PROCEEDINGS
OF THE
NATIONAL FORUM ON LOCAL SELF-GOVERNMENT

National Academy of Sciences
Yerevan, Armenia

April 8–10, 1996

Convenors

The Honorable Edward Yegorian
Chair of the Standing Committee on State Legal Issues
National Assembly of the Republic of Armenia

The Honorable Ruben Barseghian
Minister of Territorial Administration
Republic of Armenia

Sponsors

International City/County Management Association
United States Agency for International Development
The World Bank

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LOCAL SELF-GOVERNMENT

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April 8–10, 1996

Prepared for

Bureau for Europe and the Newly Independent States
Office of Environment, Energy, and Urban Development
Urban Development and Housing Division

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EXECUTIVE SUMMARY

NATIONAL FORUM ON LOCAL SELF-GOVERNMENT

EXECUTIVE SUMMARY

The National Forum on Local Self-Government was held April 8–10, 1996, at the National Academy of Sciences of the Republic of Armenia. About fifty Armenian Government and legislative officials participated in the Forum. The purpose of the Forum was to design the relationship between central and local governments and the means of paying for the local government service and infrastructure responsibilities.

The Republic of Armenia adopted a new Constitution on July 5, 1995, setting forth a new organization of central and local authorities. This aspect of the Constitution is being implemented by four laws.

The first two of these laws were adopted late in 1995, establishing regional administrative authorities of the central government, the "Marz." A third law, the "Law on Election of Officials of the Local Self-Governments," was pending at the time of the forum. It will set the procedures for conducting elections of these officials on November 10, 1996.

The final law, which was the subject of the Forum, is the "Law on Local Self-Government." The Forum was designed to help Government and legislative officials to prepare this law for presentation to the National Assembly shortly after the Forum; and to outline training, fiscal and other implementation measures which would also be needed.

Ruben Barshegian, Minister of Territorial Administration, and Edward Yegorian, Chairman of the National Assembly Standing Committee on State Legal Issues, convened the Forum. It was sponsored by the International City/County Management Association with support from the United States Agency for International Development ("USAID") and The World Bank, which is working closely with the Government of Armenia on financing of municipal services and infrastructure.

Participants in the Forum began by considering what functions should be assigned to local governments and what interests the central government might have in exercising control or oversight of these functions. Presentations drew heavily upon international models of local government organization, including the federal model of the United States, the unitary model of France and the forms of local government being adopted by countries of Central and Eastern Europe and the former Soviet Union which are undergoing a civic and economic transition similar to Armenia's.

The Forum also considered how to finance the responsibilities which would be assigned to local governments. Fiscal issues included methods of allocating and sharing revenue sources, as between the central and local governments, and methods of financing infrastructure improvement.

EXTRACT FROM
THE CONSTITUTION OF THE REPUBLIC OF ARMENIA

(Adopted on July 5, 1995)

Chapter 7 Regional Government and Local Self-Government

Article 104. Administrative territorial units of the Republic of Armenia are **regions** ("marz") and **communities** ("hamaink"). Regions are comprised of rural and urban communities.

Article 105. Local self-government takes place in the communities. Bodies for local self-government, **community council** ("elders") with five to fifteen members, and the **head** of the community, are elected for a three-year period to administer community property and solve issues of community significance. The community leader forms his own staff.

Article 106. The community council, upon the presentation by the community head ("ghekavar," either village head or city head, i.e. mayor) ratifies the community budget, oversees the implementation of the budget, and fixes local taxes and payments in accordance with the procedures provided for by the law.

Article 107. The State Government maintains a position in the regions. In the regions, the Government appoints and dismisses regional governors ("marzpets") who implement the Government's regional policy and coordinate the activity of regional services with the Republic-level executive bodies.

Article 108. The City of Yerevan has the status of a region. The President of the Republic, upon presentation by the Prime Minister, appoints and dismisses the Mayor of Yerevan. Local self-government takes place in Yerevan in district communities.

Article 109. Upon the presentation of the regional governor, the Government, in cases provided for by law, can remove the community head from office. In the case of the removal of a community chief by decision of the Government, special elections are held within thirty days. Until the newly-elected community head assumes his duties, the Prime Minister appoints an acting urban community head and the regional governor appoints an acting village community chief.

Article 110. The election procedure and powers of bodies of local self-government are fixed by the Constitution and by law.

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Minister of Territorial Administration
Republic of Armenia

Unavailable on Internet

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I

SUMMARY OF PROCEEDINGS

NATIONAL FORUM ON LOCAL SELF-GOVERNMENT

SUMMARY OF PROCEEDINGS

In early April 1996, fifty Armenian Government and legislative officials conducted a National Forum on Local Self-Government to design the relationship between central and local governments and the means of paying for the local government service and infrastructure responsibilities.

