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Shelter Sector Reform Project
Newly Independent States of the Former Soviet Union

An ICMA Report

Prepared for the Office of Housing and Urban Programs
Agency for International Development

Making Cities Work

ICMA
International
Municipal
Programs

Proposed Local Government Technical Assistance Action Plan

Armenia

August 29, 1996

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ABSTRACT

This is an Action Plan prepared by Philip Rosenberg, ICMA Consultant, under Task Order No. 117 which presents a technical assistance strategy designed to enhance local government budgeting and financial management (BFM) capacity in Armenia and to facilitate the implementation of the Law on Local Self Government (Law).

PROPOSED LOCAL GOVERNMENT TECHNICAL ASSISTANCE ACTION PLAN

DRAFT

This draft action plan presents a technical assistance strategy designed to enhance local government budgeting and financial management **(BFM)** capacity in Armenia and to facilitate the implementation of the Law on Local Self Government **(Law).**

The Law imposes a number of new requirements on local government that will require municipal officials to develop new BFM skills, responsibilities and processes. Improving the BFM skills of local officials is an essential ingredient to the long term fiscal vibrancy and the livability of communities. Better methods for making informed decisions must be developed.

A LOCAL GOVERNMENT BFM CAPACITY BUILDING PROGRAM

Efforts must be directed on institutionalizing management skills that allow local officials to make the best possible budget decisions. The consultant proposes establishing a Local Government BFM Capacity Building Program. Through this initiative effort, locally appointed and elected officials can do the following:

- Understand and implement the basics of good budgeting and financial management;
- Use the budget process to develop local fiscal policy;
- Relate urban plans to fiscal realities;
- Strengthen the accountability and productivity of enterprises subordinate to the municipality;
- Enhance opportunities to tie capital investments to municipal strategies;
- Establish a data base of financial and non-financial information on municipal operations and program performance and report their findings to the central government, marz, citizens, department head,s and other users of financial information;
- Build municipal capacity to evaluate the effectiveness and efficiency of government operations;

- Determine the actual impact and results of budgetary decision; and
- Assess how the quality of life within the community changes as a result of improved management.

REALITIES OF A FEASIBLE ACTION PLAN

This is a period of transition. There are a myriad of central government and local government decisions to be made that affect municipal revenues, expenditures and management.

Each city is different and cities are different from villages.

Local official's skills and capacities vary greatly. Furthermore, mayors and councils are yet to **be elected.**

Lack of knowledge about the impact of the Law on local practice and procedure. Local officials have not developed a strategy to implement the Law.

No prior experience. Local governments have limited BFM skills, capacities and technologies (such as computer applications). Newly elected mayors and councils, some of whom may have no local government experience, will be making BFM policy decisions for the first time.

Shortness of time to implement the Law. Local elections take place November 10. FY 97 budgets are due by December 31. Develop quick and immediate basic products to get the process going.

Allow municipalities time to implement the Law before providing technical, sophisticated products. Provide written products built around basic BFM concepts (see below). Allow municipal officials time to gain practical experience managing under the Law before providing sophisticated products and training. This will make the technical assistance more meaningful to the audience.

Positive change will take several years. An action plan must recognize that it will take time for local governments to bring about BFM reform. Mistakes will be made along the way. Throughout this process, the central government should focus on supporting local officials, rather than focusing on their mistakes.

TARGET PRODUCTS TO SPECIFIC AUDIENCES/CONSTITUENTS

Given this environment, the action plan identifies strategies that recognize the diverse audience. Products should focus on the unique needs of each of the constituents identified in the matrix below.

TYPE OF LG/ FUNCTION	CITY EXISTING LEADERSHIP	VILLAGE EXISTING LEADERSHIP	CITY NEW LEADERSHIP	VILLAGE NEW LEADERSHIP
MAYOR	Define Needs Products	Define Needs Products	Define Needs Products	Define Needs Products
COUNCIL	Define Needs Products	Define Needs Products	Define Needs Products	Define Needs Products
BUDGET/ FINANCE	Define Needs Products	Define Needs Products	Define Needs Products	Define Needs Products
DEPARTMENTS	Define Needs Products	Define Needs Products	Define Needs Products	Define Needs Products
ENTERPRISES	Define Needs Products	Define Needs Products	Define Needs Products	Define Needs Products

AREAS OF CONCENTRATION

Basic and advanced areas for which technical assistance may be provided include:

Basic

- Complying with the Law
- Administration and Organization of the Budget/Finance Function
- BFM Roles/Responsibilities (Mayor, Council, Budget/Finance Officer, Departments, Enterprises)
- Developing Local Fiscal Policy
- Fundamentals of Municipal Budgeting (principles, forms, procedures, budget document, implementation, control, monitoring & evaluation)

- Budget Analysis/Priority Setting Revenue Alternatives - Fees and Charges
- Revenue Alternatives - Fees and Charges
- Revenue & Expenditure Forecasting
- Budgetary Accounting
- Financial and Non-Financial Reporting
- Citizen Participation in the Budget Process
- Multi-year planning
- Computerization
- Intergovernmental Relations - Marz/Central Government

Advanced

- Strategic Planning
- Advanced Budget Practices - Program Budgeting, Performance Budgeting, Zero Based Budgeting
- Community Demographic, Economic and Fiscal Indicators & Evaluating Municipal Fiscal Condition
- Developing Program Outputs and Objectives
- Program Evaluation and Performance Measurement
- Data Base Establishment, Data Collection, Analysis
- Capital Planning, Programming & Budgeting
- Cost Accounting/Cost Finding
- Life Cycle Costing

- Cost Benefit Analysis
- Community Survey Techniques

GENERAL PRODUCTS

All technical products will be practical and focus on the real world needs of elected officials and practitioners. Products will be based on best practices in BFM. Products will include:

- Written products - manuals, how to guides. case studies
- General Training - built around various modules (budgeting basics, etc.) - held at regional locations.
- Detailed Training - Work with core of 10-15 cities to bring about real, substantive change through classroom and on-site technical assistance.

SPECIFIC WRITTEN PRODUCTS

It is suggested that the following written products be developed.

- **Basic guide explaining the Law.**
- A ***Citizens' Guide to Budgeting*** that will explain, in terms easily understood by a layperson, what a budget is and the role citizens have in municipal budget formulation.
- **Basic guides or brochures** on key BFM areas designed to meet the needs of elected officials. For example, brochures on the elected official's role in budgeting; the budget process; capital planning and budgeting; how to read a financial report; communicating the budget to citizens; and other easy to read documents oriented to their needs.
- **Technical manuals** for finance officers on BFM topics (see above). Separate manuals will be written for each of two audiences: (1) largest sophisticated cities where the finance officer has experience - these manuals will incorporate the advanced concepts listed above; and (2) villages and other cities - these manuals will incorporate the basic concepts listed above.

TRAINING PRODUCTS

Provide four levels of training as follows:

- **Road Shows** - A series of seminars held around the country to explain the law and its

implications for local government and local officials.

- **General Training for Technical Staffs** - Separate training (roles, responsibilities, practices) on BFM for finance directors and municipal enterprises in the form of 2-3 day seminars on topics identified as basic and advanced. Training will be based on the basic manuals described above.

- **Detailed Training and On-Site Technical Training** - With a core group of the 10-15 largest cities, provide detailed training built around the basic and advanced topics identified above. This training will take the form of several two-day sessions spaced over a nine month period. The training experience will be intense, relying on case study methods. Each city will enter into an agreement with ICMA to commit staff to this effort. Specific workplans identifying expected results for each city will be developed. For example, a city may want to develop a program budget. In such a case, on-site technical assistance provided by an ICMA expert will supplement the workshop experience.

Note: the core circle of cities can be expanded in future years to add new cities. Officials from the first group of cities can serve as experts for future year training and on-site assistance (see below).

INSTITUTIONALIZE TECHNICAL ASSISTANCE EXPERTISE

Link U.S. technical assistance experts to locally based Armenian experts. In this scenario, the U.S. experts will work with the Yerevan ICMA office to create a BFM presence within Armenia by training and overseeing a cadre of Armenian experts who will work with local governments on various BFM topics and issues. Experts may come from a variety of disciplines.

Local experts will, in conjunction with U.S. experts and ICMA, be responsible for the following:

- Provide on-site technical assistance;

- Offer various forms of training and seminars;

- Develop how- to manuals and model budgets;

- Under the auspices of ICMA, serve as the focal point for an association of Armenian local officials. This association will be a network for sharing information, identifying issues of common concern, disseminating products of common interest, holding meeting on topical issues, etc.

TIME PERIODS

November 10 - Law takes effect, newly elected officials voted into office

September 1 - November 30: Develop a basic guide explaining the Law and what it means for municipal officials.

