

# **LOCAL GOVERNANCE IN ARMENIA**

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## **Abstract**

This research examines the political, economic and legal dimensions of undertaken and ongoing reforms in the sphere of local self-governance in Armenia. The main purpose of the research is to reveal the problems in ensuring autonomous and self-sustainable local governance and to provide policy recommendations needed to achieve more effective, accountable and transparent local self-governance. Statistical data analysis, the analysis of the existing legislation on local self-governance (including the Constitution of Republic of Armenia, The Law on local self-governance, Government Program 2008-2012), analytical data and reports of various donor organizations operating in the field, such as the United States Agency for International Development, the Open Society Institute, the World Bank, as well as government reports and media articles have been used for the analysis. The research shows that though legislation provides necessary regulations for effective local governance, the enforcement of those does not always take place. Decentralization is formally defined in government action plans, but central government authorities persistently intervene in local government activities. Moreover, financial dependency on central government does not allow for executing fiscal decentralization. Transparency and accountability of local government is under the question as well, due to the absence of well established check and balance systems. Recommendations are provided for fostering greater autonomy and financial self-sustainability for local self-governance in Armenia.

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## Introduction

After the collapse of the Soviet Union, Armenia among other former soviet republics faced difficulties in public administration. Soviet strong centralized and hierarchical system no longer functioned in transition economies. Institutional, economic and political reforms in these countries contained the factor of decentralization. It became one of the most important public policy issues. Decentralization is expressed in transferring decision-making power and resources from central to local governments; this includes financial decentralization and engagement of public in local decision-making processes. Most of these reforms are continuously supported by international development agencies (such as USAID, UNDP, World Bank, Urban Institute and others). It is generally accepted that decentralization leads to democracy at local level and transparency on the part of local governments. The Armenian legislation provides necessary foundations for the establishment of democratic and transparent local governance; however, central government often uses its administrative and financial tools to control local governments (D. Tumanyan, 2006). These and other problems discussed in the thesis occur due to the lack of local governments' capacities and their financial dependency from central authorities in decision-making processes.

Thus, the thesis is focused on policy-making processes, lack of high quality specialists, fiscal dependency from central government and transparency and accountability issues at local government level. Analyzing different reports from donor organizations, NGOs, set of recommendations are drawn to address issues highlighted above. The problems are described and

analyzed separately and recommendations for improvement are further given for each of the problems.

Chapter 1, Local Self-Governance in Armenia, introduces territorial division of the country, governing structure and legal aspects of local self-governance in Armenia. Although the legislation formally provides for the autonomous local governance, in reality central governing bodies have informal powers over the decision-making processes at local levels. Regional governors appointed by the state to coordinate regional policies in reality intervene in local decision-making processes. This makes governance at local level, in fact, centrally- rather than locally-governed. It occurs due to the low capacity and skills of local governors to manage and implement functions ascribed to them by the law, as well as their great financial dependency from state authorities. Particular attention is drawn to the need for equipping local authorities with necessary skills and knowledge about local governance, as well as legislative changes which will require region heads' positions to be elective, so that interests of both regional governors (marzpets) and the community always are in a harmony. Chapter provides recommendations that will help local government enhance capacities and provide quality services to the community.

Chapter 2, Fiscal decentralization in Armenia, analyzes budgetary system of Armenia and states policies that are trying to provide proportionate development in all communities using formula-based equalization grant scheme through subventions and subsidies. The first years of fiscal decentralization reforms in Armenia were predominantly focused on strengthening the capacity of local government financial management. But still, state transfers comprise about the half of local budget revenues. This puts into question the sovereignty of local government's financial activity. Therefore, changes in financial regulations, such as permission to open bank accounts in

commercial banks, more capital development grants and gradual access to borrowing market, are recommended in order to enhance financial decentralization of local governments and to increase the capacity for self-governance.

Society's engagement in decision making process, participation in budgeting and planning are the central topic of Chapter 3, Accountability, Transparency and Effective Self-Government: Civil Society engagement in Decision Making. The engagement of public in decision-making is not generally practiced except for a few communities. Local governments most often are not aware of their responsibilities about being open to public, i.e. being transparent and accountable. Moreover, they are not even aware of the required internal and external audit. Those who are aware do not often implement it because of the scarce financial resources. Therefore, the main recommendation for Chapter 3 is to empower public and ensure civic engagement in policy-making, strategic planning and community development plan designs, which will transfer central government's function of the controller to the society, guaranteeing the establishment of accountable local governance.

The Concluding Chapter summarizes recommendations provided within the framework of this analysis.

## CHAPTER I. LOCAL SELF-GOVERNANCE IN ARMENIA

After the collapse of the Soviet Union, Armenia among other former soviet republics faced difficulties in public administration system. Along with economic hardships and problems of transition, the country had to deal with consequences of a devastating earthquake in 1988. Moreover, the war over Nagorno Karabakh issue with neighboring Azerbaijan, did not allow government to focus on other issues until the 1994 ceasefire. Only after that the government was able to focus on economic and institutional reforms as well as changes in public administration.

In 1995, Armenia adopted The Constitution of the Republic of Armenia by referendum. This provided basis for public sector reforms, including the ones at regional and local government levels.<sup>1</sup> In December 1995, Armenia has adopted the Law on the Administrative and Territorial Division of the RA, according to which the territory of Armenia has been divided into 11 administrative regions (marzes) including the capital city of Yerevan. The marzes, further, have been divided into urban and rural communities. To date there are about 930 communities in the country.

Adopted in 1996 and largely based on European models, the Law on Local Self-Government of Armenia provides a theoretical and legislative framework for democratic local self-governance. Although the Law defines the powers and responsibilities of Armenian local governments, many local governmental functions remain under the control of the national-level government. The Law states that “Local self-government is the right and capacity of local self-government bodies acting at their own responsibility, to dispose of community’s property and to resolve the

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<sup>1</sup> Constitution of the RA, Chapter 8. July, 1995.

problems of community importance with a view to improve the well-being of the population.”<sup>2</sup>.

The governors (marzpets) of the Armenian provinces are appointed by the central government to implement the government's regional policy and coordinate the regional activities of central executive bodies.

Public administration system in Armenia has two levels; state government and local self-government. There are also regional governing bodies representing central government in the regions. Regional governors are appointed by the government and the president of the country. According to the Law on Local Self-Government of RA and other legal acts related to the public administration, local self-government bodies wield greater power at local level in terms of decision making, budget formulation, expenditure assignment spheres, as well as in controlling public property.<sup>3</sup> From legal perspective everything seems clear and local authorities should act in accordance with the legislation. However, in practice marzpets intervene in the management and budgeting issues at local community level.

