
- Leadership
- Planning and programming
- Program design and Proposal writing
- Gender issues
- How to establish and operate an NGO

The next development stages of the Center will be implemented at a future time and only after stages one and two have been initiated satisfactorily. They can include more ambitious programs, such as:

Business center providing the following services:

- Consulting services
- Consultation services in all areas of small business development
- Consulting during initial establishment of a new business
- Costing, legal aspects and tax issues
- Marketing
- Business plan
- Management
- Referral to credit sources

Business training courses with courses on relevant topics:

- Starting a business
- Expanding a business
- From handicrafts to small industry
- Women entrepreneurs
- Creating Web sites for businesses
- Basic computer skills for business (in cooperation with the computer center)

Coaching:

The mentoring program is intended for graduates of the basic “start your own business” program who are in the process of establishing their own businesses. The program will pair the coach and the entrepreneur. Regular one-on-one supervision will be conducted to enable individual counseling according to the specific needs.

SME incubators:

The business center will rent and prepare basic space for the location of the businesses. The entrepreneurs will in turn rent the premises according to their needs and for a predetermined duration. The business center will provide administrative and office fee-for-use services to the new SMEs.

Final Output:

The population will benefit from an active multidisciplinary resource center that will provide several relevant functions in one location. The center will enhance social networking among the community members. Opportunities will be available for international organizations to focus their efforts and investments within one central project, maximizing the total impact and benefiting from economies of scale.

Matrix of existing and required structures for the development of a Regional Resource Development Center, by Municipality

	Tovuz	Mingechevir	Goychay
Existing structures to involve	Municipality, LEA, State agencies, Coordination council Business development center International & local NGOs	Municipality, LEA, State agencies, International & Local NGOs	Municipality, LEA, State agencies, Coordination council International & local NGOs
Existing capacities	Functioning coordination council Involved international organizations Experience in SME training (e.g., YES training, Certified business consultancy) Considerable involvement of GTZ	Active municipal chairman & council Involved international and local NGOs Considerable involvement of IFES	Existing coordination council, although still weak
Existing experience	Currently operating business and training center Computer training Emerging NGOs and active trainers	Successfully operating municipal enterprises including vocational training and computer skills school Emerging NGOs and active trainers	none
Necessary preconditions not existing	Formation of a management entity comprising of municipal, community, international orgs, NGOs and LEAs	Formation of a management entity comprising of municipal, community, international orgs, NGOs and LEAs	Formation of a management entity comprising of municipal, community, international orgs, NGOs and LEAs
Major challenges	Forming the entity Receiving LEA cooperation Funding	Forming the entity Receiving LEA cooperation Funding	Forming the entity Receiving LEA cooperation Funding
First steps to take	Forming the entity Selecting location and initial module for	Forming the entity Selecting location and initial module for	Forming the entity Selecting location and initial module for

	development (vocational and computer training)	development (vocational and computer training)	development (vocational and computer training)
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3.6.3 Coaching for Chairmen of the Municipalities (for towns with populations over 8,000)

Individual coaching for municipal chairmen through face-to-face sessions conducted in a structured manner by pre-trained coaches. The advancement is individual, according to the specific capacities and potentials of the chairman. It will be geared to solve concrete problems when they arise in the specific municipality and will be flexible regarding duration, timing and place and maintaining the required discretion and confidentiality.

Observations:

Municipalities are gradually gaining additional responsibilities and a consistent increase in municipal budgets and funding is evident. This was verified through the interviews with the chairmen and analysis of municipal budgets (annex 4.4). It is noticeable that initial and ground-breaking experience is occurring in several directions:

1. Establishment and operation of commercial ventures by the municipalities, and
2. Establishing channels of communication between grassroots community groups and municipal institutions.

These dialogues are already bearing fruits in the form of existing projects, albeit on a modest scale.

