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**Enhancing Transparency Initiatives and  
Ensuring Public Participation in Municipal  
Budgets (ETPMB) Project**

**Final Report**

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## Summary

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This report has been prepared based on the results of project implemented by Economic Research Centre with funding from Counterpart International, Azerbaijan under the USAID Civil Society Project during the period October, 2006 and March 2007. The project basically aims to increase public participation in the local budgetary process and increase initiatives towards gaining local budget transparency in municipalities. The Report details out the whole project activities describing specifically the background of the issue and relevant intervention through the project, initial hypothesis concerning the impacts and outcomes of the intervention, the whole process of planning and implementing the project. In addition, it provides information for each municipality covered in the project in accordance with the pre-specified milestones of the project. The project's beneficiaries are a) municipal councillors & members and general public within the territories of municipalities (direct) and b) National government bodies dealing with local self-governance issues and also Municipal Associations (indirect).

### 1. Project Background

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Since the inception of the local self-government system in Azerbaijan, one of the biggest goals is to have a well functioning governance system in place at the local level. The idea of local self-governance has been warmly accepted by most of the democratic states and Azerbaijan also opened a way for the introduction of local self-governance concept into the administration.

Both top-down and bottom-up efforts are prerequisites for having democracy functional in the society. To facilitate the pursuit of this goal in the society of Azerbaijan, a well-known policy think-tank Economic Research Centre initiated a municipal project "Enhancing Transparency Initiatives and Ensuring Public Participation in Municipal Budgets" on building a successful practice of civic engagement in municipal policy-making, particularly in the budgetary process, which is apparently of prominent importance to most of the citizenry.

The idea behind the innovative instrument of enhanced public involvement in the local decision-making process was that it is expected to bring about more transparency, which in its turn, will have the municipal councilors deal with local public spending in a more efficient way. The practice until the recent time reveals that due to the short history of municipal practice in Azerbaijan, municipalities are in direct confrontation with some capability challenges, like regulating local budgeting processes, absence of well-organized budgeting skills, inexperience with civic engagement in budget drafting and budget documentation procedures. And also

despite the stipulation in the existing law that municipalities shall regulate the budgetary process subject to their local legislative documents (by laws), studies showed that bylaws fail to reflect a provision as to how the budgetary process should be regulated. At the same time, the Finance Ministry is inexperienced in developing methodical guidelines dealing with local budgeting process regulation. These challenges may cause people to fall apart being unable to have their say heard by their locally elected bodies.

Against the background of these problems and from the very perspective of getting local governing structures and citizens closer, the project is a contribution to constructing mutual confidence between them supporting the view of equal participation (both on the part of the citizenry and municipal councillors) in the settlement of local issues.

## **2. Project Geography & Selection of Municipalities**

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The geographic coverage of the project is more of diversified to try to have an impact on the country level and activities were carried out in 6 pilot municipalities in the districts of Gusar (Piral & Hasangala municipalities), Sheki (Kish municipality), Oguz (city municipality), and Lenkoran (Cil & Istisu municipalities). The selection of municipalities was merit based via the following criteria:

- Willingness of municipalities to be as much exposed to transparency environment as possible and their cooperation with the broader civic ;
- Level of Budget Performance in municipalities with regard to the budgetary process;
- Geographic location of municipalities (so that the basic part of the country was within the choice scope);
- Economic and social potentials of municipalities;