The Republic of Armenia adopted a new Constitution on July 5, 1995. It sets forth a new organization of central and local authorities, consistent with the new political and economic order which has existed in the Republic since its founding in 1990. Four laws implement the structural arrangement outlined by the Constitution:

- *The Law on Territorial Administration* (enacted in November 1995). This law consolidated the Republic's thirty-eight administrative districts into eleven units, ten "Marz" and the capital city of Yerevan. Each administrative units is directed by a "Marzpet" or Regional Governor. (The administrator of Yerevan is alternately described as "Mayor.")
- *The Law on Transitional Provisions of Local Self-Government, Regulations of Relations between Local Self-Government Bodies and the Central Government* (enacted in December 1995). This law, supplemented by a Presidential Decree *On Structure and Rules of Procedure of the Government of the Republic of Armenia* (issued in January 1996), elaborates the duties of the Marzpet and sets November 10, 1996, as election day for the governing bodies of the new local governments.
- *The Law on Local Self-Government* (in draft form, pending in the Standing Committee on State and Legal Issues of the National Assembly). This draft law defines the duties and administrative structure of local governments and their relationship to the Marzpets.
- *The Law on Election of Local Self-Government Officials* (passed first reading in the National Assembly in March 1996; scheduled for final adopting in May 1996). This law sets forth the method of conducting elections of local government officials.

Since last Fall, the International City/County Management Association ("ICMA") has been advising the Government and National Assembly on technical issues related to local government organization and finance. As the Armenian drafters finalized the *Law on Local Self-Government*, they expressed the need to consider a variety of international models. These would include the federal model of the United States, the unitary model of France and the forms of local government being adopted by countries of Central and Eastern Europe and the former Soviet Union which are undergoing a civic and economic transition similar to Armenia. This request led to the National Forum on Local Self-Government.

Ruben Barseghian, Minister of Territorial Administration, and Edward Yegorian, Chairman of the National Assembly Standing Committee on State Legal Issues, convened the Forum. It was sponsored by ICMA with support from the United States Agency for International Development ("USAID") and The World Bank, which is working closely with the Government of Armenia on financing of municipal services and infrastructure. About fifty officials of the Government, Marz, National Assembly and several existing local governments attended the Forum. Section II of this report contains a list of participants.

The Forum was to provide Armenian Government and legislative officials with insights into organizational and financing issues related to the draft Law, and to help these officials anticipate training, financial and other measures which will be needed to implement the law.

Historic Transition in Local Government

Each nation shapes its local government system to fit its particular circumstances. Armenia's characteristics weigh heavily toward centralized administration. It is a small and homogeneous republic, about the physical size of Maryland. In addition, the central government has traditionally exercised strong policy and fiscal control over local services. However, beginning with Armenia's establishment as an independent state, the nation has undergone a historic political and economic transition.

Before 1990, the Local Councils delivered services in the cities, towns and settlements of Armenia. These units of government were linked to the central government through a political hierarchy, rather than an intergovernmental structure. The central/local relationship which existed in that time is very different from that which is envisioned by the current Constitution.

The new Constitution adopts a "two-tiered" governmental organization. One tier is the national government, which determines policy and sets standards on matters of national importance. Central government programs are adapted to local needs by regional administrative extensions of the central government in the Marz.

The second tier is composed of units of local self-government. This tier performs functions which are distinct from the central government, and is vested with locally elected policy-making authority over these functions. The creation of a unit of local government which exercises distinct authority represents a significant step in civic restructuring.

Economic restructuring also is a powerful force that is re-shaping Armenia's governmental system, particularly at the local level. Privatization and an emerging market economy have shifted capital and many types of enterprise from the public to the private sector. This changes the role of government, in two important respects.

Certain functions which were previously performed by government, such as housing, are being transferred to the private sector. While housing services were one of local government's largest responsibilities in the former system, most housing is now privately owned and the communal services which were formerly provided by local governments are now the responsibility of private owners.

Second, a growing proportion of enterprises and land resources are owned by the private sector. In the past, the government was responsible for virtually all construction and business activity, but this role is undergoing dramatic change. Rather than managing construction, government will regulate private construction through building codes and zoning. Rather than operating small businesses, it will administer health and safety regulations and will influence private business activity through taxes and other economic policies.

In this new situation, Community Councils must be "consumer-oriented," since a large share of their resources is derived from taxes and fees. As such, local legislative bodies assume a new role, deciding what services to provide in light of the local population's willingness to pay.

Therefore, the civic and economic transition of the past five years has fundamentally changed the relationship between the central and local governments, as well as the role which government plays in cities and towns.

Assignment of Functions and Revenue to Local Governments

Participants in the Forum began by considering what functions should be assigned to local governments and what interests the central government might have in exercising control or oversight of these functions.

In reviewing each governmental function, they addressed three distinct, but related, questions: *Who decides?* (sets policy), *Who executes?* (administers) and *Who controls?* (establishes standards and assures equity). In addressing these issues, they considered criteria such as operating efficiency, existence of a national interest, the need to adjust to local conditions or exercise local choice, and the need to ensure inter-regional equity:

The second half of the Forum considered how to finance the responsibilities which would be assigned to local governments. Assignment of a function or responsibility to local government will not accomplish its purpose unless the assignment is supported by the fiscal means of performing the responsibility.

There are three basic methods of funding local services and infrastructure: taxes and fees (either shared by the central and local governments or dedicated to local use); "piggybacking" of local and central revenue sources and transfer payments by the central to the local government. The following are important considerations in selecting among these methods:

- *Stability and predictability*: To the extent that local governments rely upon intergovernmental transfers, the amount of revenue to be received by the local government should be dependable and predictable. This enables local governments to plan beyond the current budget year.
- *Equalization*: Services are often funded by revenue transfers from the central government in order to adjust for differences among localities in their relative fiscal capacities. This is an especially important consideration in providing essential public services and social welfare support.
- *Consistency with macro-economic goals*: The sharing and assignment of revenue sources, as between the central and local governments, should be such that the revenue collection will not adversely affect achievement of economic goals. For example, duplicative taxation of business profits can result in tax evasion or create a disincentive for business development.