A gap exists between the existing management style and a more desirable and advanced approach. The chairmen of municipalities lack the sufficient skills to handle the requirements of their roles. There are insufficient basic municipal management skills, for example:

- Municipal leaders do not adequately understand the planning, establishing and financing of municipally-owned commercial ventures, as well as the legal aspects regulating them.
- Municipal leaders exhibit difficulties in allocation of responsibilities and assignment of roles to their subordinates.
- Municipal leaders lack methods for communicating with and mobilizing citizens and local community groups.
- Municipal leaders lack experience in developing a team-oriented working environment, supervising subordinates and motivating workers

Needs:

The concept of municipal administration is a new experience in Azerbaijan. Most of the roles, positions and responsibilities within the municipality are new, and it will take time for management norms and practices to establish themselves. In the meantime, municipal chairmen who have only limited experience find themselves leading their constituents in a rapidly-changing and evolving economic environment. They lack the support of experienced predecessors or an established bureaucracy. They are required to make important decisions without having the required management skills or options for consultancy. They find themselves isolated and with no opportunity for a confidence-building environment. Moreover, the assessment team found that most of the municipal leaders interviewed were able to absorb learning and were open to new ideas. The team presented the general coaching scheme to the chairmen of the municipalities visited and the heads of the three large urban municipalities (Tovuz, Goychay and Mingechevir) approved it enthusiastically, as did three of the rural municipalities. Two rural municipal chairmen did not object to the idea, although they did not acknowledge its usefulness.

Program proposal: Coaching for Municipal Chairmen

Individual coaching for municipal chairmen through face-to-face sessions conducted in a structured manner by pre-trained coaches is recommended. The advancement is individual, according to the specific capacities and potentials of the municipal leaders. The activity is geared to solve concrete problems when they arise in the specific municipality and it is flexible regarding duration, timing and place.

Coaches will be recruited from the business, academic or managerial sectors in the country. The program will be limited in duration (i.e., for one year) and intensity (i.e., number of meetings per week/month), and, therefore, efficiency and affordability (as opposed to sustainability) are the major considerations. Funding can originate from any of the currently active institutions and organizations operating in the rural environment of Azerbaijan, larger municipalities themselves and local and international NGOs. The proposed concept is NOT group training or on-the-job training that is periodically conducted by international NGOs. The coaching can take place in the district training center but can also be conducted independently. The coaches will require some training (although not extensive) to be sure that they are as up-to-date as possible with the current municipal operating environment.

Goals:

1. Improve the management performance of municipal leaders,
2. Strengthening the municipalities' capacity to address social needs, and

3. Achieve more democratization and local participation.

Program phases

- I. Locate suitable community chairmen who have the capacity, experience and desire to take part in the program.
- II. Develop criteria for coaches according to the local context and requirements and the projected challenges they may face.
- III. Recruit a group of suitable coaches/mentors.
- IV. Conduct preparatory workshop for the identified coaches including basic municipal management, financing and budgeting, administration, law, urban planning, participatory methodologies, coaching and advisory skills.
- V. Design ethical codes for the safeguarding of the service recipients.
- VI. Pair and link each chairman with a suitable counterpart coach, who will conduct advisory sessions and one-on-one trainings with the municipal chairman.
- VII. Conduct follow-up group sessions with the coaches for monitoring and assessment.

Final Output:

Municipal chairmen will develop the modern management skills necessary to lead and manage their municipalities, and will be able to draw upon the expertise of other sectors to help address management challenges in the future.

Matrix of existing and required structures for Municipal Coaching - by Municipality

	Tovuz	Mingechevir	Goychay
Existing structures to involve	Municipality, Coordination council, International & local NGOs	Municipality, International & local NGOs	Municipality, Coordination council, International & local NGOs
Existing capacities	Municipality chairman keen on coaching Involved international and local organizations Considerable involvement of GTZ	Municipality chairman keen on coaching Involved international and local organizations Considerable involvement of IFES	Municipality Chairman keen on coaching
Existing experience	Current GTZ consultations for municipal chairman Basic experience in developing team- oriented working environment, supervising subordinates and motivating workers	Previous capacity- building for the chairman, councilors and municipal staff (IFES) Successfully operating municipal enterprises Basic experience in developing team work, supervising subordinates and motivating workers	none
Necessary preconditions not existing	none	none	none
Major challenges	Identifying suitable coaches Funding	Identifying suitable coaches Funding	Identifying suitable coaches Funding
First steps to take	Develop criteria for coaching Recruitment of coaches	Develop criteria for coaching Recruitment of coaches	Develop criteria for coaching Recruitment of coaches

3.6.4 COMMUNITY-BASED HEALTH POINT

Establishing of financially-autonomous community/municipality-based health points that deliver basic, preventive and emergency health services to a defined community.