The selection was partially based on the criteria of municipalities' previous experience with other organizations, whether local or foreign. Prior to moving ahead with the major project components, a series of visits were organized to each municipality. During the visits, initial agreements on cooperation under the project were signed between the project coordinator and municipal heads and administrative, technical and whatsoever other related capabilities of municipalities were assessed. Also, individual conversations were held with municipality chief officers and members in order to discuss particular objectives, expectations and terms of joint cooperation. The major challenge faced during the selection phase of municipalities was that although the initial list of municipalities for cooperation under the project included eight municipalities (the above mentioned ones and two in Baku), it had to be reduced to six due to the unwillingness of the two municipalities in Baku to cooperate under the terms of budget transparency and discourse with people. Apart from that, there happened changes as well among

the six municipalities in the sense that the predetermined Sheki municipality "Ashagi Goynuk" which had been proposed by CHF rejected any cooperation, while great enthusiasm was displayed by the Kish municipality in the same district. The project staff made an unscheduled trip to this municipality and Impressions were quite promising. Another change was in Lenkoran where Lenkoran city municipality did not seem so much interested in cooperation and therefore could have interrupted in the course of the project, if selected and instead of that Cil municipality was selected.

Throughout the project, Counterpart International has had its local SNGO partners to work collaboratively with ERC and assist it with the implementation of the "Project", when necessary. Special triangular Memorandum of Understanding has been signed between Indira Amiranashvili, Acting Chief of Party, Counterpart International, Civil Society Project, Gubad Ibadoglu, ERC Board Chairman and Directors of relevant SNGO Partner Organization (Legal Aid in "Lenkoran" city, "Uluchay" in Sheki city and "Potensial" in Sumgayit city) with the purpose to define the relationships between ERC and the SNGO partner.

### **3. Description of Project Objectives**

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The project activities were organized according to milestones and under each milestone various activities were delivered including methodological and technical assistance. Based on this, each municipality was equipped with the necessary set of computer through the mutual agreement signed between the municipal heads and project coordinator and accompanying guidance books concerning budget documents for further references were provided. The agreement stipulated the free use of the computer set and also stated that on condition that the partnering municipalities fulfill their obligations as required under the agreement, they will be rewarded the computer set for permanent use. Moreover, they were provided with special software titled as "Transparent Budget" designed to computerize the budget management process at the local level given the assumption that it seems impossible to achieve transparency of municipal affairs without use of latest information technologies. The main objective of this system is to formulate a transparent, open, and accessible information network enabling to track the inflow and outflow of municipality budget resources. It was in advance stated in the agreement that in case of the municipalities' mistreatment of their obligations, the computer facilities were to be handed back to the donor. It is noteworthy to mention that the application of the "Transparent Budget" software has a successful history in previous Oxfam-funded projects of ERC with other fifteen municipalities in the region of Aran-Karabakh over the last few years.

Under methodical assistance component, municipal councillors responsible for the registration of local taxpayers and duties, application of local budgets and budgetary

documentation were appropriately trained. In addition, Model Regulations titled as “the local budgetary process and municipality budget making” were developed. Later on, this document was individualized and discussed with municipality members to give final approval in the municipality session by taking into consideration the specificities and local environment in the six municipalities. Throughout the project, civil initiatives associated with the budget were studied and relevant roundtables and public hearings with participation of community activists in the six municipalities were organized to give them a chance to have their comments, remarks, and proposals heard in the determination of the 2007 year budget priorities. The main topic covered during round-tables was *Municipal Budget draft for 2007*. The awareness level of the public on the roundtable discussions was in advance, one week prior to the event, facilitated by posting event announcements at various public places in municipalities. Roundtables were focused on mutual discussion and deliberation between municipal councillors, project experts and villagers, rather than one-sided speeches by the municipal officials. Diverse groups of citizens participated in round-table discussions (on average, 25-40 people per table), deliberating in depth about key budget priorities, resource allocations and planning. Discussions at each table were chaired by the relevant municipal heads while the project experts’ role was to moderate communications between councillors and public. During the public hearings local people were introduced major local budget expenditures for the next year. As per the consideration of public hearings in the law to be held by municipalities vis-à-vis their people, they are liable to approve their budgets no later than December 20. Keeping this in mind, preparation for budget hearings were started early November and finalized by the legislation-set deadline with the newspaper materials being disseminated and relevant event announcements made beforehand. Information on the current status of municipal budget performance and classification for the next year were published in a special edition of “Ekspert” magazine under the title of “Belediyye Budjesi” (Municipal Budget, *translation*). The media publications contained budget analyses of municipalities towards their economic and functional classifications of revenues, expenditures (detailed below).