The community council is a representative authority. The head of the community is the executive body of local self-government who implements the decisions of the community council with the help of its staff and other community organizations. Local self-government bodies execute state authorities and responsibilities prescribed to them by the law. Local self-government bodies consist of own and delegated authorities. Authorities delegated by the state are funded by the state budget and relate to the implementation of national-level functions, such as local tax administration. Own authorities are funded by the local budget. Own responsibilities are divided into mandatory and voluntary powers. Mandatory responsibilities relate to local-level functions

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<sup>2</sup> Law on Local Self-Government of the RA. 1995.

<sup>3</sup> Ibid.



that literally are “mandatory” for local governments to implement. These are basically functions related to social security, including education, public health, and environmental protection. As for voluntary responsibilities, local governments can choose to carry out any type of activities for which it has adequate funding.

One of the core issues of the Armenian public administration system is the fact that the state government enjoys the excessive power over the local government other than it is prescribed by the law. It can be argued that the autonomy and sovereignty of the communities are not efficiently practiced in Armenia. Although the legislation states necessary provisions for that, the informal authority of marzpet and community head’s dependence from him is a persistent problem. Residents of the community elect the governing body of the community, i.e. the head of the community and the community council. However, the Law on Local and self-government, provides marzpets with the authority to apply to the central government requiring resignation of the community head. This limits the activities of community heads putting them in a direct dependence from the regional governors. Therefore, the autonomy of local government bodies is questioned as the latter is interested in complying with the instructions of the marzpet, an official who is appointed by the central government. The Law gives marzpet a power to require dismissal of the head of the community. As a result, the head of community and community council do not have freedom to exercise their functions and contribute to the community at their own discretion if their programs and priorities contradict with the ones of a marzpet.

However according to the constitutional reforms in Armenian in 2005 central government officials can now dismiss the head of the community only by the decision of the Constitutional Court. This change in legislation was a positive step, however the pyramid of decision making

still remains the same. This is a structure through which government appointed marzpet still has a power over the head of the community (although it is no longer backed by the legislation). In fact, regional governors often use administrative tools to control local government, while the relationship of central and local governments should be collaborative and cooperation in reality.<sup>4</sup> Despite changes in legislation marzpet is still perceived and, hence, acts as an official who controls the activity of local government. Obviously there is a problem with perceptions of the people who still think that a marzpet, as an official appointed by the central government, has an authority over the local government. These perceptions are the legacy of soviet times. Community members and local government take public administration as highly centralized and authoritarian, rather than decentralized and democratic.

Change in perceptions as well as further changes and new reforms in the legislation can improve decentralization process and enhance the effectiveness of local governance. In sum, public assumes that marzpets being not locally elected officials, but rather centrally appointed, they are not interested in communities needs, since the duration of their term does not depend on the performance. Community members, in their turn, do not have a power over the marzpet and exhibit rational ignorance towards local governance. This problem is true for all the Armenian regions, except for the capital city of Yerevan. The problem here has been partially fixed with changes in the status of this particular administrative region.

With the 1995 Law on Local Government, Yerevan originally has been granted a status of marz and it has been governed by the Mayor appointed by the central government. In 2008 the National Assembly of the Armenia adopted a Law on Local Government in Yerevan City. Under

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<sup>4</sup> D. Tumanyan, *Local Self Government in Armenia*, Noyan Tapan, Yerevan 2006.

the Law on Local Governance and Regional Governance in the City of Yerevan, the status of Yerevan has been changed from a marz to a local government. According to that law, the mayor of Yerevan is no longer an appointed official. Citizens now elect community council members who, in their turn, elect Yerevan city mayor. This change gave to some extent independence to Yerevan mayor from central government. The main argument here is that an appointed mayor would not in any case contradict the interests of the body that appointed him, since he can be dismissed from his position. Therefore, switching from appointed system towards an elective one will contribute to a greater autonomy of governing bodies at local level.

The amendment in the status of Yerevan can be a good precedent for further changes in the Law on Local self-government. The head of the region (marzpet) shall be elected by the community members or at least by the community council (as in case of Yerevan). It can possibly increase the society's interest in governing processes. As a result, local residents will more actively participate in local elections, demanding higher level of accountability from local governors and will make their choices more carefully, since they would realize that it has a direct effect on the governance at local levels.

The European Charter, Article 6 provides that “The conditions of service of local government employees shall be such as to permit the recruitment of high quality staff on the basis of merit and competence; to this end adequate training opportunities, remuneration and career prospects shall be provided.”<sup>5</sup> However, the requirement for the election of local government bodies is based only on residence and not on merits or education/professionalism. Therefore the community council members in Armenia do not have proper incentives to participate in any

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<sup>5</sup> European Charter on Local Self-Government, Strasburg, 1985.

educational programs or trainings on local governance.<sup>6</sup> In a democratic setting, it is not possible to impose educational qualifications on elected members of community. Nevertheless according to the Law on Local-Self Government and Law on Municipal Service these elected members have been given such important functions as the decision making on the behalf of the population, supervision of budgetary expenditure, and recruitment of procedure of municipal servants without having adequate qualifications for that. All these functions demand certain level of education or experience and the 4-term period is too short to acquire necessary skills and knowledge. Thus, the success of an effective management of community budget and implementation of development and economic programs highly depends on the professionalism of the leader.

In general, the lack of individuals with managerial experience, and the absence of financial resources and strategic planning is an issue for the whole republic, not only for local government. There are problems in re-training and raising qualification of municipal servants conditioned by the poor institutional capacity in terms of professional resources and technical standards. The lack of teaching methods and materials, as well as technical equipments, makes teaching process very hard and ineffective. Nevertheless, the availability of qualified municipal servants is a major prerequisite for providing high quality of community service.

Though availability of highly qualified managers is one of the top priorities for the government, most of the trainings in this field is provided by the NGOs, who mostly act on grass-root level and only rarely work with local government.

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<sup>6</sup> Sara Petrosyan, *Transparent local self-government*, Article. <http://hetq.am/am/society/elec-usum/>

Usually, these development programs, adopted by Communities, aim at addressing public needs. Yet, there is no in these programs any attempt to upgrade the level of efficiency of councilors. In the existing budget allocations there are no provisions for spending money for educating councilors who work voluntarily. For that purposes extra funding would be needed for local authorities. It should be further emphasized that the training of Community councilors is only one part of the educational effort that Communities have to undertake in upgrading the professionalism in their activities. It is also essential to train municipal officers, because their service is very important for an effective administration.

Government of Armenia together with international donors, local and international NGOs conducted seminars and trainings for municipal servants. Nevertheless, upon the completion of these trainings neither local government, nor municipal servants were ready for this process. What they were basically taught in these trainings were laws related to public administration, where they got only a theoretical knowledge on their work. While it is important to know the rule of the game, legislation in which one needs to act, there have been no attempts to improve their skills in dealing with practical issues. It is impossible to set up an efficient public service only by giving training to public servant on legislations without improving their professional skills. Therefore, this aspect should be taken into consideration in making curricula for retraining programs for municipal servants. To improve the outcome of the seminars, the curricula needs to include case studies on different countries, role-games and if possible trips with the purpose of experience exchange.