Observations:

Most health units (hospitals, ambulatory clinics and health points) are overstaffed and under-equipped. Most health institution buildings are in need of repair and suffer from chronic under-funding that leads to shortages in medical supplies and equipment. The main district level hospitals have over 100 beds and have an occupancy rate of less than 20% (and many have less than 5%). Patients prefer to skip these levels of the referral system and to go directly to more centralized institutions, even going to Baku. Salaries for health care professionals are extremely low. The official salary for a doctor with 10-20 years of experience is between 100,000-140,000 AZM/month (USD20-30).

The health care system is supposed to be free under the current law, although actual experience often proves otherwise. Experimenting with fee-for-service programs ended by decree in April 2004; however, patients are nonetheless expected to pay in most units in all of the municipalities surveyed. The level of fees were arbitrary, but included both consultation, treatment and the subsequent purchase of pharmaceuticals.

Needs:

- Availability of basic health services within reasonable distance of the community,
- Accessible, efficient and affordable community level health units,
- Provision of reasonably-priced basic medical supplies (according to the basic government standard), and
- Community/municipal influence and supervision on health delivery.

Program proposal: Community Health Units:

The assessment team recommends the establishment of financially autonomous community/municipality-based health points that deliver basic, preventive and emergency health services to a defined community. Such units would involve establishing coordination between municipality, community, state and local and international organizations. The units will be sustained financially by the collection of a modest fee. This is permissible under the existing legislation and is already practiced in IMC-initiated community medical points within the country.

Establishing a Community Health Fund:

The financial analysis and fund planning should ensure that the amount is sufficient to cover all operating costs, renewal of medicines and perishable assets, depreciation of equipment and buildings, and to provide financial incentives to the staff. The funds from the community fund can be raised through:

1. Fee for services (patients pay according to the treatment they require), and
2. Flat health insurance payments (a regular modest monthly sum for each family member).

Establishment of sustainable community-controlled health units has been somewhat successful in other countries, including neighboring Turkey. The International Medical Corps (IMC) is establishing similar units in other rural areas of Azerbaijan. Establishing such a unit in an urban setting within a municipality should be considered. A positive example is currently in the final construction stages in Mingechevir. Initiated by a block community, construction is financed jointly by the municipality and an international organization. During operation, the salaries will be borne by the Ministry of Health and other expenses (heating, etc.) by the municipality. Although in this case the municipality was "dragged" into the venture due to the active block association initiative, the resulting cooperation between the block association, municipality, LEA and international organization is certainly a replicable case in point.

Goals:

1. Improve the health and general wellbeing of the rural population,
2. Deliver basic, accessible and affordable health services,
3. Strengthen the community and municipality, and
4. Enhance democratic values (through community participation in the management of the facility).

Plan phases:

- I. Initial organization and mobilizing of the community. This can be initiated and conducted by NGOs (national and local) and the municipality.
- II. Training on fiscal management, costing, accounting and basic training of the medical staff.
- III. Arranging municipal/community supervisory bodies through elections for position on the managing board (available to both state and municipal representatives).
- IV. Construction/rehabilitation of the health point building.
- V. Provision of the basic equipment, facilities and medical supplies.

Final Output:

Establishment of a local or neighborhood-level community health point that will provide basic health services in an efficient and sustainable manner, managed

through community participation and economically sustainable and affordable to the rural population.

Annex 4.1 Goals and Objectives

The goals and objectives of this assessment were formulated by the partners, the Organization for Security and Co-operation in Europe (OSCE) and the Eurasia Foundation (EF), IFES and the German Agency for Technical Cooperation (GTZ).

Goal 1: To identify the specific needs of population at the local level designated as municipalities' primary areas of activities in general.

Objectives:

Assess specific local community socio-economic needs and aspirations that should be addressed by municipalities within the framework of municipal self-governance.

- Determine which services are currently being provided by central government/local Executive Authorities, and municipalities in targeted districts which help to reduce poverty and develop the local economy.
- Assess the level of basic services that are required by the population and to which they are entitled to in the framework of poverty reduction and economic development. Researchers should focus on the areas of greatest need which coincide with municipal responsibilities in as many of the following areas as is feasible: utilities and housing, health care, SME development, and education (no order of priority).
- Recommend other services which may be provided by the municipality which are not currently available.

Goal 2: To identify the main obstacles and resources available to municipalities to address identified community's socio-economic needs.