A significant amount of time was spent discussing means of financing infrastructure improvements. Frequently, local government is charged with responsibility for installing and maintaining infrastructure such as water distribution facilities. It should be equipped with the ability to pay for and recover capital expenditures for such purposes. This should also include borrowing capability.

Design of the National Forum

The Forum was timed to help Armenian officials refine the *Law on Local Self-Government*. Therefore, the design of the Forum involved two steps, (a) presentation of the principles of decentralization and the application of these principles to a variety of international models, and (b) participants' discussion of how these principles apply to key elements of the draft law.

ICMA consultant Richard M. Kobayashi and World Bank consultant Anne Sinet led the presentations of decentralization theory and application. USAID/ICMA legal expert Richard E. Winnie moderated the Forum and was responsible for relating the principles to legal and structural reform efforts in Armenia.

This report on the proceedings of the Forum presents summaries of the major presentations during the Forum. The presentations drew heavily upon published works of the World Bank, particularly volumes edited by Robert J. Bennett of the London School of Economics. Several publications of TACIS, the European Union's technical assistance agency, were sources of data used in the program. Excerpts and illustrations from these works are included in the Appendices of this report.

II

PARTICIPANTS IN THE FORUM

NATIONAL FORUM ON SELF-GOVERNMENT

LIST OF REGISTERED PARTICIPANTS

April 8-10, 1996, Yerevan

	Name	Title
1.	G. Voskerchian	Head of Abovian City Council
2.	V. Ayvazian	Head of Charentsavan City Council
3.	A. Babajanian	Head of Stepanavan City Council
4.	N. Martirosian	Deputy Minister of Finance of the ROA
5.	D. Hambartsumian	Deputy Head of the Department at the Ministry of Finance of the ROA
6.	V. Movsesian	Deputy Minister of Finance of the ROA
7.	R. Haroyan	Department at the Ministry of Economy
8.	Sirekan Ohanian	Head of the Department of Urban Policy and Earthquake Zone Issue at the Government Apparatus
9.	H. Grigorian	Marzpet of Aragatsotn
10.	D. Zadoyan	Marzpet of Ararat
11.	S. Hovhannisian	Marzpet of Armavir
12.	R. Ghukasian	Deputy Marzpet of Gegharkunick
13.	H. Hovhannisian	Marzpet of Kotaick
14.	H. Matinian	Marzpet of Lory
15.	P. Makian	Deputy Marzpet of Shirak
16.	R. Alaverdian	Representative of theMarzpet of Siunick
17.	P. Asatrian	Marzpet of Taush
18.	A. Mirzoyan	Mayor of Yerevan
19.	E. Yegorian	Chairman of the Standing Committee on State Legal Issues of the National Assembly
20.	Khosrov Harutiunian	Member of the Standing Committee on State Legal Issues of the National Assembly
21.	David Harutiunian	Member of the Standing Committee on State Legal Issues of the National Assembly

	Name	Title
22.	Vigen Khachatrian	Member of the Standing Committee on State Legal Issues of the National Assembly
23.	H. Manukian	Member of the Standing Committee on State Legal Issues of the National Assembly
24.	Sos Gimishian	Member of the Standing Committee on State Legal Issues of the National Assembly
25.	H. Naghdalian	Member of the Standing Committee on Financial-Budgetary and Economic Issues of the National Assembly
26.	Kh. Safarian	Member of the Standing Committee on Financial-Budgetary and Economic Issues of the National Assembly
27.	R. Barseghian	Minister of Territorial Administration of the ROA
28.	A. Mkrtchian	Assistant to the Minister of Territorial Administration of the ROA
29.	G. Azarian	Head of Staff of the Ministry of Territorial Administration of the ROA
30.	K. Amian	Senior Specialist of Staff of the Ministry of Territorial Administration of the ROA
31.	R. Manukian	Senior Specialist of Staff of the Ministry of Territorial Administration of the ROA
32.	A. Khudaverdian	Head of the Department of Territorial Administration at the Government Apparatus
33.	T. Petrosian	Deputy Head of the Department of Territorial Administration at the Government Apparatus
34.	G. Zackarian	Head of a Subdivision at the Department of Territorial Administration at the Government Apparatus
35.	A. Yervandian	Head of Nalbandian Village Council in Armavir Marz
36.	A. Tamazian	Deputy Director of the Scientific Research Institute of Economic Problems
37.	Gevorg Khachatrian	Director of the Fund of Social Investments
38.	Fadey Sargsian	President of the Academy of Sciences of ROA
39.	Peter Tomsen	American Ambassador to Armenia
40.	David Franz	U.S. Embassy - 3rd Secretary
41.	Ray Morton	General Development Office, USAID Caucasus Mission
42.	Ivy Cheng	Task Manager, Armenian Municipal Development Project, The World Bank
43.	Anne Sinet	French Municipal Expert, World Bank Consultant
44.	Richard Winnie	American Municipal Law Expert, ICMA
45.	Richard Kobayashi	American Municipal Fiscal Expert, ICMA