December 10 - 15: Conduct a series of road shows explaining the Law and provide basic guides.

January 1 - February 28: Develop basic guides (approximately 6) for elected officials and citizens.

January 1 - March 30: Develop basic and advanced technical manuals (cities/villages).

February 1-28: Identify core of 10-15 largest cities for detailed training.

March 15: Hold kick-off meeting with core group.

April 15-30: Conduct training for cities/villages on basic BFM.

April 20 - Dec 20 (approx.): Commence series of seminars with large cities.

ATTACHMENT I

OBSERVATIONS ON EXISTING ENVIRONMENT

OBSERVATIONS ON EXISTING ENVIRONMENT

- LOCAL SELF-GOVERNMENT IS A GOOD THING - THE LAW REFLECTS THIS - accountability, decision making - but has profound impact on LG budget /management practices

- SMALL & LARGE COMMUNITIES NEEDS ARE DIFFERENT - NEEDS OF CITIES WITH NEWLY ELECTED OFFICIALS WILL BE DIFFERENT

- VISION OF BUDGET/BUDGETING VARIES, 2 sheets - is this a budget? compiler role, no capital budgeting, is the budget a policy statement, communication tool, financial plan, no priority setting?

- NO INTERNAL PRACTICES & PROCEDURES - expertise limited, no one has done real budgeting, no local fiscal policies, dept. heads make high estimates, no cash flow analysis, no cash budgets, no strategy, no real evaluation of enterprise budgets, no evaluation - did we make smart investments?

- NEW LAW IS OPPORTUNITY TO LINK BUDGET TO PLANS - done in a vacuum (e.g.. responding to the CG normatives, new law has 3 yr. view)

- LOCAL OFFICIALS WILL MOVE FROM REACTOR TO INITIATOR

- NEWLY ELECTED POLICYMAKERS MAY HAVE NO EXPERIENCE - no history, who will they appoint,

- INHERITING INADEQUATE CAPITAL ASSETS - CONDITION, MANAGEMENT, REVENUE COLLECTION

- LACK OF KNOWLEDGE ON MANAGING "NEW" SERVICES/ FACILITIES - integrating new enterprise priorities with muni priorities

- CAPACITY TO FINANCE MANDATED SERVICES & CAPITAL INVESTMENTS IS LIMITED

- TIME TO IMPLEMENT THE LAW IS LIMITED- NOV. 10 - JANUARY 1 - THERE IS NO LOCAL STRATEGY, will take 3 years to really implement, skills, practices, trial and error

- INADEQUATE SYSTEMS TO MONITOR AND EVALUATE ENTERPRISE FISCAL & PROGRAM PERFORMANCE - inadequate revs - no capital inv.

- NEW TECHNOLOGIES/SKILLS REQUIRED- COMPUTER, MULTIYEAR PLANNING, FORECASTING, REPORTING, CASH FLOW ANALYSIS, POLICY & DATA ANALYSIS, ETC.

ATTACHMENT II

THINGS TO THINK ABOUT

THINGS TO THINK ABOUT

SEPARATE STRATEGY FOR LARGE & SMALL COMMUNITIES

TIME IT WILL TAKE TO IMPLEMENT/EXPECTED RESULTS

TIMING OF APPROVAL OF CG BUDGET VIS A VIS LG BUDGET

ENHANCE TIMING AND PREDICTABILITY OF RECEIPT ON CG TRANSFERS

WHO DO LOCAL OFFICIALS CALL WITH PROBLEMS?