There are three local government NGOs working in Armenia on the improvement of legislation in local governance, support in strategic and financial planning and development of local governance, training and supporting local government bodies:

- Association of Municipal Councilors of Armenia (AMCA);
- Community Finance Officers Association (CFOA);
- Republican Association of Communities of Armenia (RACA).

Founded in 1998, the Association of Municipal Councilors of Armenia coordinates activities of councils in the territory of the Republic of Armenia, contributes to experience and information exchange between the communities, develops and presents proposals for reforms in local government legislation. The AMCA also cooperates with various international organizations.

The Community Finance Officers Association is founded in 1998. The Association plays active role in developing legislation for local government, supports communities in budgeting processes, as well as cooperates with international local government bodies and organizations. With the support of Eurasia foundation, the Association developed and introduced input software for community budgeting and in some communities. The CFOA has also been actively cooperating with many other international organizations.

Established in 1997, the Republican Association of Communities of Armenia is the third NGO working in the field, which provides cooperation between the communities. Coordination of community cooperation is especially important in the communities with similar demographics and economy. Even if demographic and economic situation of communities are not the same, they can comprise links of the chain for some types of production and try to ensure sustainable

development. Through economic development, community can reach financial independence from the government which will result in higher sovereignty and quality services. The problem here is that given the large number of the Armenian communities (currently there are 926 communities in the country), cooperation efforts of NGOs and economic development programs of international donors do not reach out many of the communities. This is explained by the limited capacity of these organizations in terms of spreading the spillover effect of their programs throughout the country.

“The Government Program 2008-2012” provides for amalgamation of communities with the purpose to increase the efficiency of self-governance. Not all the communities possess enough capital assets needed for development and self-sustainability. The land and property tax base is not equally distributed through the communities due to geographical conditions of the country. Thus, communities that lack these conditions cannot fulfill their delegated functions ascribed to them by the law. To ensure proportionate development of communities and marzes, the consolidation of some communities needs to take place. The practice shows that the consolidation of specific functions has already provided benefits, such as regional or centralized land use planning or economic development. Equity of service delivery and broadening a tax base to provide funding to restore deteriorating infrastructure are seen as benefits by some, but can have serious political consequences and have been the source of dissatisfaction with the consequences of a merger.<sup>7</sup>

The notion of communities’ consolidation is provided by the Constitution of Armenia and is reflected in the Armenian government’s main strategic documents: Government Program 2008-

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<sup>7</sup> Marc Holzer. *Analysis Related to Municipal Government Consolidation. School of public affairs and administration.* May 2009.

2012 and Poverty Reduction Strategy Program 2008. However, neither the government nor the Ministry of Territorial Self-Government took any steps toward that direction.<sup>8</sup> In fact, the merger of communities can potentially lead to consolidation of financial and human resources, improvement of social-economic situation, including public health, higher quality of education and community services. Consolidation can further free some financial resources previously used for administrative expenses. These resources can be directed to the provision of better quality community services. In addition, Consolidation of communities can partially solve the experience sharing and financial problems. By forming community unions, it is possible to solve same problems in different communities with joint efforts and achieve economies of scale more efficiently. While there are not enough studies of the success of consolidation, however there are obvious and unequivocal proves that consolidation does lead to a reduction of administrative expenses and allows for more effective use of the financial resources.

Inter-community unions are formed in Western Europe. In United Kingdom, these unions cooperate on public transport, fire service and waste management. In Finland, local governments' inter-community unions cooperate in the field of health care and social security provision, professional education. There is also an Inter-Community Council of 262 communities that cooperates in providing electricity, water and professional education.

Government needs to push on forming inter-community and community unions to ensure sustainability and proportionate development, assisting communities with low capacities. The formation and legal aspects of inter-community unions are provided by the Law in Local Self-Government.

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<sup>8</sup> *A pilot program of communities' consolidation: (Aragatsotn Marz)*. Published by CFOA and Local Government and Public Service Reform Initiative. Yerevan, 2008.



Local-self government reforms and decentralization process in Armenia is far from being completed. Though the Law provides necessary background there are imperfections in the field of governance, provision of necessary services. Thus, reforms shall be ongoing and new approaches specific to the country must be adopted. Despite the freedom of the choice, there should be certain mandatory requirements for the elected bodies at least for a transitional period until the custom and tradition of public management will be adopted at local levels.

## CHAPTER II. ISSUES OF FISCAL DECENTRALIZATION IN ARMENIA

According to the European Charter of Local Self-Government (Article 9)<sup>9</sup>, securing financial sustainability of local self-government is an important precondition for its establishment. Fiscal decentralization is a key step of transition from command to a market economy.<sup>10</sup> In 2001 Armenia ratified the European Charter on Self-Government<sup>11</sup>, which requires a high degree of fiscal decentralization. Decentralization became a core policy issue which Armenia, among other newly independent states, faced upon the collapse of extremely centralized and strongly hierarchical Soviet system. The improvement of regional management systems, change of local governments' fiscal and budget practices and tax administration, promotion of regional economic development and citizen participation in local governance were dictated by changing political environment and new economic systems.

Currently Armenia is a two-tier state with central government and local self-governments. Central government provides services that have spill-over effect beyond the local area. Those services include education, health, defense, postal services, highways, environmental issues, and so on. Policies affecting macroeconomic stabilization and income distribution are also seen as central responsibilities and are reflected in government's Poverty Reduction Strategy Plan. In contrast, local governments typically provide services from which benefit mainly their local areas, such as the construction and maintenance of local roads, city maintenance, and public utilities, such as water, sewerage, various forms of energy distribution, library and so on.

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<sup>9</sup> European Charter on Local Self-Government, Strasburg, 1985.

<sup>10</sup> Paul Smoke, *Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice*. Journal of Developing Areas, Vol 37, No1, 2003.

<sup>11</sup> European Charter on Local Self-Government, Strasburg, 1985.

Organization of budgeting in transition countries shows democratization degree of the society in general and, in particular, at local level.<sup>12</sup>

Territorial decentralization of Armenia required also budgeting decentralization to take place, according to which local elected officials now are responsible for preparation and execution of local budgets even though there may be interference from the higher tiers of government.

Fiscal functions under the state and community budgets are fulfilled through the treasury system of Armenia. The treasury system operates as a subdivision of the Ministry of Finance of Armenia with its territorial offices in the regions and Yerevan.