	Name	Title
46.	Steven Anlian	ICMA Resident Advisor to Armenia
47.	Richard Russo	US Treasury, Resident Advisor at the Ministry of Finance
48.	Donald E. Fuller	Dean of Faculty, American University of Armenia
49.	Digran Dalian	American University of Armenia, Extension Program
50.	Diana Avetian	ICMA, Yerevan, Conference Coordinator

III

SUMMARY OF REMARKS

PRESENTERS AND SPONSORING ORGANIZATIONS

BIOGRAPHIES OF PRESENTERS

Richard E. Winnie, Moderator

Richard Winnie is a lawyer based in Oakland, California, with an extensive background in municipal and public law. He has served as the city attorney for several municipalities in California. In addition he has served as an advisor to the Armenian Government since 1993 on a variety of issues including the Real Property Law and Housing and Urban Development Policy. He also serves as an advisor on overall legal reform in Armenia, with emphasis on commercial law. During the last several months he has provided assistance to both the Government and the National Assembly on the development of the *Law on Local Self-Government*.

Richard Kobayashi, Presenter

Richard M. Kobayashi is a management and planning consultant who has extensive experience in city and state government in the US as well as experience working for a large metropolitan water and sewer organization. He served as the architect of the State of Massachusetts program to strengthen the planning, management and fiscal capacities of local governments. Mr. Kobayashi has served as a consultant in Poland where he worked to develop local environmental management capacity, in Western Siberia where he worked on an interdisciplinary team developing a Strategic Plan for the city of Novokuznetsk and in European Russia on a pilot program to implement the property tax in two cities, Novgorod and Tver. Mr. Kobayashi serves as an elected official in Belmont, Massachusetts, a suburb of Boston where he resides.

Anne Sinet, Presenter

Anne Sinet is a consultant with the firm Groupe Huit, located in Paris. She has experience working on the staff of the French Ministry of the Interior, for a Regional Office of Economic and Financial Studies in France. Ms. Sinet has extensive experience performing financial and institutional analyses for clients in Europe and Africa. In her tenure with the Ministry of the Interior, she served as a senior manager of the French decentralization efforts which took place in the 1980s. She has also consulted extensively for French local governments. She has performed consulting assignments for several lending institutions including the World Bank. These have included assignments in Ukraine, Latvia, and Hungary as well as several African nations.

SPONSORING ORGANIZATIONS

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Ivy H. Cheng, Manager, Armenian Municipal Development Project

WELCOMING REMARKS

THE HONORABLE RUBEN BARSEGHIAN

Minister of Territorial Administration
Republic of Armenia

Today, in Yerevan, the capital of Armenia, with the sponsorship of the United States Agency for International Development, The World Bank and International City/County Management Association and with participation of the Government of Armenia and the members of the Standing Committee on State Legal Issues of the National Assembly, I am proud to convene this Forum on a vital subject—the fiscal relations between the Central and local self-government bodies. I welcome participants and I thank the organizations that initiated this Forum.

During the next two days, very crucial discussions will take place. As a consequence, preparations of the draft "*Law on Local Self-Government*" will be more effective.

The administrative-territorial subdivisions of Armenia—"Marzs" and communities as defined in our Constitution—are already approved by the "Law on Territorial Administration" of our Republic. Since enactment of the Constitution, several other documents have been approved to form the structure of our government. I'd like to emphasize some of these:

First, the *President's Decree on Implementation of the State Government in Marzs and its Authorities and Functions* assigned the functions of the Marzpets and have started the formation of Marz administrations. The organizational structures of Marz administrations have been approved and the process of developing charters of Marz administrations have begun and will be considered at a Government session soon.

The *Law on Temporary Provisions on the Regulation of Relations Between Local Self-Government Bodies and the Central Government* determined that elections of local self-government bodies will take place on November 10, 1996. In addition, the National Assembly has approved the first reading of the *Law on Elections of Local Self-Government Bodies*.

The National Assembly Standing Committee on State Legal Issues has prepared the draft of the *Law on Local Self-Government*. When this Law is adopted and after the elections of local bodies on November 10, the reform of the local self-government system—which is a significant part of structural reforms and implementation of territorial and local self-government systems—will play a central role in our Republic's overall process of reforms. The Republic will have a system of territorial administration and local self-government, which we're sure will make governance more effective and will assist in the formation of a market economy.

Once again, I am pleased by all the participants and thank the organizers. I hope that after the discussions, we will leave the conference hall having more information, having studied the experience of other countries and, taking into consideration the local conditions of Armenia, we will be in a position to develop an improved *Law on Local Self-Government* for presentation to the National Assembly.

ALL ENGLISH TRANSLATION BY ICMA

CHANGING ROLES OF MUNICIPAL GOVERNMENTS

IVY H. CHENG

Armenian Municipal Development Project
The World Bank

During the past two years, Armenia has had good success in the area of macro-economic stabilization. The structural reform program is well advanced and is yielding encouraging results. In the area of public administration, the Government has initiated the process to rationalize the structure of the government.