Objectives: Assess available resources and specific obstacles that hamper municipalities' ability to meet socio-economic needs of community. The issues concerned include, but are not limited to:

- **Financing and budget:** Discover impediments to municipalities' access to primary sources of funding such as collecting land and property taxes, royalties from the extraction of natural resources and tax on the profits of municipal enterprises and organizations, fees payables for street advertisement stands, resort and hotel duties, parking fees, and other taxes and payments as may be adopted within the municipal area. Review and analyze municipal budgets for last 5 years including cash flow analysis, capital investment plans, and subsidies received from Ministry of Finance.

- Human Resource Skills: Assess current level of professional skills of municipality counsellors and staff to carry out designated responsibilities and to further develop municipality management. Skill areas to be assessed include but are not limited to: financial planning and management skills, project management and proposal writing skills, strategic planning, human resource management, community outreach, transparency and accountability, information exchange with other regional and national bodies and SME development.
- Relations with key stakeholders: mapping of stakeholders in local governance which would draw out connections and relations between municipalities, executive authorities, ministerial representatives, business, community, civil society groups, international NGOs etc.

Goal 3: Assess possibilities of development within the municipality areas based on the conclusions derived from examination of the issues highlighted in the previous sections

Objectives: Following the examination of community needs (Goal 1) and of the ability of local governing structures to fulfil these needs (Goal 2), provide detailed strategies and recommendations for further supporting the development of municipal structures in targeted districts.

- Assess the capacity and appropriateness of local and international NGOs to assist and support municipalities through capacity-building training and long-term consultancy.
- Identify types of training modules appropriate for Azerbaijani municipalities.
- Recommendations for future pilot programs to support the development of municipalities to provide sustainable local services in target sites.
- Detailed recommendations on how the pilot projects can address the issues raised in the research, especially regarding provision of sustainable local services, building local resources, capacity building of municipal councillors, etc.

Annex 4.2 Budget tables

Table 4.2.1 Annual (district) budget (in USD) and Annual rate of growth (%) 2002-2004

Year	Tovuz	Mingechevir
2002	4,000,000	3,940,000
AGR %	25%	8.5%
2003	5,000,000	4,271,000
AGR %	30%	11.2%
2004	6,500,000	4,750,000

Source: calculated from Departments of Budget, Tovuz and Mingechevir

Table 4.2.2 Annual district budget (in USD) 2004 and breakdown by sub-sector

	Tovuz		Mingechevir	
	US \$	%	US \$	%
Education	4,850,000	72.7	2,920,000	61.0
Health	950,000	14.2	830,000	17.4
Social protection	75,000	1.1	52,000	1.1
Infrastructure	250,000	3.7	830,000	17.4
Culture and arts	195,000	2.9	104,000	2.2
Sports	----	----	48,000	1.0
ExCom Expenses	350,000	1.2	----	----
TOTAL		100.0		100.0

Source: calculated from the Departments of Budget, Tovuz and Mingechevir

Table 4.2.3 Annual municipal budget and per capita in selected rural municipalities 2003

	Tovuz		Goychay		
	Alimardanle	Girzan	Malikkand	Lakcilpak	Kurdamish
Population	3,150	1,726	1,055	5,000	1,260
Budget \$	6,940	5,430	3,780	6,120	2,350
AZM	34,000,000	26,600,000	18,500,000	30,000,000	11,500,000
Per capita	2.2	3.1	3.6	1.2	1.9

Source: Chairmen of the municipalities

Annex 4.3 Municipal income and expenses

Table 4.3.1 Mingechevir Municipality; annual municipal income and annual growth rate 2000-2003

Item	2000	AGR %	2001	AGR %	2002	AGR %	2003	GR 2000-3
Total	191042	-10%	171296	133%	398868	-18%	326684	14%
State subsidies	170330	-53%	79716	195%	235479	-84%	38514	-31%
Municipal income	2071 2	342%	9158 0	78%	1633 89	76%	2881 70	93%

Source: Municipality of Mingechevir 9/2004

Table 4.3.2 Mingechevir Municipality; percentage of income by source

Item	2000	2001	2002	2003
Total	100%	100%	100%	100%
State subsidies	89.2%	46.5%	59.0%	11.8%
Municipal income	10.8%	53.5%	41.0%	88.2%

Source: Calculated; Municipality of Mingechevir 9/2004

Table 4.3.3 Mingechevir Municipality; annual municipal expenses and annual growth rate 2000-2003