Armenia's budgetary system is a two-tier system: state budget and local (community) budget.<sup>13</sup> Both state and community budgets are built upon unified fiscal, monetary and tax policy of the country. The state budget and community budget revenues and expenditures constitute consolidated budget of the Republic of Armenia.

Budgeting process implies the legally regulated activities of state and local government agencies for drafting, discussing, adopting and implementing of annual budgets and confirming the annual report on budget implementation.<sup>14</sup> The development of the draft of the state budget is carried out by the Ministry of Finance on the basis of Prime Minister's decree on inception of budgeting process for the coming fiscal year. Copies of budget drafts are submitted to Judicial Authorities, the Central Bank of Armenia and to the National Assembly of the Armenia.

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<sup>12</sup> D. Tumanyan, *Local Government Budgeting in Armenia*. The 13<sup>th</sup> NISPAcee Annual Conference, Moscow, Russia, May 19-21, 2005.

<sup>13</sup> Law on Budgetary System of RA.

<sup>14</sup> Law on Budgetary System of RA.

Community budgeting starts with the head of community drafting the budget and ends with the budget approval by the community council. Once the state budget is approved, the community head together with the local administration and finance department develop draft of the community budget based on four-year development program for the community. State budget provides data on official transfers (financial equalization subsidies, other subsidies and subventions). In some cases the development of community budget may be delayed because of the delays in the adoption of state budget by the National Assembly. Before state budget is approved and became formally a law, the community head can draft a budget and submit necessary amendments to the community council for approval.

Community budgets comprise of capital budgets (used to finance capital repair and acquisition projects) and operating budgets (to finance administrative costs, operation and maintenance of infrastructure and community facilities). Community budgets may have a reserve fund of 5-20 percent of operating budget revenues to 30% of capital budget revenues.<sup>15</sup> The Law on Budgetary System of RA states that the balance of community budget shall be zero, but recent amendments allow having a deficit (or surplus) which shall be financed at the expense of the community's reserve fund, or bonds issued by the community. It is worth to mention though that no bond has been issued so far in any community.

Prior to adoption of the community budget the head of community shall submit the budget with the breakdown of budget revenues and expenditures classified according to the articles of economic and functional classification; specify the major directions of community development;

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<sup>15</sup> Law on Budgetary System of RA.

debt structure, accompanied by the analysis of previous year's trends, the existing situation and the forecast for the upcoming four-year development plan, information on transfers from state budget; information on the number of local administrative employees, total payments of salary and comparative analysis for the past years.

Community budget income forms from the following sources:

1. Tax Revenues:

- a) land tax: for the lands located within the administrative borders of the community (save the payers, who make centralized tax payments under the respective decrees of the Government);
- b) property tax: for the property located within the administrative borders of the community;
- c) income tax deductions;
- d) profit tax deductions;
- e) environmental fees deductions;
- f) fines and penalties for breaches of land and property tax legislations collectable to community budgets.

2. State duties and fees

3. Non-tax income

4. Other

After the discussion, the community council should submit a written proposal for the draft budget to the community head. Community head has one week for making changes and amendments.

The draft shall be adopted by the majority of the vote. If community council does not approve the budget before the beginning of fiscal year, expenditures are made based on previous year's allocation. According to the Law on Local Self Government, if the council does not approve the budget, the head of the community may resign. If the council fails to decide on head's resignation, then community budget is considered approved with the head's amendments.

This means that community council's role in budgeting process is a formality. In fact, council's proposals for changes are mere recommendations rather than required amendments, as at the end the budget will be passed by the amendments acceptable for the head of the community.

The head of the community is responsible for the execution of the budget, and local authorities have full right to manage own financial resources. The head of community is personally responsible for the accurate and legitimate performance of the financial operations.

Independence of community head and community budget in reality is a formality. In practice marzpets intervene in the management and budgeting issues on local community levels. Community budgets are very limited - about 50% of a local government's budget comes from the centralized government in the form of subsidies; the rest is raised locally through tax collection.<sup>16</sup>

In 2002, in cooperation and with the assistance of the Urban Institute and USAID a new law on local self-government has been adopted. The law:

- Granted local governments the status of legal entities,
- Provided for collection of land and property taxes by local governments,
- Required all meetings of community councils to be open to the public,

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<sup>16</sup> National Statistical Yearbook of Armenia, 2009.

- Required sale of municipal assets at a market value.<sup>17</sup>

Thus, the amendments provided a definition of a community as a legal entity, which had a property ownership rights and the autonomy to develop local budget and form community unions. Amendments also provided that 100% of land and property taxes were to be paid to the local budgets<sup>18</sup>, while with the old legislation 5% of those taxes were transferred to the state budget. However, despite the reforms and provisions for the autonomy in the new local self-government laws, local governments enjoy only limited fiscal discretion. The transfer of the collection of taxes was a positive step, but local tax bases as well as rates continue to be determined by the central government. The same is true for local fees and payment rates. This is provided by the Law on Local Duties and Fees. The same Law also provides that the fees and duties shall not be changed during the fiscal year.

However, local governments' technical and administrative capacities within the local government for tax collection and budget preparation is very low, which means that local budgets are often unrealistic and unsustainable.

in mln. AMD <sup>19</sup>	2004	2005	2006	2007	2008
Property Tax	5016.5	5742.4	6617.2	7467.9	7926.0
Land Tax	2341.6	2316.5	2727.6	3274.6	3702.0
Fees and Duties	895.3	994.7	1222.6	2060.1	1753.7

<sup>17</sup> *Armenian Local Government Project. Final Closeout Report*, prepared by Samuel L. Coxson, Chief of Party, the Urban Institute, May 2003.

<sup>18</sup> Previously, 95% of land and property tax were paid to local budgets. 5% was sent to state budget.

<sup>19</sup> Statistical Yearbook of Armenia, 2009. According to 2009 data by the Armenian Statistical Service the average exchange rate for 1 US dollar was equal to 363.28 Armenian drams.

Under the Municipal Service System Establishment and Strengthening Program, UNDP has supported the process of fiscal decentralization in Yerevan district communities, large rural communities and Intercommunity Unions by providing technical assistance, computers, and software for tax administration and training for community finance officers. Under the Public Sector Modernization program, the World Bank supported the computerization and strengthening of local budget processes, and local tax administration.<sup>20</sup> This substantially improved tax collection process. However, due to the widespread poverty in Armenian regions, tax collection in monetary terms remains very low, except of a property tax. This is mainly because the tax base of property tax is localized and cannot be hidden by a “shadow economy”. The collection of property tax and local and state fees and duties had been implemented by around 90%, while the collection of land tax still remains on the low level of around 60%.<sup>21</sup> Overall, taxes and fees comprise less than 30% of total community budget income.

