

	<p>Science, Education and Innovations in the Context of Modern Problems Issue 1, Vol. 9, 2026</p> <p>RESEARCH ARTICLE </p> <h2>Distribution of Powers in State and Municipal Governance: An Analysis in the Context of Regional Development</h2>
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<b>Issue web link</b>	<a href="https://imcra-az.org/archive/389-science-education-and-innovations-in-the-context-of-modern-problems-issue-1-vol-9-2026.html">https://imcra-az.org/archive/389-science-education-and-innovations-in-the-context-of-modern-problems-issue-1-vol-9-2026.html</a>
<b>Keywords</b>	State; municipality; subsidiarity; regional development; self-government; fiscal decentralization; governance
<p><b>Abstract</b></p> <p>The distribution of powers between state and municipal governance represents a fundamental institutional pillar of modern public administration and plays a decisive role in shaping regional development outcomes. In contemporary governance systems, sustainable regional development increasingly depends on the clarity, balance, and effectiveness of power-sharing arrangements between central authorities and local self-government bodies. This issue is particularly relevant for countries undergoing structural economic transformation, decentralization reforms, and post-conflict reconstruction, such as the Republic of Azerbaijan. This study examines the institutional, legal, fiscal, and administrative dimensions of power distribution between state and municipal authorities, emphasizing their impact on regional development processes. Drawing on international governance models—particularly those based on the principle of subsidiarity in European Union countries, as well as selected experiences from Türkiye, South Korea, and the Baltic states—the research highlights how devolving decision-making authority to the level closest to citizens enhances administrative efficiency, public service quality, and regional competitiveness. Empirical evidence from comparative studies demonstrates that regions with stronger local governance capacities tend to exhibit higher investment attractiveness, improved infrastructure provision, and more responsive public services. Within the Azerbaijani context, the study analyzes recent governance reforms, including the reclassification of economic regions, the expansion of digital public services, the implementation of mandatory health insurance at the local level, and efforts to strengthen municipal budgets. Despite these reforms, the findings reveal a persistent imbalance between delegated powers and available financial resources at the municipal level. Local budget revenues remain limited, constraining municipalities' ability to fully implement their assigned functions and to contribute effectively to regional economic development. This “power-resource imbalance” reduces institutional efficiency and limits the developmental impact of decentralization policies. The research identifies fiscal decentralization as a critical mechanism for strengthening municipal governance. Expanding local tax authority, enhancing municipal control over land and property taxes, and improving intergovernmental fiscal transfers are shown to be essential for aligning responsibilities with resources. Furthermore, the study underscores the importance of clearly defined functional competencies, effective coordination mechanisms between state and municipal institutions, and robust accountability and transparency frameworks. Special attention is given to the role of municipal governance in Azerbaijan's post-conflict regions, particularly Karabakh and East Zangezur. In these areas, flexible governance models, digitalized municipal services, and strengthened state-municipal cooperation are vital for supporting reconstruction, social reintegration, and sustainable economic revitalization. The study concludes that an optimized distribution of powers enhances participatory governance, improves policy implementation at the local level, and ensures more inclusive and balanced regional development. Overall, the research contributes to the academic discourse on public administration and regional development by proposing an institutional approach that integrates legal clarity, fiscal capacity, and functional efficiency. The findings are relevant for policymakers, local government practitioners, and scholars interested in governance reform, decentralization, and sustainable regional development.</p>	
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## Introduction

The distribution of powers between state and municipal governance constitutes one of the most critical institutional foundations of contemporary public administration and regional development policy. In modern governance systems, the effectiveness of economic planning, social service delivery, and territorial development increasingly depends on the balance achieved between centralized authority and local self-government. This balance determines not only administrative efficiency but also the inclusiveness, responsiveness, and sustainability of development outcomes across regions.

Global governance transformations over recent decades have demonstrated a gradual shift from rigid centralized models toward decentralized and multi-level governance frameworks. These transformations are driven by several interrelated factors, including globalization, regional economic competition, digitalization of public services, and growing societal demand for participatory decision-making. In this context, municipalities have evolved from being merely administrative extensions of the central state into active agents of local development, responsible for mobilizing regional resources, addressing community needs, and fostering socio-economic innovation.

The theoretical foundation of modern decentralization reforms is closely linked to the principle of subsidiarity, which prescribes that public responsibilities should be exercised at the lowest level of governance capable of performing them effectively. This principle has been widely institutionalized within the European Union and serves as a benchmark for governance reforms in both developed and developing economies. Empirical studies confirm that subsidiarity-based governance systems enhance public sector efficiency, reduce bureaucratic duplication, and improve citizen trust in public institutions.