Item	2000	AGR %	2001	AGR %	2002	AGR %	2003	2000-3
Total	65,803	313%	271,508	20%	326,642	1%	329,976	50%
Salaries	25084	257%	89451.9	37%	122523	46%	179032	63%
Goods and services	40719	347%	182056	12%	204119	-26%	150944	39%

Source: Calculated; Municipality of Mingechevir 9/2004

Table 4.3.4 Mingechevir Municipality; percentage of expenses by source 2000-3

Item	2000	2001	2002	2003
Total	100%	100%	100%	100%
Salaries	38.1%	32.9%	37.5%	54.3%

Goods and services	61.9 %	67.1%	62.5%	45.7%
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Source: Calculated; Municipality of Mingechevir 9/2004

Annex 4.4 Municipal Enterprises Mingechevir

a. Vocational training center and computer center

The center provides training in English, computers and internet, basic legal rights, hairdressing, cosmetics and tailoring.

Number of graduates in 2003	approximately 450
Average course length	60 hours (5 months)
Average price	25,000 manats/month
Number of employees	12
Total income to the municipality	31 million mnt

b. Construction enterprise

Producing carpentry products, curb stones and tiles, metal works (benches, tables, garbage bins) and aluminium windows and profiles.

70% of production is for municipal use

30% by to private consumers

number of employees	20
average salary	370,000-400,000 (similar to the private sector)
total annual income	42,000,000
profit	8,000,000

Annex 4.5 Data Collection for formulating an IMDP by Major Categories and Groupings

The following is a tentative proposal for data collection by categories and topics for the initial IMDP data collection phase

- 1 The national level
 - Relative situation of the country in the international context
 - Social, economic, political, institutional structures
 - National policies, goals and development orientation
 - The relative importance of the rural/urban sector in national planning
 - The relative importance of the region/municipality in national priorities
 - Decentralization policies and structures
 - Focus of integration and conflict
 - National accounting
 - Population structure by age groups and sex
 - Labour force and economic active population, employment distribution by sectors
 - Gross Domestic Product: Total and distribution by economic sectors

- National Budget: distribution by items
 - Gross Domestic Savings: public & private
 - Price Index for the last 10 years
 - Rate of exchange for the last 10 years
- 2 The region/district/municipality – general characteristics
- Physical features
Location, altitude, topographic characteristics, climate, ecological attributes, natural resources, soils by types and uses, potential and actual, according to national classification
Hydrology; surface water, rivers flows (monthly and annual), underground aquifers; capacity estimates and actual use. Quality of water for agriculture, industrial and services uses
 - Infrastructure
Roads, Utilities (water, electricity), communications
 - Population and demography
Population structure and composition, age groups, fertility, mortality, life expectancy, migration patterns
 - Administrative boundaries, divisions and areas
 - Housing
Number of dwellings according to size and type of building, dwellings with services, electricity, water supply, type of loans for building dwellings
 - Environmental aspects
Water, sanitation, hygiene, climate, pollution etc
- 3 The agricultural sector
- National and regional policies, development strategies, goals and targets for the sector
 - Physical features and location
Land distribution according to farm size of holdings (trends from previous years). Farms: location, area, number and size of land parcels, Distribution of agricultural and livestock activities (hectares, heads, units) according to farm size in the region/district/municipality.
 - Crops
Total area of seasonal and perennial crops, distribution of the total area according to irrigated and non-irrigated. Yields per unit (Ha.) of the different crops according to irrigated and non-irrigated areas. Farm prices per Kg of the different agricultural products (in local currency).
Direct costs per unit of the different agricultural crops according to irrigated non-irrigated areas
Labour days per unit in Irrigated and non-irrigated areas
Hours of tractor usage needed per unit, in irrigated and non-irrigated areas
Investment per unit of the perennial crops

- Livestock
 - Number of units (heads, bee hives, etc.) of the livestock activities (cattle beef and dairy, sheep, goat, pig, poultry, bee, etc.)
 - Age distribution of the cattle according to sex.
 - Number of heads slaughtered annually
 - Live weight of slaughtered cattle, annual production of milk, wool, eggs and honey per unit of the different livestock activities.
 - Farm price per unit of production (Kg./litre/egg) of the different livestock activities.
 - Direct costs per unit of livestock activities.
 - Labor days per unit of livestock activities.
 - Investment per unit (cost of one unit of livestock, construction and equipment) of livestock activities

- Data on existing irrigation projects
 - Location and total area of the projects
 - Irrigated area in each project (Ha.)
 - Number and size of land parcels
 - Distribution of crops and livestock activities according to size of land parcels
 - System of irrigation. Water use (M3) per Ha. Of the different crops and irrigation potential.
 - Economic and financial analysis of existing projects.
 - Investment – per parcel, per hectare, per employed person (according to components: infrastructure, irrigation and services).
 - Value of production. Total per parcel, per Hectare and per employed person.
 - Total value added: per parcel, per hectare and per employed person.
 - Economic indices of project s: internal rate of return, Net present Value and Cost Benefit.