As Armenia proceeds towards economic growth and institutional consolidation, municipalities will pay an increasingly important role, both as institutions of local government, and as principal providers of services to the population. The long-term objective of building a reliable and efficient system of local government is indeed crucial to Armenia's future success in its transition to a market economy.

The role of the local government in the provision of services is a complex one. Coping with the future challenges would require much more than building, operating and maintaining facilities. It would also require:

- reducing inefficiencies and waste;
- responding more effectively to demand;
- maintaining equity and protecting the poor;
- preserving the environment; and
- ensuring sustainability.

There are a few guiding principles in the pursuit of this agenda:

- Any responsibility assigned to local government should be matched by both institutional legitimacy and access to the resources required to carry out the task.
- Service provision should be managed as products that respond to consumer demand. In that context commercial principles should be followed, and competition needs to be broadened.
- Whenever possible, tariffs for municipal services need to be determined by the market. This implies the removal of administrative controls, adherence to a cost recovery policy, and at the same time improvement in the targeting of social assistance.
- Users and affected communities should be involved in project formulation.

In accordance to these principles, the World Bank, supported by agencies such as USAID and ICMA, is currently working with the Government to design a Municipal Development Project. Support to the Government would include a credit of about twenty-five million dollars (US) from the Bank, a grant of about $400,000 (US) from the Japanese Government for project preparation and various donor-supported activities such as today's conference.

The project is expected to cover both housing and water supply and wastewater sectors in a number of selected municipalities.

On the housing side, the proposed component will endeavor to:

- facilitate and promote the institutional reform required to implement the Government's housing policy;

- assist in the refinement of a legal framework which will support the privatization of housing and the construction industry;
- create a competitive market environment; and
- upgrade the country's capacity to manage seismic risk.

On the water supply and waste water side, the proposed component will seek to:

- support the development and implementation of the new law on local government;
- strengthen local government and providers' capacity to provide services; and
- improve sustainability of communal services through more rational cost recovery schemes.

To accomplish these objectives, the proposed project and related project preparation activities would include:

- institutional development and capacity-building activities, such as technical assistance in the review of laws, training and study tours covering various management and technical fields, feasibility studies, social assessment studies and environmental assessment studies and workshops, etc.; and
- priority investment programs in the housing, water supply and possibly waste water sectors.

As is in your plan, today's conference is still the beginning of a long and dynamic process of local government reform and municipal development. This is, however, an encouraging beginning. I feel very fortunate to be able to take part in it.

On behalf of the World Bank, I would like to congratulate the Government and the National Assembly for the initiatives you have taken, and I look forward to many more opportunities for further collaboration.

PRINCIPLES OF THE DRAFT LAW ON LOCAL SELF-GOVERNMENT

THE HONORABLE EDWARD YEGORIAN

Chair, Standing Committee on State and Legal Issues
National Assembly of the Republic of Armenia

My role at this point in the conference is to discuss the draft *Law on Local Self-Government*, and the context in which it is being developed. I suggest that we do not consider the draft law in too much detail—article by article—because we'll have the opportunity to do that in the National Assembly. I will try to present the overall philosophy of development of the State structure; because, if this philosophy is clear to everyone, it will be easier to understand assignment of various functions and the transfer of authority in either direction.

To some degree we have been lucky historically in that we have a unitary state; and so we do not have a historical burden like many developed countries, such as the United States, Germany, and others. What I mean is that we do not have to adjust the concepts of government and self-government to history.

The United States, if you remember, was not a unified country; it consisted of separate states. The main task was to unify them and create a central government. This means that special efforts were necessary for the transfer of some of the responsibilities from the lower level to a higher level. The federal government had to solve this task of transfer from the lower level to the higher level. We do not have this task. This is why we will apply a different philosophy to the concepts of government and self-government.

The main task of a society is to create goods. Goods can be divided into two categories—public and non-public goods. It should be obvious to everyone that the best way to produce goods is by private production and market relations. Market relations are also the most effective way to produce public goods, because this is the best way to create the most goods possible with the limited resources, especially health care, education, communal services. Even though these are public goods provided by the State, there are several methods to provide them.

Today most countries, especially federal countries, produce public goods at three or four levels. Considering that Armenia is a compact, unitary state; it is more appropriate for our country to produce public goods at just two levels—national and local.

We must ask whether it is appropriate to provide goods at the village or municipal level. It is clear that a village should have a local government which should administer the provision of public goods for the community. This is because even a small village—if we compare it with a big factory—should have a local self-government body which will have a mayor, an administration, which will *control* provision of goods. If a community is small or has special needs, it does not have to deliver the goods by itself—it could do so by contracting with a larger community or forming a group of villages to provide a service. The key aspect is that the democratically-elected village or community government has the responsibility to determine which services should be delivered and at what cost.

The general philosophy guiding the structure of our State is the following: some goods—like justice, adopting legislation and providing national defense—should be provided by the central government. Other goods—like health care and education—will also be provided by the central government, but implemented by the Marzpets on a regional basis. Since these goods impact the entire national population, the Marzpets can be viewed as having the status of ministers, but because the Marzpets are closer to the population they can be more effective in seeing that these goods are provided in a manner which fits the particular needs of each Marz.