While public sector activity was very low and remained low over time (expenditures are about 21% of GDP in 2000, about 20% of GDP in 2007 and about 26% of GDP in 2009), local governments didn’t boost their institutional capacities to provide services formerly provided by the central government or enterprises and still highly depend on state subsidies and subventions. Community budget expenditures comprise 1-2% of country’s GDP.<sup>22</sup> This indicator has not been changed much over years being 1.3% in 2000 and 1.7% in 2007.<sup>23</sup>

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<sup>20</sup> *Fiscal Decentralization in Transition Economies: Case Studies from the Balkans and Caucasus*, UNDP, Bratislava, 2005.

<sup>21</sup> Statistical Yearbook of Armenia 2009.

<sup>22</sup> Statistical Yearbook of Armenia 2009.

<sup>23</sup> National Statistical Service, [www.armstat.am](http://www.armstat.am)



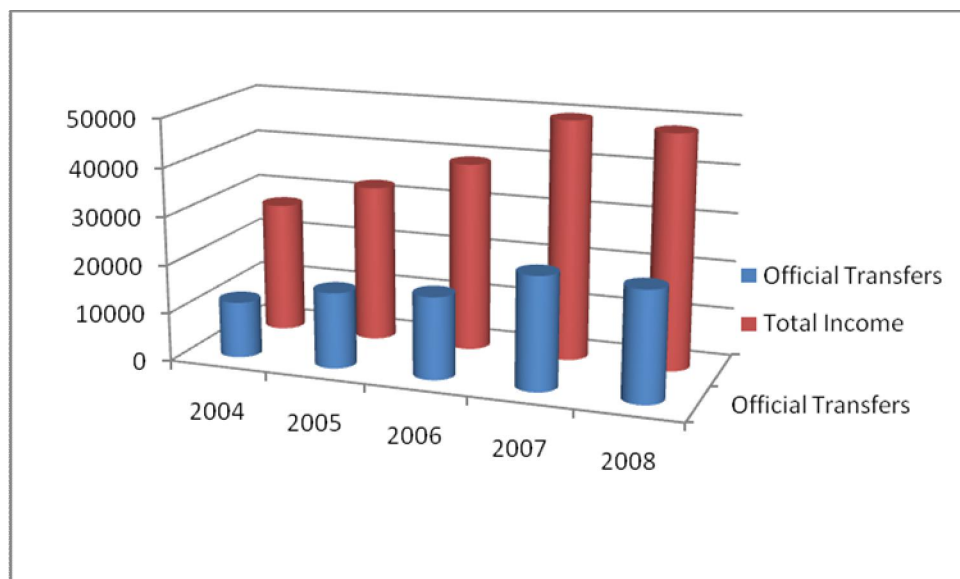
Community budgets still highly depend on state (official) transfers received from state budget. To ensure the harmonic development of communities, the state budget appropriations include level-up subsidies to community budgets. The total appropriation for level-up subsidies to community budgets is set to an amount not less than 25% of total income tax, land tax and real property tax collections.<sup>24</sup> On calculating state budget level-up subsidies to community budget the exemptions granted, in accordance with the statutory procedure, by local self governments are taken into consideration. The procedure for extending level-up subsidies to community budgets is stipulated in the RA Law on Financial Equalization.

This law defines the main intergovernmental transfer mechanism using formula-based equalization grant scheme through subventions and subsidies. Subventions are conditional capital transfers given for the specific purpose. The size and the allocation of subventions is negotiated each year and approved by the State Annual Budget Law. By contrast, subsidies are unconditional transfers of general purpose. The size and allocation of subsidies to the Community Budget are rule-based. The trend of official transfers to the local budgets is given below. The share of official transfers to local budgets had risen from 42.7% in 2004 to 47% in 2008.

Share of official transfers in the community budget's total income in 2004-2007 (in mln AMD)

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<sup>24</sup> Law on Budgetary System of RA.



Source: Statistical Yearbook of Armenia 2009.

The revenues currently ascribed to community budgets do not enable communities to fulfill their powers in full. Because of Armenia's unbalanced economic growth and high level of inequality within population and communities, financial equalization does not play the assigned role. Many small, weak and lacking relevant capacities communities cannot implement majority of their powers defined by the law, and the framework of local self-government becomes narrow as the second tier of government does not exist.

Local self-government cannot be enjoyed fully if implementation of local development programs is restricted by the use of financial funds. Thus to ensure effective self government and independence of local government from state government our recommendations are:

#### *More financing options for Local Government*

According to European Charter, Article 9.8, communities shall have access to national credit market. The Law on Budget System and the Law on Local Self-government have such

provisions. The right to borrow, however, is constrained as borrowing must be recommended by the marzpet and approved by the Ministry of Finance. On the other side it is limited strictly from state budget, i.e. central government or other communities. Particularly, it is mentioned that community budgets may also receive budget credits and loans. Budget credits are the funds extended from the state budget to local self government agencies and other entities on the terms of repayment, interest servicing and maturity. Budget loans are the funds extended on concessional terms from the state budget to local self government agencies, subject for repayment by the end of the fiscal year, for financing of specific programs or expenditures.<sup>25</sup> Budget loans are resources necessary to carry out investments in infrastructure development in the communities, attracted on contractual basis or through issue of community bonds.<sup>26</sup> However, communities and central government prefer financing through subsidies and grants rather than loans.

Permission to open bank accounts in commercial banks, more capital development grants and gradual access to borrowing market may lead to more financial and decision-making independence of communities. The guarantee or the collateral for the loan can be a letter from government (government guarantee) to the extent that it does not undervalue the role of local government. This will gradually lead to the situation, where private sector will step in and work with the local government in solving economic and development issues. With public-private partnership, local government can match some funds from local budgets.

### *Capital development grants*

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<sup>25</sup> Law on Budgetary System of RA.

<sup>26</sup> *Local Self-Government Reforms in Armenia 2007-2008*. Ed. By D. Tumanyan, Yerevan, Noyan Tapan 2009.

Due to community small budgets funds mainly go to the repair of existing fund rather than acquisition of new capital. Capital investments became dominant only in 2007 in certain communities. During 2007 the 59.9% of local capital expenses were capital investments, of which: capital construction expenses (66.8%) and acquisition of capital assets (22.7%). Acquisition of capital assets involved considerable share of tools and equipments (42%) and acquisition of transportation means (27%).<sup>27</sup>

Provision of capital development grants will enable local governments to secure a property or make investments which further will turn into income generating or saving. A real property purchase should provide some benefits to the local government (community) operations, such as reduced occupancy costs, consolidation or continuity of office locations, or access to a unique space otherwise unavailable. These funds shall not be available for debt service or similar payments or renovation for real property bought in previous years.

The idea of capital development grants as a mechanism to promote local government infrastructure is also supported by UNDP, World Bank and other organizations.