For Azerbaijan, the issue of power distribution between state and municipal governance holds particular strategic importance. The country has undergone significant economic, administrative, and territorial reforms, including the reclassification of economic regions, large-scale infrastructure investments, and post-conflict reconstruction initiatives in Karabakh and East Zangezur. These processes require flexible governance arrangements capable of responding to region-specific development challenges while maintaining national policy coherence.

Although the legal framework governing municipalities in Azerbaijan defines their status, responsibilities, and sources of financing, practical implementation reveals structural limitations. Municipalities often face constrained fiscal autonomy, limited administrative capacity, and insufficient coordination with central executive bodies. As a result, the potential contribution of municipal governance to regional development remains underutilized. This gap between formal authority and practical capacity underscores the necessity of reassessing existing power distribution mechanisms.

Against this background, the present study examines the institutional configuration of state-municipal relations in Azerbaijan, focusing on how the allocation of legal, fiscal, and administrative powers influences regional development outcomes. By integrating comparative international experience with national empirical observations, the research seeks to contribute to the ongoing academic and policy debate on decentralization, governance efficiency, and sustainable regional development.

## Findings and Discussion

The analysis reveals that the effectiveness of regional development in Azerbaijan is closely linked to the structural alignment between governance powers and resource availability at the municipal level. One of the most significant findings is the existence of a persistent imbalance between delegated responsibilities and fiscal capacity. While

municipalities are formally entrusted with various functions related to local infrastructure, land management, environmental protection, and social services, their financial resources remain limited. Local revenues constitute a marginal share of total public revenues, which constrains municipalities' ability to independently initiate and sustain development projects.

Comparative evidence indicates that countries with higher degrees of fiscal decentralization demonstrate stronger regional performance indicators. In Scandinavian countries, for example, municipalities possess broad taxation authority and manage substantial portions of public expenditure, enabling them to respond effectively to local economic and social needs. Similarly, South Korea's decentralized development model illustrates how empowered local governments can act as catalysts for innovation, industrial clustering, and balanced territorial growth. These experiences contrast sharply with Azerbaijan's current municipal financing structure, where dependence on central transfers restricts local strategic autonomy.

Another key finding concerns the functional distribution of powers between state executive bodies and municipalities. The absence of clearly delineated competencies in certain policy areas leads to institutional overlap and inefficiencies. In practice, municipalities often lack decision-making authority in critical sectors such as public transport, utilities, and regional investment promotion, despite their proximity to local needs. This situation weakens accountability mechanisms and limits citizen participation in governance processes.

The research also highlights the positive impact of administrative and digital reforms on local governance effectiveness. Initiatives such as the "ASAN Service" model and the digitalization of public services have improved service accessibility and transparency at the local level. However, these improvements remain largely centralized, with municipalities playing a secondary role in service provision. Expanding municipal involvement in digital governance could significantly enhance local administrative capacity and citizen engagement.

In the context of post-conflict regional development, particularly in Karabakh and East Zangezur, the findings emphasize the strategic importance of strengthened municipal governance. Reconstruction and reintegration processes require locally tailored solutions, participatory planning mechanisms, and flexible budgetary tools. Municipalities, if adequately empowered, can serve as key actors in coordinating infrastructure development, housing projects, and social services, thereby ensuring that reconstruction efforts align with community needs and long-term regional development objectives (Asadov, 2025).

Furthermore, the study finds that effective power distribution must be accompanied by robust accountability and oversight mechanisms. Expanding municipal powers without reinforcing financial discipline, transparency, and audit systems risks inefficiency and misuse of public resources. International best practices demonstrate that decentralization yields positive outcomes only when complemented by clear legal frameworks, performance-based budgeting, and active citizen oversight (Asadov, 2025).

Overall, the findings confirm that optimizing the distribution of powers between state and municipal governance is a prerequisite for sustainable regional development. A balanced governance model—one that aligns responsibilities with resources, clarifies institutional roles, and strengthens local capacity—can significantly enhance regional competitiveness, social cohesion, and economic resilience. These findings support the need for comprehensive institutional reforms aimed at deepening decentralization while preserving effective state coordination.

State and municipal governance constitutes a multifaceted institutional mechanism within the modern public administration system, formed through the distribution of governing powers between central and local levels. Global governance trends indicate that the sustainable provision of regional development depends not only on macroeconomic planning but also on the strengthening of local self-government institutions and the clear definition of their legal, fiscal, and administrative powers. In this context, an optimal model of power distribution between the state and municipalities significantly influences the effectiveness of regional governance, expands opportunities for resource utilization, and facilitates transparent and flexible decision-making.