The next level is local self-government. We have to be very careful to decide which goods will be produced by whom. By forming Marzs we have assigned the function of policy making and setting of standards to the Government and responsibility for providing the

public goods to Marzs. Other tasks, such as communal services and housing construction, are assigned to local self-government bodies; because we believe that they will carry out these services more easily.

Of course, the picture I present here is a little bit exaggerated. It may be that policy and standards on health care are developed on the national level—by the National Assembly, Government and Ministry—but in many cases we cannot transfer authority for some Republic-level hospitals to a lower level. The same is true for some other public goods, like hospital operations, and some medical services, which should be preserved by the ministries. If we look through the documents provided by the organizers of this Forum and if we study the experience of other countries, we will see that these goods can be effectively provided by a two- or even a three- level system. This means that there cannot be clear separation of functions between the levels.

Let us now turn to the *Law on Local Self-Government*. It sets forth which areas are given to local self-government bodies. I'll try to list the main ones.

- Health care: Little in this area is transferred to local self-government bodies. Responsibility for small hospitals would be transferred, but the main health care functions would be assigned to the Marz.
- Education: We have announced that education should be a national function. This is why education is assigned to the Marz, while its normative aspects remain with the (central) Government. This is because we believe that education is a function of a national importance. Some educational functions—if we regard these as educational, like music schools—are transferred to local self-government bodies. Responsibility for cultural centers and clubs is also transferred to local self-government bodies.
- Communal services: Water and sewer operations are transferred to local self-government bodies and their community administrations.

I do not want to get into too much detail here, but it is important to point out that, in order for local self-government bodies to be independent—really independent, it is very important for their enterprises be independent, too.

I presented the list of items that will be transferred to local self-government bodies, but this list can still be extended. The list should be approved by the Government, but the Government can only extend the list, not reduce it. Some other items might be added to the list.

The Constitution determines the types of taxes that local self-government bodies can collect to accomplish their functions. These are local taxes, duties and fees. In addition to the *Law on Local Self-Government*, the *Budget Law* will presumably also specify subventions from the central to local governments. These will be calculated by the Ministry of Finance.

Today we can state for certain that the land tax will be transferred to local self-government bodies. Another issue is the property tax. Calculations will be made and it is necessary to determine how much of the property tax revenue will go to communities. We are flexible on this issue and so we have not set it in the Law. It may be that we will have to observe this situation for several years. Initially, each year we will determine through the budget process whether or not the property tax will be transferred to local self-government bodies before we permanently transfer the property tax to these bodies. We will need improved mechanisms for administering this tax.

Summarizing my presentation, I hope that all participants are active and fully participate in all discussions in this Forum and in all other discussions of this type.

PRINCIPLES OF CENTRAL/LOCAL GOVERNMENT ORGANIZATION

RICHARD E. WINNIE

Moderator of the Forum

There are two powerful forces shaping the structure of central and local government in Armenia. These forces are the civic and the economic restructuring which this Republic has been pursuing during the past five years.

Civic Restructuring

Before 1990, the Local Councils delivered services in the cities, towns and settlements of Armenia. These units of government were linked to the central government through a political hierarchy, rather than an intergovernmental structure. The structure and central/local relationship which existed in that time is very different from that which is envisioned by the current Constitution or the draft *Law on Local Self-Government*.

The formation of this Republic brought forth a new civic structure. The important work of the past five years, as expressed in the new Constitution and the *Law on Territorial Administration* re-defines the method of making decisions, the relative authority of local and national elected officials and the relative responsibilities of local and national officials in performing various public services.

The Constitution, which was approved last July, adopts a fundamental decision by the adoption of a "two-tiered" governmental organization. As Chairman Yegorian expressed in his remarks this morning, this approach was selected based upon consideration of Armenia's history as a unitary state and its size and cultural characteristics.

One organizational tier is the national government. With respect to matters of national importance, the central government determines policy and sets standards through the acts of the National Assembly and the Ministries. Central government programs are be adapted, to some degree, to local needs by their administration by the Marz. We refer to the Marzs as a form of "deconcentrated" administrative units, because they carry out duties assigned to them by the central government.

The second tier is comprised of the local self-governments. As Anne Sinet will discuss, on the face of it the entities described in the Draft Law meet the basic tests of autonomous governmental units:

- They are distinct legal entities, not "deconcentrated" administrative units of the central government.
- Their policy-making bodies, the Community Councils, are elected.
- They are to have autonomy in performance of specific functions.

The second tier units, then, perform their functions, not by the direction of the central government, but largely by the exercise of their own discretion. Their functions are "devolved" to them and they are fully responsible for performing these functions. The central government may exercise a degree of control over performance, such as by setting minimum standards or auditing expenditures or it may delegate functions to local governments; but, to the extent that the locally elected officials exercise discretion to select the type and level of service, they are operating a distinct tier of government.

The creation of a unit of local government which exercises distinct authority represents a significant step in civic restructuring.

Economic Restructuring

Economic restructuring is a second powerful force that is re-shaping the governmental system. Privatization and an emerging market economy have shifted capital and areas of responsibility from the public to the private sector. This changes the role of government, in two major respects.

First, certain functions which were previously performed by government are being transferred to the private sector. The most dramatic shift in Armenia has been in local government's responsibilities for communal services. Until recently, local governments owned and operated the housing stock, and communal services consumed the largest share of local budgets. With housing privatization, most housing has now been transferred to private ownership, and local governments' responsibility for providing communal services is sharply reduced.