Another project activity was to place information boards in the territory of municipalities. They were particularly designed in a more comprehensible way and located before the municipal buildings, high schools and other public places so as to attract broader public attention and make the information more accessible.

## 4. Project Expectations

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The initial expectations from the implementation of project activities can be classified as short vs. long term impacts. As regards the short ones, fully regulated budgeting process in pilot municipalities and spillover of this practice to the other neighboring municipalities was expected. Municipalities were also expected to gain experience in developing a package of municipality documents in line with the provisions of the national legislation concerned. Residents living in the municipality jurisdiction were expected to reach more extensive information and access to budget-related documents. Once the public make sure that they have an opportunity to influence budget-related decisions, it will be possible to expect that they will, on their own initiative, join public participation activities regarding local budgetary process in the future. The local people could enjoy the use of their funds by municipalities in their best interest by involving in public hearings and roundtables regarding budgetary process. Municipalities would feel their real obligation to discuss performance with their citizens publicly allowing for systematic citizen' monitoring of municipal activities. Another issue is that pilot municipalities can have automated budgetary process in place through the application of information technologies.

Concerning the long-term expectations, the citizens' right to public comments was improved and their "**VOICE**" turned into to be a trigger for better changes in municipal governance practices.

The invisible behavioral changes on the part of municipal officer should be mentioned as a good step forward in the local governance practices. They would discover the advantages of working in association with the general public in solving local issues thus eradicating any possible suspicions or misconception on the part of the local citizenry restoring their confidence in municipal decision-making.

## 5. Milestones

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The project activities have been implemented during the project under the following two major milestones: (1) *Methodical and technical support to selected municipalities*, and (2) *Ensuring of public participation in municipal budget process*. The following sections will encompass the activities done under these milestones.

Before the major project activities took a start a series of introductory and preparatory visits were paid to the partner municipalities:

### *Visits to Oguz and Sheki Municipality*

The working group comprised of Elshad Mikayilov, Project coordinator, and Gubad Bayramov, project expert had a trip to Sheki and Oguz on October 7-8, 2006. The first visit was

arranged to Oguz city municipality and second to a Sheki Municipality of Ashagi Goynuk. During both visits, municipal officials were first shortly informed about the project goals and expectations. The aim of the trip was to initially assess the preparedness level of municipalities to cooperate and if there is a lack of technical nature, to finally equip them with necessary technical facilities so that they meet the technical qualifications to fully participate in the ETPMB project. On top of that, the terms such as *transparency* and *disclosure* of budget related issues to the broader public were explained to the municipal officers. In the end of the negotiations, the Oguz municipality agreed to the suggestion of cooperation showing its great interest while Goynuk municipality rejected saying that he had other more important affairs to deal with and suggested a kind of unofficial cooperation instead. The rejection of Ashagi Goynuk caused another municipality, Kish, to be selected instead. Kish was offered and supported by Uluchay, Counterpart SNGO Partner for cooperation. Following the selection of Kish, one more visit was paid to Kish and Oguz municipalities by the Project expert, Rovshan Agayev, who was accompanied by the Uluchay officials (Counterpart Int, SNGO partner) on November 22- 23, 2006. Having met with Municipal head, computers were placed and software installed at both municipalities. In the aftermath of software installation, instructions were provided to municipal councilors to use it.