#### *Changes in new tax proposed for local governments*

Currently there are discussions over the draft of the Law of the RA on “Amendments to the Law on Taxes of RA. These amendments also state that the evaluation of tax base shall be implemented by the local authorities. According to the draft, Article 3,

The taxes imposed in the Republic of Armenia are the following:

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<sup>27</sup> Ibid.

#### a) State Taxes

- Profit Tax
- Income Tax
- Excise Tax
- Value Added Tax

The law may specify presumptive payments and simplified taxes as a replacement for taxes mentioned above.<sup>28</sup>

#### b) Local Taxes

- Property Tax
- Land Tax
- Hotel Tax
- Sale Tax
- Tax on Incomplete structures
- Tax on unprocessed agricultural lands
- Tax on parking lots

These new tax forms represent conflicts of special interests, which will make it difficult to pass it to a Law. That was the reason that the National Assembly passed only 2 of the proposed taxes: hotel tax and tax on parking lots. It is suggested to modify some of the taxes and their implications. Suggestions are provided bellow.

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<sup>28</sup> The Law of the RA on “Amendments to the Law on Taxes of RA”. Draft, November 28, 2008.

*Sales Tax:* In some countries sales tax are imposed on sales and directed to the local budget. Currently, in Armenia VAT is performing the role of the sales tax, however collected taxes are directed to state budget and community budgets get part of it through state subsidies or subventions. The high rate of VAT, however, will not allow local government to charge additional sales tax. These are indirect taxes that are imposed on consumer and would worsen social security of low-income population. Instead, it would be better to lower the rate for the VAT and allow local government to levy sales taxes. This will ensure more inflows to local budgets and will support development programs in the community

*Tax on incomplete structures:* According to the Law on Property Tax, incomplete structures are not subject to taxation. Currently, there are many structures whose owners do not have Certificate of Completion and formally are not under exploitation. This means foregone tax income for the local government. Our recommendation would be to audit the time frame and set timeline for the constructions. Those owners, who would fail to complete it within timeline, would have to pay taxes to local budget.

*Hotel Tax:* There is tax for hotel services. However those taxes in form of profit tax and VAT are not directed to local budgets. The owners of the hotels are oligarchs or people who have special interests. To pass this type of law that imposes additional taxes would be difficult in National Assembly. Instead, it would be wise to define a share from those taxes to local government budget. The purpose of this tax is to separate a share to the local budget.

Upon adoption of the changes in tax law, these policies can be implemented with minimum administrative expenses.

### *Community engagement in Budgeting Process*

To increase government effectiveness, the “Government Program 2008-2012” among priorities highlights expansion of civil society participation in governance and awareness of the system, and to enhance the transparency of the public administration system.<sup>29</sup> National legislation requires community budgets to be presented to local communities.<sup>30</sup> According to the study program implemented by the organization of “Investigative Journalist” in 60 communities of 5 marzes in 2008, the budget draft is not always presented to the discussion even to the community council. In many cases the community council approved the budget by oral presentation of the later by the head of community.<sup>31</sup> Having this in mind, there is a little to state that the implementation of the budget will unequivocally lead to the development of the community.

Besides, the same study states, that more often head of community do not consider development projects of the community in drafting the budget and do not seek for alternative sources to fund community development programs. They are more comfortable with the official transfers.

While community residents’ participation in budget process is not directly regulated by the law, public at a large should also be part of the budgetary discussions. The Law on Budgetary System, however, state that the head of community shall take care to publish draft community budget in local press within three days after presentation of it to the local council as well as facilitate the access of community members to the draft of community budget, the annual account and other documentation.

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<sup>29</sup> Government Program 2008-2012. Yerevan 2008.

<sup>30</sup> Law on Local Self Government of the RA.

<sup>31</sup> S. Petrosyan. *Transparent Local Government*, Source: <http://hetq.am/am/society/elec-usum/>

Examining the situation, it is clear to state that only few community councils that are open to a public and allow community to participate in discussions. Besides the lack of information on their rights, public also can't understand the language and formulas of budgeting process. Thus, it shall be presented to the public in "human language", so that they can grasp and create a picture of the activities they are going and aren't going to implement in coming year. As a result, the public engagement in the budgetary process will ensure more realistic budget drafting and implementation with specifically identified priorities which will support development programs in the community rather than discretionary ambitions of the head of community.



### **CHAPTER III. ACCOUNTABILITY. TRANSPARENCY AND EFFECTIVE SELF- GOVERNMENT: CIVIC SOCIETY ENGAGEMENT IN DECISION MAKING**

Decentralization is achieved and exists when local communities become involved, participate in the local budget process, express local priorities and have local officials accountable for implementing programs and budgets in a cost-effective way. Good government results when three elements – political, economic and civil – are in a balance, and actors in one cannot distort the others. Specific types of imbalance map into specific forms of government failure.<sup>32</sup>

Decentralization will not bring development unless appropriate structured system is in place that will bring discipline in the local government fiscal behavior and enables the creation of a climate conducive to private investment.<sup>33</sup> That favorable climate is possible to create through active interactions and collaboration of all stakeholders ensuring the transparency. Engagement of the community in policy-making and decision-making process will supervise and control the actions of local government and the reports on the ongoing reforms and developments will be more creditworthy.

According to Article 77.2 of the Law on Local Self-government of the Republic of Armenia, the marzpet controls the execution of the own powers in terms of legality and execution of the delegated powers in terms of professionalism. The marzpet exerts legal and professional control according to the annual plan established by the highest legal supervisory body (the Ministry of Territorial Administration). In particular cases, where the marzpet has entered into a written

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<sup>32</sup> Jean-Paul Faguet, *Governance from below: A Theory of Local Government with Two Empirical Tests*. London, September 2002.

<sup>33</sup> Paul Smoke, *Fiscal Decentralization in Developing Countries: A review of current concepts and practice*. UN *RISD*, 2001.

agreement with the Ministry of Territorial Administration, it can also implement activities not included in the annual plan.

Municipality's activities are subject to mandatory internal and external control. The main bodies of internal control over municipal activities are the head and council of the municipality. The council should form a commission from among its members to perform effective control. It can also engage the services of an external auditor. Permanent and general control over the municipality's activities is executed by the municipal head, together with heads of the municipality's units and internal audit unit.<sup>34</sup>

There is also an external control executed by the central government bodies, authorized by law to exercise such control. Article 69 of the Law on Local Self-government of the Republic of Armenia requires that the audit service must exist within the municipalities.<sup>35</sup> The legal framework for the introduction of an internal audit in municipalities and municipal organizations is stated by the Law on the Treasury System of the Republic of Armenia.

However, neither internal nor external audit is conducted on the usual basis in communities. Reasons for not performing the internal audit in urban municipalities vary: in some municipalities the internal audit is perceived as meaningless, others are not aware that internal audit is mandatory or there is a simple lack of the capacity to implement an audit.<sup>36</sup>

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<sup>34</sup> Knarik Arabyan. *Audit in the Local Self-government System of the Republic of Armenia: Legislative Frameworks and Practices*.