The second important change is the transformation of local governments' role from operator to that of regulator. This is illustrated by the transition in local governments' role in construction and development activities.

In the former time, virtually all land and businesses were publicly owned and local governments were directly responsible for all phases of designing and constructing buildings and operating local enterprises. Today, an increasing number of businesses in cities and towns and significant amounts of land are privately owned. This transforms government from developer and operator to regulator.

Government must now set and apply standards, rather than directly operate and maintain land and enterprises. It encourages a healthy local economy by stimulating and guiding private business activity, rather than directly operating business.

It is useful to review how local governments operate in the sphere of housing in the United States, to illustrate further the relationship between the structure of government and a market economy. United States local governments play two distinct roles in housing. They directly provide housing to the most needy population. Consequently, only about five percent of housing is owned by local governments, with the remaining ninety-five percent being developed and owned privately. With respect to privately-owned housing, local governments set and enforce minimum health and safety standards. They also regulate the location of housing through planning and zoning controls, in order to ensure that the city develops in a logical manner.

In this new environment, cities must be "consumer-oriented," since a large share of their resources is derived from taxes and fees. As such, the Community Council takes on the new role of deciding what services to provide, in light of the willingness of the local population to pay for particular services.

Assignment of Functions to Local Government

Much of today's discussion will focus on determining what functions should be assigned to local governments. With respect to each function we ask: who decides, who executes and who controls?

We will see that our answer to these questions depends upon the specific service being considered, and is affected by how we apply criteria such as:

- *Operating efficiency*: Some services are most efficiently performed over a large area (regional hospitals), while others are most efficiently provided within a discrete area, such as cities or towns (neighborhood health clinics).
- *Unified national interest*: National defense is the clearest example of a function with a unified national purpose. Education has been defined in a similar manner by the draft Law, because of the homogeneity of the Armenian society.
- *Local choice*: As public capital is privatized, a greater number of the services which a local government provides will be subject to "consumer demand." Where the nature of a service varies with local conditions or where the type or amount of a service depends upon citizens' willingness to pay, local choice becomes an important factor in the decisions of the Community Council.
- *Inter-regional equity*: The availability of some services, such as social welfare assistance, should not depend on an area's ability to pay for the service. Moreover, the national government has an overriding interest in seeing that some types of services or government-regulated conditions meet minimum standards. For example, the government has an interest in ensuring that all buildings in a seis-

mically hazardous area have sufficient structural strength. The goal of inter-regional equity can be achieved through direct administration of a service by the central government, by the central government providing revenue to support equality among regions or by centrally established standards which are administered by local authorities.

These criteria guide our decisions regarding assignment of responsibilities for administration and for decision making as between the central and local tiers of government. The criteria also guide decisions about areas in which the central government should set standards or to otherwise control the administration of a function, when a function is assigned to a local authority.

The assignment of functions must be consistent with the assignment of revenue to enable the local government to perform the service. This issue will be the starting point of tomorrow's discussion.

PRINCIPLES OF DECENTRALIZATION

RICHARD M. KOBAYASHI

Presenter

There is a broad international trend: transferring decisions about what services to provide and how to provide them closer to consumers of the services.

This trend is occurring in virtually all nations and has two essential components. The first component is the actions of governments in placing more reliance on private sector and market based mechanisms to provide traditional public services. In this context, state monopolies in Western Europe, Latin America and Eastern Europe have been privatized. The driving force behind this shift to a market orientation through privatization is the belief that private or market sector firms can provide services more efficiently and can adjust to shifts in market demand more effectively than can public sector organizations. In addition to outright privatization, there is increasing reliance throughout the world on using private firms under contract to perform a variety of functions traditionally performed by a government's own labor force. Examples include trash collection, water and wastewater facility operation, the cleaning of public buildings, road maintenance and hospital management.

The second component is the effort by governments, often carried out concurrently with privatization efforts, to deconcentrate, delegate and devolve government functions to lower tiers of government (later we'll define these and other key terms relevant to decentralization). This component, especially when carried out concurrently with privatization, is complex and important to consider carefully, as Armenia makes strategic policy decisions about its future. As the materials in the appendices indicate, significant responsibilities have been shifted to local governments in many of the Eastern European nations, with Hungary and Poland as the prime examples. These shifts have generally come within a year or two of the adoption of new constitutions, as appears will be the case in Armenia.

Both of the components I have discussed—the shifting of decisions to the market and decentralization of decisions to local government, are based on the same principle.

A population's preferences for goods and services are best understood by how individuals vote. That is, the mix and level of services provided by a government is best determined by the votes of a local electorate for candidates sympathetic to their interests, and the mix and availability of commercial goods is best determined through the process of consumers "voting" their preferences with their Drams. There is documentation of this concept and a diagram titled "Parallel Trends in the Economic and Government Sector" in Appendix A-3.

The Republic of Armenia is in the process of creating the conditions where consumer/ citizen preference becomes the determining factor in the decisions to provide both private and public sector goods. The rationale for this type of economic and political system which relies heavily on citizen/ consumer preference is that it leads to efficient resource allocation in a society.