#### **Visits to Gusar Municipalities of Piral & Hasangala**

On October 13, 2006, the working group of Elshad Mikayilov, Project coordinator, and Counterpart Int. representative Vagif Hasanaov made a trip to Piral Municipality. The delegation had a meeting with the Municipal head, Nasrullah Nasrullayev and ExCom representative, Yashar Hajiyeu. During the meeting, municipal officials were first shortly informed about the project goals and expectations and some clarifications were made upon the given questions. On November 24, 2006, the Project expert, Asgar Ahmad also visited Piral and Hasangala Municipalities in Gusar and met with Nasrulla Nasrullayev, Piral Municipal Head and Nebi Mustafayev, Hasangala Municipal Head and other councilors. The municipalities did not have any necessary computer facilities. Nevertheless, when they were told that they will be provided with it during the progress of the project, they were tempted to say that in that case, they could on their own part arrange for someone to undertake training to later work on computers. It was therefore thought necessary to purchase a computer for both municipalities in order for them to meet the technical qualifications to fully participate in the ETPMB project. After meeting with Municipal Heads, computer facilities were accommodated and software installed. Software use instructions were provided to municipal councilors.

### *Visits to Lenkoran Municipalities*

October 10, 2006, Elshad Mikayilov, Project coordinator paid a visit to Lenkoran municipalities, Lenkoran city and Cil Municipality. The first meeting took place with the Lenkoran city Municipality, which turned out to be unwilling to cooperate and made the project staff decide on another municipality, Istisu, for cooperation which was also located within Lenkoran territory. Istisu Municipality has agreed to participate in the ETPMB Project. On October 19, the project coordinator, Elshad Mikayilov and Counterpart Int. representative Vagif Hasanov traveled to Cil Municipality, in Lenkoran. Before the meeting the delegation first met with the Counterpart SNGO Partner representative, Ilgar Gassimov, who further facilitated the meeting with the Municipal head, Intigam Akbarov. During the visit the project staff became familiar with the municipality and discussed the cooperation terms. The Municipal Head, Intigam Akbarov, greeted the idea warmly and agreed to the conditions under the project. Given the fact that Cil had no computer set in place, it was decided to equip them with it for them to fully meet the technical qualifications to be eligible for cooperation. Besides, on October 25-26<sup>th</sup>, 2006, a project expert, Rovshan Agayev, was on the trip to Lenkoran municipalities. During that trip, the aim was to initially assess the budgeting preparation and deliver some preliminary guidance. Also the problems with budget drafting in line with the legislative standards were discussed and recommendations were given to overcome them. On November 22- 23, 2006, Project expert Rajab Imanov<sup>1</sup> had a visit to Istisu Municipality too to finally check the preparedness for the budgeting process. He met with Rahim Khosrofov, Municipal head, on the first day of his visit at the municipal building. On the second day of his visit, Rajab Imanov visited Cil Municipality and met with Intigam Akbarov, Municipal head, in their office building. Later, the computers were located at the municipal office and software installed on the computer being further followed by expert's introduction on the software as to how it operates to the municipal councilors, including accountants.

All municipalities visited suffered from the lack of basic technical equipment one of them (Oguz municipality) renting them for their services, while others having none. And so it was considered urgently necessary for the ETPMB Project to purchase basic computer facilities for the municipalities in order for them to meet the technical qualifications to fully participate in the ETPMB project and function more comfortably. Eventually, computer sets were purchased and accommodated and "Transparency Budget" software installed at all municipalities followed by

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<sup>1</sup> Note that there occurred some changes in the list of project experts at later stages of the project implementation. New names of experts can therefore show up in the later parts of the report.



the project experts' relevant instructions to municipal councilors and accountants on how to use the facilities.

Meanwhile, during the initial meetings, project experts reviewed municipalities' experience with budgetary classifications and investigation of documents revealed that the greater majority of them (in particular, Piral, Hesengala, Cil and Istisu) municipalities had hardly any practice of economic and functional classifications of their budget revenues and expenditures. They had not split their expenditures into specific cost items. Consequently, the project experts delivered assistance with designing economic and functional classification of expenditures eventually bringing all the budget projections for the next year in line with the legislative requirements. Under the guidance of the experts, the budget projections at all municipalities for the next year were designed in a way as required by legislative norms.