<sup>35</sup> The Law on Local Self-Government of RA.

<sup>36</sup> Knarik Arabyan. *Audit in the Local Self-government System of the Republic of Armenia: Legislative Frameworks and Practices*

There are two laws pertaining to the external audit: the Law on Local Self-government and the Law on Budgetary Systems. According to Articles 68 and 69 of the Law on Local Self-government, in order to constantly and effectively implement the control of budget performance, the municipal council can contract an independent auditing service.<sup>37</sup> According to Article 35 of the Law on Budgetary Systems, the annual statement of budget performance in the council session should be discussed and approved in light of a professional auditing organization's conclusion.<sup>38</sup>

According to 2005 and 2006 study, the average price of external audit in urban municipalities varies from AMD 150,000 (USD 413) to AMD 2,980,000 (USD 8,203), whereas in district municipalities it ranges from AMD 200,000 (USD 551) to AMD 4,500,000 (USD 12,387<sup>39</sup>). External audit, as an important tool for the improvement of the municipalities' accountability and transparency, does not yet serve its purposes. On average, in urban municipalities, audit performance expenses comprise only 0.22% of municipalities' budget revenues.<sup>40</sup>

Currently neither state nor local governments possess financial capacities and human resources to implement internal and external audit. To hold local governments accountable and transparent there should be mechanisms developed which can be done by empowering community members. Empowerment of community members will influence the quality, efficiency and accountability of public services through strengthening the relationship between the citizens and the government. There should be serious steps towards educating and empowering communities to talk and work

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<sup>37</sup> Law on Local Self-Government of RA

<sup>38</sup> Law on Budgetary Systems of RA

<sup>39</sup> The exchange rate is calculated based on 2009 data by the Armenian Statistical Service according to which the average exchange rate for 1 US dollar was equal to 363.28 Armenian drams.

<sup>40</sup> Knarik Arabyan. *Audit in the Local Self-government System of the Republic of Armenia: Legislative Frameworks and Practices*.

with government service providers and government officials about the performance of basic services.

In July-August 2008 Asparez Club of Reporters NGO (Gyumri) has initiated a public opinion poll. Among other issues, an attempt was made to find out the opinion of Gyumri population about the municipal local self-government. 1000 opinions recorded showed that the work of the mayor was assessed “excellent” and “good” by 10.9% and 30.3% of the respondents, respectively, and the remaining 58.8% assessed it as “satisfactory” and lower, including 6.5% stated that there was no work has been done whatsoever. Far poorer were assessments of operations implemented by the community council. 0.9% and 3.7% of the respondents assessed its activities as “excellent” or “good”, respectively, while 52.4% stated that there was no work done at all.<sup>41</sup>

Through increased information, voice and dialogue, increased accountability is sought, whereby communities are able to identify required action of power holders and hold them accountable to carry out their roles and responsibilities. Thus, community engagement is the key to sustainable development initiatives, since it will lead to a stronger and socially accountable and transparent institutions and partnerships.

The legislation of Armenia clearly provides legal foundations for local self-governmental system, defines local government’s representative and executive bodies and makes the discussions of community related issues, including budgeting formation process, open to public. However, reforms in the democratization process of Armenia have not recorded any serious achievements.

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<sup>41</sup> D. Tumanyan. *Local Self-Government reforms in Armenia, 2007-2008*. Yerevan 2009.

Continuous efforts of international organizations and NGOs failed to reach democratization at the local government level. Low capacity of local government to provide quality community service to community members remains one of the obstacles for the success of local democratization and local government. Citizens and the places where they live and work need locally sensitive and accountable services. The concerns over provided services' quality, the community expresses to the state government rather than to the local one, and does not even think that the involvement in policy-making process might improve current situation.

Before constitutional amendments in 2005, the head of community was concerned about his short-term governance and was driven by personal interests. The Law provided that the community heads could be elected for only two consecutive terms, 3 years each. With the recent amendments in the Constitution, and hence, in the Law on Local Self-Government, the head of community and the community council are now elected for 4-year term with unlimited consecutive terms. This provides that the head of the community shall be interested in performance to be elected for as long as community values his/her leadership. In this situation, the effectiveness of NGOs or other civic organizations of local government would be a priority and there will be no fears in engaging residents into a process, if this engagement can lead to the community development. Engagement of NGOs and other players will improve the quality of provided services. Local government, thus, will avoid the overlap of development programs carried out in the region by NGOs or other organizations and will benefit from the experience and outcome of the latter. The knowledge transfer arrangements should be set up to communicate requirements and receive outcomes.

Considerable increase in the quality of services provided to the public at local level, as well as ensuring feedback for their effective control has been mentioned among the priorities of the Government of the Republic of Armenia in its “Government Program for 2008-2012”.<sup>42</sup> Yet, in order to ensure that feedback is objective and fair, the society needs to be involved in all stages of that process. Apart from being a consumer, a society also needs to be a key-player in the decision-making processes. The population, representatives of NGOs and mass media do not usually use the right given them by the Law on Freedom of Information.<sup>43</sup> Moreover, media is often controlled by the local government. This deteriorates accountability on the part of local government and transparency of feedback received.

All the actors must play the role they are delegated to, as well as take into account the contribution and the interests of all stakeholders. According to the law, mayor develops a draft of community development program within three months of being elected or within two months of the formation of a new council.

“The Government’s Program aims at the sustainable and secure development of the state, by establishment of civil society, formation of an atmosphere of trust between the public and the authorities...” The trust between the authorities and public can be built through long-term and continuous cooperation between the two. The legislation of Armenia stipulates for public participation in community decision making process. However, to date there were no real steps registered towards that end. The society is not aware of the processes, procedures and their rights. On the other hand, not all local government bodies fulfill their obligations and conduct

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<sup>42</sup> Republic of Armenia, *Government Program 2008-2012*. Yerevan, 2008.

<sup>43</sup> Knarik Arabyan. *Audit in the Local Self-government System of the Republic of Armenia: Legislative Frameworks and Practices*.

hearings and discussions open to public, as oppose to what is provided by the law.<sup>44</sup> International organizations, NGOs and various interest groups took the initiative and started to educate the community members on these processes and highlight the importance of civic participation. The majority of trainings on this topic were mainly organized and supported by the following donor organizations: the European Union, the Open Society Institute, UNDP, GTZ, USAID, DFID, World Vision Armenia and others. However, despite various programs and seminars, citizens still do not fully understand, and hence, do not participate in local governance and are not aware of their rights. The problem is that those programs are mainly focused on empowering the community members through engagement in community and economic development programs, not through the engagement in decision making process. These programs do not do much for the engagement of public in decision makings. Moreover, after the closeout, the results of the seminars are being forgotten and are not developed further.