- Equipment
 - Machinery, equipment and tractors in the area/district/municipality

- Forestry
 - Distribution of forest area according to type and species.
 - Commercial volume (cubic meters) per Ha..
 - Usable volume per year per Ha. According to species.
 - Price of cubic meter of lumber according to species.
 - Labor days per cubic meter of wood.
 - Investment per cubic meter of wood.

- Fishing
 - Annual capture of fish (ton.) according to species.
 - Price per ton of fish (or fishermen) according to species.
 - Direct costs per ton of fish according to species.
 - Labour days per ton according to species.
 - Investment per Ton according to species.

- 4 The Industrial Sector (manufacturing, utilities, agro industries, handicrafts)
National and regional policies, development strategies, goals and targets for the sector
 - Large medium and small-scale industries:
by branches and location.
Classification by number of employees per plant, value of production
Employed persons
Production value
Raw materials
Energy and water
Other expenditure
Value added
Salaries, according to occupation (salary grades)
Benefits (net remuneration of capital)
Investments on construction and equipment
All of the above, for each type of industry
 - Mining and quarrying
Data on the same basis as for industries.
 - Building and construction
Data on the same basis as for industries.
Costs of different standards of construction
 - Gas, Water, Electricity
Number of employees and salaries
Cost of supplies
Number of electricity stations and power capacity
Other sources of energy
- 5 The Services sector
(education, health, municipal and administrative unit, trade, commerce, financial, personal and professional services, transportation, communications, tourism)
 - 5.1 Public Services
 - Education: (including: formal and informal education, pre-primary, primary, middle and secondary, tertiary, special education)
Current school system
Structure of educational system (national and regional)
Government development plans, objectives and targets, policies and priorities
Types of schools and their interrelationships
Geographical distribution
Public and private institutions, geographical distribution
NGO^s involved in the sector and their activities

Multi grade classrooms and double shifts

Current school population

Number of pupils enrolled, by school type, age and sex

Enrolment ratios (computed from one year cohorts)

Number of pupils per classroom in each school type

Age of students per class and school type

Performance of the school system

Dropouts per school type and class

Repeaters per school type and class

Personnel structure

Number of teachers by school type

Age and qualifications of teachers and school type

Pupil\teacher ratios per school type and per class

Numbers, qualifications, positions and geographical distribution of administrative staff

Norms and standards

Ministry of education standards regarding school and classroom sizes, pupil\teacher and pupil\classroom ratios, thresholds and user radius, textbooks and exercise books per pupil.

Attitudes, acceptability of the regional population

Opinions, needs, accessibility of parents, children and regional inhabitants

Curricula and manpower demand for education

Current manpower structure (in the national\regional economy)

Expected future manpower structure per group of jobs

Current structure of the labour market

Costing

Construction costs, per classroom and building by school type (including boarding facilities)

Construction costs of other facilities (laboratories, administration sports etc.)

Costs of furniture and equipment by type of school and facility

Amortization and estimates for buildings and equipment by school types

Maintenance of school buildings per annum and school type

Annual recurrent costs per school

School fees and other expenditures accrued by parents

Transportation costs per pupil

Salaries of teachers, administration and support personnel by school type, public and private institutions

Annual units costs; per pupil per year, per teacher etc..

Total education budget of the area

- Health
(include: public: community health care, health posts, health stations, health centers, district and regional hospitals, specialized clinics. Private health care providers; clinics, pharmacies, hospitals and traditional healers)

Health services

The health care system, national and regional, government and private, service units hospitals, health centers etc.