Moreover, the project staff gave *methodical assistance with the software-based registration of local tax and duty payers* explaining the codification principles to the officials. The application form on the basis of which codification should be done was prepared and finally the codification took a start.

### **Budget information boards**

Under this activity, there were put special boards for posting key budget information or event announcements for a broader public attention in various public places of the six municipalities, such as in front of school buildings or municipal offices. Local community members now obtained a good chance to track the crucial activities of their local governments being privileged to better access to comprehensive budget documents outside the municipal buildings. Different stages of the local budgetary process, as well as budget decisions were reflected on these boards and directly reported to local community members.

## **2. Ensuring of public participation in municipal budget process**

### *Round-table discussions with participation of citizens and municipality members;*

The round tables sought to secure participation of the public living in the area with a view to learning their opinions and proposals regarding the next year budget priorities. During the roundtables, various proposals from the part of the citizenry were voiced basically associated with the municipal issues and services affecting greater majority of the people, such as more municipal assistance with social assistance delivery to the disadvantaged groups, road building and repair etc. Previously having less expertise in budget drafting, all municipalities developed their 2007 budget in a different format from the preceding years thanks to the methodical and technical assistance given by ERC. In the conclusion to the round tables, the proposals by the

locals were summarized further being forwarded to the municipal councilors. And it was decided that by the time budget hearing was held, the municipalities would explore possibilities for the implementation of any of those proposals and will report any conclusions made to the people in this regard before the massive public hearings on 2007 year budget are conducted.

### Public hearings on projected 2007 budget

Each of the six municipalities hosted public hearings in early and mid December 2006, in order to report people about the final municipality draft 2007 budget and provide public participation in budget discussions. The budget hearings were finished by December 24, 2006 due to the fact that municipalities are to approve their local budgets for the next year no later than December 25 under the law of the Azerbaijan Republic on budgetary system.

The public hearings in the six municipalities were organized in a due and proper form. Before the hearings, chief partnering municipality officers and persons responsible for financial matters were provided with necessary guidelines on the forms and contents of the reports to be developed. Public advertisements detailing the place and date of the hearings had been posted in various places throughout municipality areas before the event. The municipal budgets had been published in newspapers with explanatory comments and disseminated to the local population before the hearings to enable them to formulate their own opinions and raise relevant questions they were concerned with. During the public hearings at all municipalities participants were given folders with pens and notebooks including the agenda and documents reflected in the budget package which made their participation more active. All sessions were photographed. At the end of the discussions, participants' specific proposals were noted and budget for next years were adopted. The budget priorities represented ideas and proposals generated from table round-table and public hearing discussions. Details on public engagement activities are given in the following section for each municipality.

### Kish Municipality

At 11:00 am-13:00 pm on December 1, 2006 the project expert, Rovshan Agayev, had a round-table at Kish Municipality on December 1<sup>st</sup>, 2006. Apart from 20 community members present, the event was joined by a member of Counterpart SNGO Partner Uluchay , Ilgar Ilyasli and Counterpart representatives, Jerome Gallagher and Vagif Hasanov. The main topic covered during round-table discussions was *Budget draft for 2007 of Kish Municipality*. Despite some external efforts to block the flow of the public into the discussions, the event managed to involve 20 participants at last. During the event, there were a number of proposals voiced by attendees but the major concerns visible in these proposals was associated with municipal assistance with the construction projects such as “Mosque Minaret”, road pavements, drinking water pipeline

repair and social assistance to be allocated to school children of low income families and etc. All the proposals summarized by the expert were submitted to the municipal councilors. And it was decided as a result of the discussion that by the time budget hearing was held, the municipality would explore possibilities for the implementation of those proposals and will report any related conclusions made to the people. **At 11:00am -13:00, December 16<sup>th</sup>, 2006**, there was conducted a public hearing moderated by the project expert Rovshan Agayev and chaired by municipal head, which was devoted to the 2007 year budget discussions in the school building of the Kish Municipality as part of the project. The event was attended by about 57 community members. The event was joined by Counterpart International's representative, Vagif Hasanov. After the detailed discussions around the priorities, the proposals were heard and the final 2007 year budget was approved incorporating local people's inputs.