The level of centralization or decentralization in governance manifests in different forms depending on a country's political and economic model. In many European countries, the principle of subsidiarity is applied, whereby governance decisions are made at the administrative level closest to citizens whenever possible. Strengthening participatory models in solving local problems, ensuring more efficient delivery of public services, and localizing

regional resources are among the key factors enhancing governance effectiveness. Therefore, improving the distribution of powers not only within the legal framework but also across social, economic, and institutional dimensions remains one of the most pressing issues (Mammadov, F. 2019, pp. 45–57).

The cooperation model between the state and municipalities plays a strategic role in managing regional development. In particular, revealing the economic potential of regions, modernizing local infrastructure, improving the quality of social services, and enhancing the investment environment are considered major advantages of this partnership. A precise distribution of powers not only affects the pace of regional development but also creates conditions for socio-economic diversification and increased competitiveness. Consequently, state–municipal relations require a special conceptual approach to regulation, fiscal provision, resource allocation, responsibility, and accountability (Guliyev, R. 2021, pp. 27–39).

Contemporary trends show that in the absence of effective coordination mechanisms in regional governance, institutional gaps, duplication of administrative resources, and delays in policy implementation may occur. From this perspective, normative-legal clarity and a precise definition of functional cooperation frameworks play a crucial role in the distribution of governance powers. At the same time, fiscal decentralization provides municipalities with greater autonomy in managing financial resources, thereby promoting local development. However, alongside the expansion of fiscal powers, strengthening mechanisms of financial discipline, transparency, and budgetary oversight is essential.

In the context of Azerbaijan, although the legal status, scope of authority, and financial capacities of municipalities are defined by existing legislation, there is a recognized need for institutional reforms to expand their practical role in regional development processes. In particular, the implementation of new governance models in the Karabakh and East Zangezur economic regions, strengthening local self-government, digitalization of municipal services, and coordinated regulation of state–municipal relations are becoming increasingly prominent. This approach can ensure greater flexibility in regional planning and make a significant contribution to post-conflict reconstruction processes.

Thus, the distribution of powers at the level of state and municipal governance is one of the key mechanisms ensuring the institutional sustainability of regional governance. Optimal allocation of powers enables more efficient use of regional potential, expands participation opportunities for individuals and communities in decision-making, and facilitates more effective implementation of state policies at the local level. The scientific and practical relevance of the topic positions it as a strategic research direction at the intersection of public administration, economic geography, regional development, and law.

### **Key principles of power distribution in state and municipal governance in the context of regional development**

The distribution of powers in state and municipal governance is one of the core components of modern regional development policy. Advanced governance models demonstrate that an optimal balance between centralized decision-making and local self-government directly determines the socio-economic dynamics of regions. For countries such as Azerbaijan—characterized by rapid urbanization, ongoing economic zoning reforms, and post-conflict reconstruction processes—flexible power distribution is of strategic importance.

Empirical studies indicate that regions endowed with broader local powers (for example, the Scandinavian model in European Union countries or the South Korean model in East Asia) exhibit higher investment attractiveness and more dynamic development of local economic initiatives. The ability of local executive and municipal structures to make independent decisions over resources enhances service efficiency and ensures more accurate fulfillment of regional social needs (Hasanov, 2022, pp. 88–98).

In Azerbaijan's experience, reforms implemented in recent years—such as the 2021 reclassification of regions into new economic zones, the “ASAN Service” model, measures aimed at increasing local budgets, and the local implementation of mandatory health insurance—demonstrate that strengthening municipal governance is a decisive factor in shaping regional balance. However, empirical observations show that municipalities' fiscal capacities remain limited: local revenues account for approximately 2–3% of total budget revenues, which significantly complicates the practical implementation of delegated powers.

From a regional development perspective, the main challenge lies in the “power–resource imbalance.” Insufficient financial support for functions delegated to municipalities by the central government reduces the effectiveness of

local governance. The World Bank's 2022 *Local Governance Performance* report highlights that increasing local financing improves infrastructure provision in regions by 18–27%, while transferring tax administration to the local level enhances expenditure efficiency.

Analyses indicate that stimulating economic activity in regions requires updating the distribution of powers across three main functional directions:

1. **Fiscal powers** – expansion of local taxes and full municipal administration of land and property taxes;
2. **Public services** – transferring certain areas such as transport, utilities, and environmental protection to local self-government;
3. **Economic incentive instruments** – enabling municipalities to manage local investment programs, business incubators, and support mechanisms for agricultural cooperatives.

Within this framework, an appropriate distribution of powers makes it possible to ensure inclusive, sustainable, and dynamic regional development (Nagiyev, A. 2020, pp. 55–64).