Civil society organizations and NGOs should:

- Organize trainings and education on local self governance,
- Provide assistance on coordination and networking,
- Provide trainings on financial management.

The ideal situation would be if the beneficiaries of public services and trainings would be not only community members, but also municipal servants.

The argument for engagement in decision-making process is important not only for holding the local authorities accountable and not only for the sake of transparency. The society needs to feel

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<sup>44</sup> *Isolated and Aging Villages*, Journal of articles, Hetq Investigative Journalists Association. Published by the support of OSI and World Bank. Yerevan 2006.

itself an important part of local governance and feel responsible for policy making processes within the community. The community needs to participate in development and design of the strategic plan for the community development, which should be developed among other important policy-making documents, such as community budget, community master plan, etc. Without a well designed strategic plan, with clearly stated goals and its achievement criteria, local government may waste valuable resources measuring the wrong criteria. Strategic planning provides local government with a collaborative, comprehensive plan to guide the community head and the council. A properly designed strategic plan focuses on what the community wants rather than on the preferences of the appointed or elected community officials.

In order to be able to evaluate the success of the development plan it should be planned realistically and accurately reflect local needs and the will of public. It should clearly state the goals to be achieved as well as its achievement plan. The community council should be in charge of implementation of that plan, periodically assessing the impact of the achieved results, evaluating and updating the development plan based on the needs and feedback by the local society members.

Many local governments currently operate from crisis to crisis in a reactionary mode rather than in a proactive manner. Local government authorities are usually happy with the state providing subsidies and donations and do not think of generating new sources. Formal strategic planning needs to become a part of a professional management model. Strategic planning will need to engage all stakeholders in the process including citizens, representatives of local and state government, NGOs and other interest groups in the region. The members of this strategic planning team should be carefully selected in order to avoid major disagreements on important



policy issues to allow for speedy and effective consensus reaching and decision making. At the same time all interest groups should be involved as it can result in the design of a strategic plan that does not meet important needs of community. To ensure that public interests were considered, a survey can be conducted and the results may be used as the basis for community input. Other options include using citizen and business leader's focus groups, community organization representatives, or engaging volunteers from the community to serve to the needs of strategic planning team. The important concept is to make sure all key stakeholders in the community have input into the planning process. Baseline study of the community's economic and political situation and need assessment can be done together with NGOs who have adequate experience in the area and have already conducted studies, know community priorities, its formal and informal leaders. Their input may be valuable in the research stage of the strategic planning.

General staff members from different levels shall be included in the planning process. Usually, staff is the one who responds to citizen inquiries and complaints, so they are more aware than their supervisors of the issues and concerns citizens were raising. In strategic plan, the reasonable timeline for desired outcome shall be defined. The timeline shall be realistic and designed in a way that current government tries to reach those during its term and not pass it onto the next government. The local government also needs to report back to constituents on the progress of their efforts. Communities at proximity need also to tie together their strategies and their business plans. The reasonable timeline and cooperation between communities is another mechanism for the control and supervision.

The state supervision over the local government should not be limited to the "investigation budget expenditure, which is usually the case, but it also should take measures to encourage

heads of communities toward initiatives to get the public participation in making public policies. These events should become traditions pushing forward social and political morality. This can be only achieved in a democratic government where the transparency and the public opinion are heard and taken into consideration. On May 31, 2010, the government of Armenia launched new initiative. It has introduced the website [www.e-gov.am](http://www.e-gov.am) where citizens can follow the budgeting process, implementation of the budget in interactive mode. This initiative enhances the transparency of the government spending and allows public to hold the government accountable.

It is undoubtful that gradual reforms toward more transparency and empowerment of the society will provide necessary ground for the success of self-government. The society need to learn how to make a choice and how and why to vote for a particular candidate. The society has to participate actively in planning and development processes. These efforts will eventually enable central government to transfer some functions of supervision and control to the community which will result in fostering autonomy and effective management of local government.

## **Concluding Recommendations**

After independence in 1991, Armenia adopted a series of economic, structural and institutional reforms. In 1995, Armenia adopted The Constitution of the Republic of Armenia by referendum which provided basis for public sector reforms. In December 1995, Armenia has adopted the Law on the Administrative and Territorial Division of the RA.

Based on the European Charter on Local Self-Government, in 1996 Armenia adopted the Law on Local Self-Government of Armenia, which provides theoretical and legislative framework for democratic local self-governance. The Law states that “Local self-government is the right and capacity of local self-government bodies acting at their own responsibility, to dispose of community’s property and to resolve the problems of community importance with a view to improve the well-being of the population.” The Law also states the responsibilities and autonomy assigned to the self-government bodies. However, the Law doesn’t require specific level of education and professionalism of these bodies. Most of the communities are having issues in management and financial budgeting process and central government is stepping in to help with consultancy and trainings. Trainings are usually refused by community councils. As a result, the regional governors, appointed by the central government, often go beyond the consultancy and intervene in managing and budgeting processes of the community causing imbalances between the real need of the community and ambitions of the marzpet.

In 2001 Armenia ratified the European Charter on Self-Government which requires a high degree of fiscal decentralization. Fiscal decentralization itself is not the goal. Decentralization should allow local government to engage public in decision-making and budgeting processes provided

that the degree of economic and political dependence on central government is not high.

Decentralization provides basis for transparent and accountable local self-government.

Following are the recommendations to achieve efficient self-sustainable and accountable local self-government:

1. More elected officials: changes in the Law on Local Self-Government that will lead to the election of the marzpet.
2. Changes in the Law on Local Self-Government that will require specific education and experience of the positions head of the community, community council.
3. Regular training, teaching seminars and exchange programs for local government bodies
4. Capital development grants to increase capital fund of communities and provide more resources for revenues
5. Access to national credit market which will help to engage more financing and decrease the dependence from central government
6. Changes in new tax proposed for local governments to provide new revenues for community budget
7. Community engagement in Budgeting Process to ensure realistic budget drafting and budget implementation with identified priorities to support development programs in the community
8. Raising awareness of the public on local self-government processes which will empower the society to actively take part in decision-making process and to make rational choices
9. Mandatory development of strategic plans to ensure that community has a vision and mission not just a set of problems to solve

10. Engagement of civil society and NGOs in decision-making and implementation processes which will eventually lead to accountable local government.

Thus, the development of autonomous local self-governments is critical to establish democracy.

In Armenia, the goal of creating autonomous local self-governments has not been achieved.

Continuous reforms and changes in institutions, legislation and perceptions of society, society's engagement in policy-making and decision-making process through the provided recommendations are guarantee for establishing long-term success of autonomous and transparent local self-government.

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