### **Oguz Municipality**

**At 15:00-16:30pm, December 1<sup>st</sup>, 2006** the Project expert, Rovshan Agayev, had another round-table at Oguz Municipality. This event also hosted a member of Counterpart SNGO Partner Uluchay, Ilgar Ilyasli and Counterpart representatives, Jerome Gallagher and Vagif Hasanov. The event was accompanied by unexpected severe external intervention which caused eventual small number of participants, i.e. 9 people (the smallest compared to all other partner municipalities). **At 15:00-17:00 pm, December 16**, attended by 25 Oguz district people, Counterpart SNGO Partner Uluchay's Executive director, Mais Safarov and Counterpart International's program officer Vagif Hasanov, the Oguz city hall hosted a public hearing event on 2007 year budget. The project expert, Rovsan Agayev opened the event and went on his speech about the importance of people's involvement in such events. After the detailed discussions around the priorities, the proposals were heard and the final 2007 year budget was approved incorporating local people's inputs.

### **Hasangala Municipality**

At 10:00-13:30am, December 2<sup>nd</sup>, 2006 The Project expert, Asgar Ahmad, had a round-table at the school building in the territory of Hasangala Municipality. Along with the municipal members and 36 community representatives present, the activity attendees included representatives of Counterpart SNGO Partner POTENTIAL SUMGAYIT, Sahib Farzaliyev, and chairman of Gusar branch of Entrepreneurs Confederation, Fazil Mahmudov. **At 10:00am-13:00pm on December 22, 2006**, there was run a public hearing at the school building of Hasangala municipality regarding the municipal budget for 2007. Apart from the municipal head, Nebi Mustafayev and other councillors, project expert, Asgar Ahmad and about 35

villagers present, the event was attended Counterpart SNGO partner “Potensial” representatives, Vugar Orujov, Eldaniz Asadov, and Counterpart’s program officer Vagif Hasanov. After the detailed discussions around the priorities, the proposals were heard and the final 2007 year budget was approved incorporating local people’s inputs.

### **Piral Municipality**

At 14:30-17:30 pm, December 2<sup>nd</sup>, 2006, the Project expert, Asgar Ahmad, had another round-table at Veterans’ House of Piral Municipality. Besides, the municipal members and 42 community representatives present, the event attendees included representatives of Counterpart SNGO Partner POTENTIAL SUMGAYIT, Sahib Farzaliyev, and chairman of Gusar branch of Entrepreneurs Confederation, Fazil Mahmudov and Excom Viilage Representative, Yashar. **At 14:30-16:00am, December 22nd, 2006** chaired by the ERC Project expert, Asgar Ahmad, there was held a public hearing about 2007 budget at the Piral municipality’s Veterans’ house, with the participation of around 43 village inhabitants. Among the participants were Piral Municipal Head and other municipal councillors, Counterpart Int. representative Vagif Hasanov. After the detailed discussions around the priorities, the proposals were heard and the final 2007 year budget was approved incorporating local people’s inputs.

### **Istisu Municipality**

At 11:30am-13:00pm, December 8<sup>th</sup>, 2006, there were conducted round-table discussions on 2007 budget expenditures in the office building of Istisu Municipality on under the leadership of Project expert, Gubad Ibadoglu. Among the 22 community attendees were a member of Counterpart SNGO Partner Legal Aid representative, Ilgar Gassimov and Counterpart person, Vagif Hasanov. The project expert, Gubad Ibadoglu, emphasized the cooperation between municipality and the citizenry to effectively liquidate local problems therefore calling for public engagement in the overall municipal budgeting processes. **At 12:00-14:00pm, December 21st, 2006**, Istisu Municipality in Lenkoran hosted a public hearing concerning 2007 budget projections being attended by the Muncipal Council head, councillors, and 25 community members. During the event, expected budget projections were introduced to attendees by the Municipal Head, Rahim Khosrofov. After the detailed discussions around the priorities, the proposals were heard and the final 2007 year budget was approved incorporating local people’s inputs.