### Relevance of the Topic

Balanced regional development is one of the main prerequisites for a country's overall socio-economic stability. Global trends show that optimal distribution of powers between state and local governance bodies has become increasingly relevant due to the following factors:

- Growing regional inequality intensifies socio-economic risks;
- The post-conflict period in Karabakh and East Zangezur requires flexible governance models;
- Expansion of digital government infrastructure enhances the functional role of local governance;
- Changing demand for public services necessitates a more active role for municipalities.

Therefore, studying this topic is of significant importance from both scientific-theoretical and practical perspectives.

### Research Objective

The main objective of the research is to analyze the current state of power distribution between state and municipal governance in the context of regional development and to propose an institutional model for achieving an optimal balance between powers and resources.

### Research Object

The object of the research is the governance relations between state and municipal authorities in the Republic of Azerbaijan, the mechanisms of power distribution, and their impact on regional development processes.

### Methodology

The following methods are employed in the research:

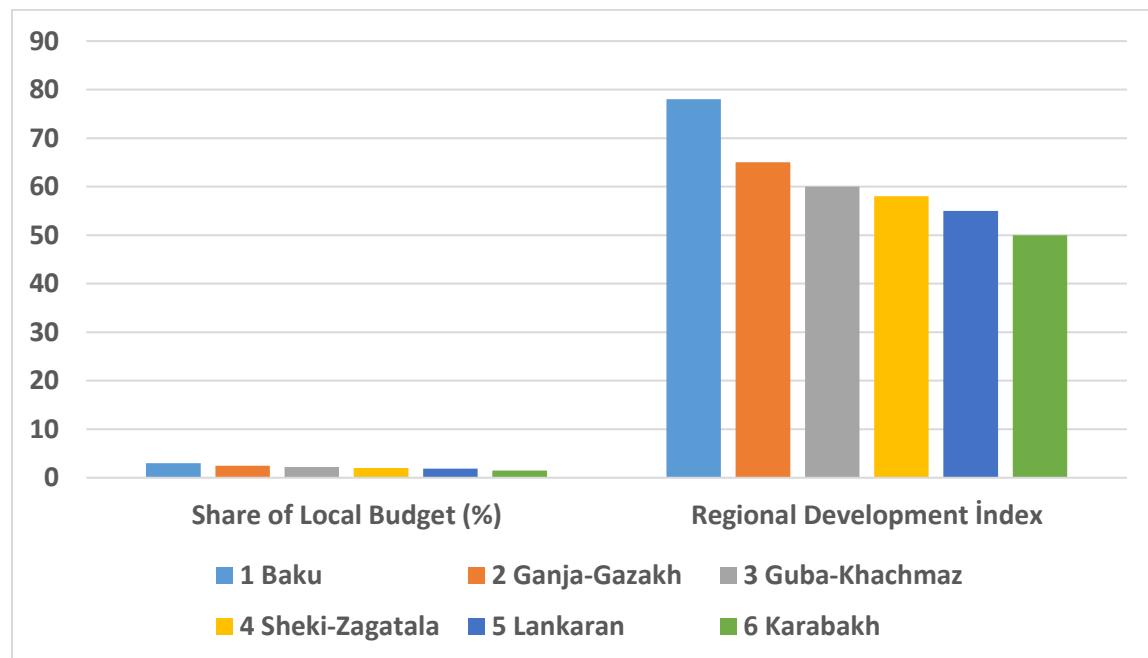
- **Comparative analysis** – comparison of Azerbaijan's experience with that of European countries, Türkiye, South Korea, and the Baltic states;
- **Statistical analysis** – analysis of empirical data on the state budget, local budgets, and regional socio-economic indicators;
- **Systemic approach** – examination of state–municipal relations as an institutional structure;
- **Sociological approach** – analysis of existing survey results on citizen satisfaction and service quality;
- **Normative-legal analysis** – review of legislative acts, municipal law, and regional development concepts.

## Scientific Novelty

The scientific novelty of the research consists of the following:

1. The impact of power distribution between state and municipal governance on regional development indicators is evaluated for the first time using a systematic-analytical model.
2. A “power-resource alignment index” is proposed for Azerbaijan.
3. A new fiscal decentralization mechanism is developed to enhance the sustainability of local budgets.
4. An integrated governance framework reflecting the institutional transformation of municipalities in the context of regional development is presented.
5. An adaptive power distribution scheme based on international models (Scandinavian, Baltic, South Korean, and Turkish) is formulated.