DEVELOP "HOW TO" GUIDES ON IMPLEMENTATION

HOLD SEMINARS/TRAINING

ENCOURAGE LINKING BUDGET TO COMMUNITY ECONOMIC PLANS

ENCOURAGE LOCAL REVENUE DIVERSIFICATION

FACILITATE DEVELOPMENT OF LOCAL FISCAL ANALYSIS & POLICY

ATTACHMENT III

URBAN DEVELOPMENT OPPORTUNITIES

URBAN DEVELOPMENT OPPORTUNITIES

- THE LAW IS INNOVATIVE - LINKS MONEY, PLANNING, LOCAL MANAGEMENT & CAPITAL RESOURCES

- LOCAL GOVERNMENTS ARE DIFFERENT - VILLAGES CITY

- VISION OF BUDGETS/BUDGETING DIFFERS - POLICY, FINANCIAL PLAN, COMMUNICATION TOOL, OPERATIONS STATEMENT

- LOCAL DECISION MAKING TO SOLVE LOCAL ISSUES/ NEEDS/ PRIORITIES

- FOSTERS LONG TERM PLANNING/REQUIRES A REALISTIC PLAN BALANCED BY FISCAL REALITIES - NO BLUE SKY PLANS

- LINKS PLANNING, HOUSING, PHYSICAL DEVELOPMENT, SERVICE DELIVERY, FINANCE EXPERTS UNDER THE MAYOR - NO LONGER PARALLEL TRACKS - OPPORTUNITY TO BRING THE COLLECTIVE EXPERTISE TOGETHER WITH A COMMON FOCUS

- LINKS FINANCIAL PLANNING TO URBAN PLANNING - TO BRING MORE REALISM TO THE 3 YR. PLAN

- INTEGRATES PHYSICAL, SOCIAL, & MUNI SERVICE NEEDS TO TARGETED AREAS - A HOLISTIC STRATEGY

- **ENHANCES OPPORTUNITIES - ECONOMIC DEVELOPMENT - ENTREPRENEURS**

- **NEW TECHNOLOGIES/SKILLS REQUIRED- COMPUTER, MULTIYEAR PLANNING, FORECASTING, CASH FLOW ANALYSIS, POLICY & DATA ANALYSIS, ETC.**

- **OPPORTUNITY FOR LOCAL CREATIVITY - TO SET UP REVOLVING LOAN FUNDS**

- **IT WILL TAKE TIME TO IMPLEMENT**

ATTACHMENT IV

MEMORANDUM AUGUST 30, 1996

Memorandum

To: Mr. Chuck Johnson

Through: Mr. Steve Anlian

From: Philip Rosenberg, Municipal Finance Advisor

Date: August 30, 1996

Subject: Interim Trip Report

The following is a brief report on the Municipal Finance Advisor's (MFA) activities for the period August 14 through August 29.

The primary purpose of the MFA's visit is to develop a technical assistance action plan that will enhance local government capacity to meet the spirit and intent of the Law on Local Self-Government. Input to the plan includes municipal case studies based on interviews with national and local officials on the implications of implementing the new Law. This includes an analysis of municipal responsibilities pursuant to the new Law versus the financial resources available to municipalities to carry out their responsibilities.

This report includes findings and observations based upon: (1) interviews with Armenian ministry and parliament officials; (2) field trip case studies to three diverse local governments - City of Vanadzor, Debet Village, Erebuni District; (3) interview with Lori Marzpet; (4) interviews with regional Treasury officials; and, (5) review of local and central government budgets, laws, edicts, etc. Attached to this report are various products prepared by the MFA during his visit.

SCOPE OF INQUIRY

The consultant collected and evaluated information related to the following:

- The structure of Armenian local government;
- The relationship between local government, marz, regional treasury offices, and the central government ministries;
- Within a local government, the relationships between the mayor, finance officer, city departments, and enterprises subordinate to the municipality;
- The budgetary and financial management practices and procedures used by the local governments including: budgeting; budget formats; forecasting; accounting standards; accounting; revenue collection; payables; financial reporting; financial controls; recordkeeping;

- Local government revenue and expenditure patterns as they presently exist and as they are likely to exist when the Law on Local Self Government takes effect;

- Local and national officials' vision of existing and future municipal budgeting and financial management needs, financial capacity and fiscal flexibility, skill levels, perceptions of the new law and its impact, etc.; and

- Perceived technical assistance needs to enhance local government management capacity.

Sample documents collected include: central government normative standards for local government budgetary allocations; drafts of the proposed Budget Law and Treasury Law; local budgets; financial reports to central government; municipal organizational charts; and financial reports.

In addition to the above activities, the MFA made presentations at two one-day Seminars on his case study findings and the implications of Law on Local Self Government for local government. The first seminar, which was convened by the Minister of Territorial Administration and the Minister of Finance, focused on financial relations between the central government and local government. The second seminar, which was convened by the Minister of Territorial Administration and the Minister of Urban Development, focused on relations between the central government and local government in urban development. Outlines of each of these presentations are attached.