### **Cil Municipality**

At 14:30-16:00 pm, December 8<sup>th</sup>, 2006, there were conducted round-table discussions on 2007 budget expenditures in one of the school classrooms of Cil Municipality under the leadership of Project expert, Gubad Ibadoglu. Besides 50 village citizens, among the attendees were a member of Counterpart SNGO Partner Legal Aid, Ilgar Gassimov and Counterpart representative, Vagif Hasanov. **At 15:00-17:00pm, December 21st, 2006**, there was held a public hearing concerning 2007 budget projections at Cil Municipality, Lenkoran. The event was attended by the Municipal Mayor and other councillors, and 60 villagers. The projected budget priorities were briefly introduced to the event participants by the Municipal Head Intigam Akbarov. He stated that the 2007 budget stipulates the partial repair of village school repair and paths. After the detailed discussions around the priorities, the proposals were heard and the final 2007 year budget was approved incorporating local people's inputs.

## 2.2. Publishing and distribution budget information as a paper;

The budget drafts prepared by *the municipalities* were collected and brought for analysis to Baku for further press publication. **On December 14, 2006**, it was published in a special issue of the "Ekspert" economic magazine and disseminated to the municipalities and community members for free. The 2007 budgets of all partnering municipalities were published as being classified into revenue and expenditure categories. The budget drafts of all municipalities were prepared in line with the laws on "Budget System", "Basis of Municipal Financial resources", "Local Taxes & Duties", as well as Decree 149 on the "Adoption of the Uniform Budget Classification" by the Cabinet of Ministers of the Azerbaijan Republic. The classifications were based on projected indicators.

## Training on Municipal Software "Transparent Budget"

**On January 6, 2007**, the project coordinator, Elshad Mikayilov and expert Tural Mammadov paid a visit to Lenkoran Municipalities, Cil & Istisu with a view to provide training on the use of software. The expert explained a few operational principles such as the principles of budget cashier performance for the entire fiscal year through a mechanism of mathematical calculations and performance record of projected budget figures in the local budget. He instructed them how to include the tax-payers information (both natural and legal entities), according to kinds of payment. On January 26, 2007, Project expert Gubad Bayramov made another visit to these municipalities as a follow-up to do away with some technical problems and also provide one more session, due to the fact that this is the first time the municipalities apply technology to their management and therefore lack necessary skills and person to regularly work on the software.

**On January 18, 2007**, Project expert, Asgar Ahmad, assigned to work with Gusar Municipalities, made a visit to Piral and Hasangala with the same purpose of explaining operational

principles of the software. During the training sessions, municipality members of Piral and Hasangala Municipalities and their officers were provided with necessary instructions on software use.

**On January 24, 2007**, project expert, Rovshan Agayev went on business trip to Kish and Oguz municipalities. He explained a few operational principles such as the principles of budget cashier performance for the entire fiscal year through a mechanism of mathematical calculations and performance record of projected budget figures in the local budget. He instructed them how to include the tax-payers information (both natural and legal entities), according to kinds of payment.

**On February 27, 2007**, project expert Gubad Bayramov made a visit to Gusar municipalities to provide extra sessions to municipal councilors and also explain the tax-payers registration system. As a result of software training sessions, the software-based codification was finalized.