Figure 1: The Relationship Between Regional Development and Local Authority Resources (An Empirical Analysis of Azerbaijan's Regions)



**Source:** State Statistical Committee of the Republic of Azerbaijan (SSC), *Regional Development Indicators* database (2018–2023); analytical dataset compiled for research purposes.

**Figure 1** illustrates a positive relationship between the increase in the share of local budgets and the rise in the regional development index. The distribution of data points across regions indicates that areas with greater local financial resources tend to exhibit higher levels of economic and social development. The city of Baku occupies the top position in the development index due to its high share of local budget revenues. The Ganja-Gazakh and Guba-Khachmaz regions also demonstrate relatively strong development dynamics corresponding to higher local budget shares. In contrast, limited local resources in the Karabakh region contribute to a lower development index. Overall, the figure demonstrates that decentralization and the expansion of powers delegated to local authorities have a positive impact on accelerating regional development (Huseynov, 2021, pp. 72–84).

Table 1: Comparison of Local Budget Shares and Regional Development Indicators Across Azerbaijan's Regions

Nº	Region	Share of Local Budget (%)	Regional Development Index
1	Baku	3.0	78

2	Ganja-Gazakh	2.5	65
3	Guba-Khachmaz	2.2	60
4	Sheki-Zagatala	2.0	58
5	Lankaran	1.9	55
6	Karabakh	1.5	50

**Source:** State Statistical Committee of the Republic of Azerbaijan (SSC), *Socio-Economic Development Indicators of the Regions* (2018–2023); analytical database compiled for research purposes.

**Table 1** clearly demonstrates the differences between the share of local budgets and the regional development index across regions. The data indicate that as the volume of local financial resources increases, the level of socio-economic development of a region also rises. The city of Baku possesses the highest development index with a 3.0% share of local budget revenues, confirming that strong fiscal capacity has a direct impact on development dynamics. The Ganja-Gazakh and Guba-Khachmaz regions also exhibit relatively higher local resource availability, which has resulted in medium-to-high levels of regional development.

In the Sheki-Zagatala and Lankaran regions, lower shares of local budget revenues are associated with relatively weaker development indicators. The Karabakh region ranks lowest with a local budget share of 1.5%, reflecting its post-conflict reconstruction phase. Overall, Table 1 indicates that strengthening local authorities and increasing financial resources are among the key factors contributing to higher levels of regional development (Ismayilov, 2020, pp. 112–121).

## Conclusion

The distribution of powers in state and municipal governance serves as one of the key mechanisms for ensuring sustainable and inclusive regional development. The conducted analysis demonstrates that establishing a functional balance between central and local governance structures not only enhances administrative efficiency but also enables the full realization of regions' socio-economic potential. Empirical evidence confirms that regions with higher shares of local budget revenues exhibit more dynamic development indicators. This finding underscores the crucial role of empowering local self-government with broader authorities in stimulating regional development.

A comparative analysis of Azerbaijan's economic regions reveals that areas with limited local financial resources—particularly Karabakh and certain peripheral regions—tend to display lower socio-economic development indices. The results indicate that resource constraints hinder municipalities' ability to fully perform their functions, weaken service quality, and limit the implementation of local initiatives. Conversely, regions such as Baku, Ganja-Gazakh, and Guba-Khachmaz demonstrate that more effective local authority arrangements positively influence development outcomes. This evidence suggests that, when properly designed, decentralization policies can help restore balance among regions.

The study concludes that the distribution of powers between state and municipal governance should be optimized not only within legal and structural frameworks but also across financial and institutional dimensions. Municipal fiscal autonomy should be strengthened, the local tax base expanded, and resource allocation ensured through more equitable mechanisms. At the same time, a differentiated model of power distribution should be applied in accordance with the specific socio-economic characteristics of regions. Expanding local decision-making authority in areas such as infrastructure management, organization of social services, and environmental protection would increase governance flexibility and reduce the administrative burden on central authorities.

Overall, the empirical findings demonstrate that the distribution of powers is not merely a form of governance but a core instrument of regional development strategy. Establishing an appropriate balance between powers and resources accelerates regional equalization processes, enhances economic activity, and increases the participation of local communities in decision-making. In this regard, institutional modernization of public administration, strengthening

of municipalities, and fiscal decentralization processes will play a decisive role in the implementation of Azerbaijan's long-term regional development priorities.

**Ethical Considerations.** This study is based exclusively on secondary data obtained from publicly available sources, including official statistics, legal documents, policy reports, and academic literature. No human participants, personal data, surveys, or experimental methods were involved. Therefore, ethical approval was not required. All sources were properly cited, and the research was conducted in accordance with accepted academic integrity and ethical research standards.

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