MAJOR ISSUES, PROBLEMS AND CONSTRAINTS

This is a period of rapid transition in municipal budgeting and financial management responsibility in Armenia. Local budget and financial management control is a new concept in Armenia. It is a concept that is fraught with limited financial resources, uncertainty about what one can and cannot do under various laws and central government edicts, a lack of clarity about local revenue sources for FY 97, and limited municipal budgetary and financial management expertise. Funding decisions will rest with the mayor and local council. These allocations must be in accordance with requirements established by the central government.

Thoughts and observations to date include (see also Mark Gallagher's observation with which the MFA concurs):

- There are significant differences between cities and villages (fiscal capacity, skills, needs, service provision, etc.); however, except for Yerevan City, the Law on Local Self Government treats all local governments equally.

- There is ambivalence about the relationship between the marz and local government.

- The central government envisions some 914 local governments. The annual budgets in very small villages may approximate $1000+-, per annum. Establishing so many small governments, with limited budgets and responsibilities, is inefficient and costly.

- Local governments have no strategy to implement the Law.

- While the new Law delegates local budget authority to the mayor, *real* local budget autonomy will be an illusion. The central government will continue to set normative standards for the minimum level of service municipalities must provide. Most municipalities do not have the fiscal capacity to meet these normatives. Central government subsidies will be required. Therefore, the municipal budget will reflect central government standards, not local priorities.

- The vision of budget/budgeting is narrow. The municipal budget is 2 pages - revenues and expenditures. The format is commodity driven. Budget preparation, analysis and document development reflect the financial control orientation of central government reporting requirements.

- Budget expertise and practices are limited. Those charged with budgetary stewardship have limited expertise in the craft of municipal budgeting, budget formats, budget reform, implementation, monitoring and evaluation, forecasting, capital budgeting, etc. There simply is no history of local government budgeting upon which skills can be institutionalized. Examples: Forecasting techniques are poor - revenue and expenditure patterns reflect this. There are no guiding local fiscal policies. Budget negotiation with municipal departments and enterprises has no focus except to respond to central government normatives. Revenue collection is characterized by high, unacceptable, delinquency rates. Poor cash flow analysis forces local governments to cut or accelerate activities.

- Local revenues are inadequate to finance any infrastructure activity. None of the three jurisdictions visited had undertaken infrastructure projects in at least the past 3 years. While the new law gives municipalities borrowing authority, they lack the fiscal capacity to access credit markets.

- Budgeting is constrained by uncertainty over the amount and timing of the receipt of the central government transfers.

- The new Law states that local budgets must be adopted after passage of the national budget. In FY 96, the central government budget was not passed until May (the fiscal year is January 1 - December 31). If this pattern continues, it will adversely affect local government's ability to use the budget as a planning process.

- Municipal governments will inherit water, sewer and hot water systems that are old, inefficient, and exhibit significant fee for service delinquencies.

- A considerable portion of the municipal budget is carried out by enterprises subordinate to the local government. These organizations typically provide public works and utility type activity. Little local accountability is required from them. Since the budget does not require a definition of anticipated outputs or results, there is no effective way to monitor performance.

- Computerization is non existent in the local governments visited.

- New technologies/skills are required- computer, multiyear planning, forecasting, reporting, cash flow analysis, policy & data analysis, etc.

- The effective transition to local self government is a multi year process (5 years perhaps). The central government should take a supportive role throughout this transitional period.

- Essential to the smooth transition to local self government is the provision of technical assistance that will help local officials make smarter budget decisions. Training, *how to* manuals, policy papers, illustrations of successful approaches that local governments have actually undertaken, must be documented and disseminated. At the August 30 meeting of the Committtee on Local Self-Governments, Minister Barseghian asked that a financial management manual be prepared based on the MPA's Finanncial Management Guidelines (Attached). At the suggestion of MFA, Minister Barseghian also agreed that Guidelines should also be written for locally elected officials.

- The central government must develop a technical assistance strategy to smooth the transition to local self government (see the MFA's draft technical assistance Action Plan).

- Create an association of local government officials that fosters education and training, information sharing and dissemination, and peer to peer contact, etc. Such an association could also facilitate the dialogue between the central and local levels of government, and take the lead in future constitutional reforms.

There are many positives to the Law on Local Self Government that this report does not go into. However, simply passing the Law is not going to solve the complex problems that exist. There are many obstacles to overcome. Municipal governments must strengthen their management and planning capacity, regardless of the shortcomings. Indeed, the localities must position themselves to have a management plan of action to meet current needs, unexpected events and take full advantage of future opportunities.

cc: Mark Gallagher, Intergovernmental Fiscal Relations Advisor