### **Project Outcomes**

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The project idea was that the more involvement of local people in budget related decision-making processes will make them even more demanding and have more expectations of their municipalities, which will affect municipal councilors to think of flexible and more efficient ways of handling their affairs. Because people are already aware of major budget components and automatically it leads to public control over limited local resources. The municipalities will have to comply with the proposals that the community put forward through active involvement in the public hearings and round tables during the course of the project. In this case, the communities, particularly tax payers, got the feeling of ownership of their local budget as opposed to the pre-project time when budget decision-making used to be done by the municipality behind closed doors limiting the chances for the public participation and their feedback. Under the circumstances of closed-door principle, only a small group of people were owners of the budget – a few managers, and administrators. Now due to the public activities there appeared chances for regular feedback from the local people, which is necessary for the success of priority implementation, and for the participation of the majority of tax payers, who now have a big say in budget planning stages and treat faults and failures in a more critical way. In general, social capital is much higher in small localities. However, often times it was neglected.

The public involvement in the decision-making gained them a sense of ownership, which established trust between the municipal management body and their locals. The trust built can be seen from the dynamics of the post-project tax collection. For instance, Piral municipality had an increase of up to 95% in tax collection and Hasangala municipality said that the debts remaining since 2000 have been repaid especially after the public hearings and they have seen budget

incomes from taxes grow. On the capacity-building front, other Municipalities (Cil & Istisu) in Lenkoran said that their paper work had been diminished considerably enough and people get the necessary information through the posted announcement on the board and

### **Predictions about the future budget process of the partner municipalities**

First and foremost, it should be emphasized that an *advocacy* work started during the project (through newspapers) to increase municipalities' role in problem addressing will attract government heed over the matter due to its close relationship with the government program on poverty reduction and sustainable development, where municipalities involvement is inevitably urgent.

Once the regulation about municipality budget formation and budgetary process has been explained and set in place, municipalities have started implementing their budgetary process in line with this Regulation. It enables them to timely coordinate and flexibly update the process according to the bylaws. Municipalities have become able to designing a package of local municipality documents following documentation standards of the National legislation. Also they got an important sense of streamlining their efforts to exploit the resources in their full capacity, which are in their territory. Municipalities started to appraise their budget priorities. They have been trained with appropriate skills and habits to access information technologies and use them in their daily management process. Besides, local communities now have better access to comprehensive and accurate local budget documents via the long-lasting information corners. Municipalities applied social technologies such as roundtables and hearings with a view to co-identifying priorities and socio-economic problems which made public participation of local community members in the budgetary process broaden into a ruling habit in municipalities. Municipality officers and members have been instructed to develop budget documents with the widespread and direct participation of community members. And due to this cooperation, confidence has been reinforced which can be seen in the increase percentage portion of local tax collection (in Piral and Hasangala Municipalities). The level of reporting to communities has increased with relations between municipalities and locals now being based on mutual cooperation and trust. The management of budgeting and accounting operations, based on new information and communication technologies, has improved people's access to data.

It is hence not accidental that municipalities stated their ongoing interest to be part of this kind of projects, which facilitated their dialogue and raised people's trust in them and seeing the effectiveness of project envisaged social technologies of public involvement, they stated their wish to independently continue these initiatives. On top of that, they asked the project staff to keep in touch further and update them if there is any set of more effective way of management. The project staff took their request into account and promised to further build on their relationships with them to survive in such a fast changing policy environment.

### **Conclusion**

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Finally, the issue of budget transparency in municipalities remains one of the significantly important matters. *First*, municipal budgets form an integral part of public financing, and are based on duties and fees paid by the citizens. Namely, the people have the right to easily access all budgetary information or each municipality is bound to ensure budget transparency. *Secondly*, although local budgeting is a lower tier budgeting within the country's overall budgetary system, it seems to make much headway in macro-level fiscal transparency without initiatives to simulate transparency at the local level.

Failure to take into consideration public comments related to budget decisions, as well as unavailability of municipality budgets to the public leads to negative outcomes. In this situation, all activities carried out during the project implementation will lay the groundwork for a “budget dialog” and promote the citizens to exercise their rights to public comments.

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