Government development plans, objectives and goals, policies and priorities

Sizes and staffing of service units

Threshold and user radius

Spatial distribution of services

Health care programs (preventive, curative)

Funding and planning system and process

NGO^s involved in the sector and their activities

Costing

Construction costs of the various health units

Costs of equipment by health unit

Amortization, maintenance and recurrent cost estimates of buildings and equipment (per annum)

User fees and other expenditures, by health unit

Salaries of personnel, by position and qualifications

Per capita health expenditures

Health statistics

Physician\population, nurse\population, bed\population ratios, national and regional

Prevailing afflictions, mortality and morbidity national and regional

Attitudes, acceptability of the regional population

Opinions, needs, accessibility of the regional inhabitants

- Other Public Services
(including government representatives, local government, municipalities, welfare, police, post, telecommunications, culture, religion, sports)
Description and structure of each sub sector. Hierarchical structure, units, location, personnel
Government norms and standards regarding unit population ratios and staffing
Annual expenditures by service type and level
Construction costs per Sq. M and per unit. Cost of equipment
Salaries by unit level and position
Organization and management
Constraints and potentials for development
- 5.2 Private Services
 - Commerce, wholesale and retail trade
 - Tourism and recreation
 - Financial activities
 - Professional and personal services
 - Personal services
 - Location of units, employment, value added generated, income, development potential

6 Social aspects

- Basic social characteristics of the population, by ethnic and economic groups
- Migration patterns
- Human resources (education and skills)
- Social capital (focuses of integration, cooperation and conflict)
- Main cultural features and their relation to development issues
- Attitudes and behavioural patterns regarding work, education, health
- Practices, cooperation and change.
- Organizational resources (local organizations, goals and target population, stability, autonomy, management)
- Local leadership – development orientation, implementation ability
- Community structure
- Family and kinship structures
- Gender issues
- Production and consumption patterns

Annex 4.7 Funding of municipalities

Article 3. Economic Basis for Municipal Finance Its Principles

3.1. Economic bases of municipal finance are the following:

- municipal property
- municipal lands
- local budget and off-budget funds
- municipal activity in production, services and other economic activities.

3.10 Municipal Enterprise Ownership Status

Azerbaijani legislation allows municipalities to establish legal entity(s). Under Article 33 of Status Law, municipal enterprises are included as a part of municipal property, and Article 34 stipulates that municipalities are entitled to established legal entity(s). There are, however, no specific regulations on municipal enterprises nor are there criteria for determination of the ownership status of municipal enterprises are not clearly defined. The tax legislation defines municipal enterprises as those owned by municipality. Article 8(0)(4) of the Tax Code states that municipal taxes shall include tax on profits of enterprises and organizations owned by the municipality and a similar provision also is included in Municipal Taxes Law. (Azerbaijan baseline assessment of municipalities, May 2002 IFES)

*Annex 4.8 The Model Statute on Block Associations of Municipalities
(unofficial IFES translation)*

1. *According to Article 31 of the Law of the Republic of Azerbaijan “On Status of Municipalities”, block associations of municipalities (hereafter referred to as “block associations”) are voluntary associations established by the initiative of local citizens with the intention to assist resolution of issues within the powers of municipalities.*
2. *Block associations are established on the basis of principle of territory. Territory for activities of block associations is defined by the borders of a separate building or of several houses (communities).*
- 7.1. *Block associations perform the following functions:*
 - *to raise questions about the municipality about important local issues;*
 - *to conduct citizens meetings regarding the important local issues;*
 - *to initiate the creation of municipal acts about important local issues and discussion of drafts of acts mentioned above in open meetings with the participation of the local population;*
 - *to propose motions and comment about usage of relevant municipal lands;*
 - *to organize participation of people in:*
 - *cleaning, planting and improving sanitary conditions of the settlements;*
 - *construction of squares for children and sports, roads, streets, pavements and others;*
 - *reconstruction, repair and maintenance of all above mentioned.*
 - *to assist implementation of the legislation regarding protection of nature, history and culture;*
 - *to assist educational institutions to enroll children of school age into the education system;*
 - *to assist the creation of conditions for children and youth in extracurricular activities and participate in sports;*
 - *to render assistance to the poor, sick and elderly people within their area;*
 - *to assist development of people’s initiatives of self-governance in resolution of important local issues.*
- 7.2. *Block associations can implement other functions, which do not contradict the legislation of the Republic of Azerbaijan and the Charter of the relevant municipality.*
8. *Block associations implement their functions based on voluntary donations and other sources, which are not prohibited by the legislation of the Republic of Azerbaijan.*
- 9.1. *Municipalities must answer the comments, proposals or petitions submitted by the block associations within a month period.*
- 9.2. *The opinion of block associations about any issue must be considered by the municipality until resolution of that issue.*