The chart titled "Decentralization Trends," adapted from one designed by Robert J. Bennett of the London School of Economics (see Appendix A-3), is designed to place Armenia in a framework which shows how its reliance on market forces, centralized power and localized power has shifted over the past five years and how it might continue to shift in the next several years. The chart in conceptual form illustrates that Armenia has made significant progress toward shifting resource allocation from government to the market, but little progress moving from a highly centralized government decision making structure to a more decentralized one. Of course, the draft law we are discussing at this Forum will have a significant impact on the degree of decentralized decision making in Armenia when it is enacted.

The general standard for local fiscal systems, according to Richard Bird and Christine Wallich in an article included in a book edited by Salvatore Schiavo-Campo titled *Institutional Change and the*

Public Sector in Transitional Economies (World Bank) is articulated as follows:

"In a well designed intergovernmental system, local governments, fully accountable to local constituents, are in a better position to identify and respond to their constituents' needs than central governments. Residents obtain what they want and what they are willing to pay for, rather than what the center provides."

This leads directly to the concept that, since local government is the principal provider of services to residents and local businesses, then local government would be financed to the maximum extent by:

- Charging directly for the services they provide, and
- Using local taxes to make up the "gap" between expenditures and the funds received from services, supplemented by
- Transfer payments from the National Government especially to address equity concerns.

Managing the changes necessary to shift to a more decentralized government service delivery structure will require careful planning, refinements to legislation as required, considerable efforts to effectively coordinate the delegation of functions to localities with appropriate revenue assignments, training and technical assistance to communities to build the local management capacity necessary to perform the municipal role envisioned, and improvements in financial and management systems so they support and not impede the decentralization efforts.

Who Does What?

How functions are assigned to different levels of government is based on the political values in each society. The materials in the appendices indicate that assignment patterns differ significantly for a wide range of countries. This is shown in the document titled "Distribution of Functions Among Different Tiers of Government" (see Appendix B-3). In general, there are some functions which, because they provide a universal public benefit, are carried out at the top level of government. Typically, virtually all countries place national defense and certain other functions in the top tier. Postal service, social security functions and health standard setting are also usually placed in the top tier, especially in unitary countries. Other functions like environmental standards, education, police and fire protection are placed in a variety of tiers. Certain functions like water, sewer, parks, recreation, libraries and trash collection are often assigned to the local level. The charts titled "Who Does What - Overview" and "Who Does What - Examples" in Appendix B-1 focus on typical assignments.

In looking at the assignment of functions, several criteria can be used. These are listed on the chart in Appendix B-2 titled "Function Assignment Criteria." They include assessment of the level at which maximum efficiency occurs, assessment of whether the function is of vital national interest, assessment of whether policy decision making and implementation can be separated, a determination of whether local choice is important, an assessment of varied local conditions, an assessment of inter-regional equity, and an assessment of accountability.

The way the criteria are applied depends on the mix of economic factors and political values in each country. In the draft law you have already made some of these choices. As the list of functions in Article 33 shows, significant delegation to localities is contemplated. This list is on the chart titled "Introduction to Revenue Assignment" in Appendix C-2.

It is important to note that decentralization is a process and that even though the decisions to decentralize functions will be made over the period of a few months as the law is developed and enacted, implementing the decisions will take considerable time and will rely on the policy and implementation management skills of the Government and the newly constituted communities. In her remarks, Anne Sinet will point out the time frame for decentralization implementation in France and comment on the timing issues which are key to decentralization planning.

Revenue Assignment and the Local Financial Condition

The move to decentralize in Armenia will place increased functional responsibilities on municipalities and concurrently grant municipalities much more discretion about what levels of services are provided and how those services are provided. This dramatic reshaping of the responsibility for service delivery will require significantly increased local management

capacity. It will also require a revenue policy from the National Government which provides communities with stable and predictable revenues, a significant increase in reliance on user fees, and significant improvements in the efficiency of local revenue collection.

To be effective, the decentralization implementation efforts have to be coordinated closely with the Government's revenue assignment policies. Communities with newly formed democratic governments will have an acute need for stable and predictable revenues from the national level. Planning and developing revenue assignment policies need to be high priorities for the Government and National Assembly as the *Law on Local Self-Government* is implemented.

Basically there are several types of potential local revenues. The first two are user fees and property taxes. These two revenue sources are characterized in the chart in Appendix C-3 titled "Special Characteristics of User Fees and Property Taxes." User fees place direct service functions such as water on a self-financing basis. One important aspect of user fees is that they preserve other funds, local taxes and duties, as well as subventions, for the support of functions which cannot be charged for, such as fire protection or libraries. User fees also have the effect of rationing demand for services which can in some instances reduce costs.

Property taxes are an excellent source of local revenue. Collection is easier than collection from persons because the location is fixed. Further, the institution of property taxes on an advalorem basis gives the municipality an incentive to make investments which increase the value of property, as it reaps some of the benefit of increases in value. While a property registration project is in effect and the issues of property taxation have been studied in Armenia, it might be helpful to know that two Russian Cities, Tver and Novgorod, are carrying out a pilot project to establish a market value for all of the property in these cities and institute an advalorem property tax.

On a national basis, there are three basic sources of revenue for communities:

- A "piggyback" tax, where the locality by its own vote can levy a surcharge on national taxes collected in the city and have the proceeds remitted to the city by the Tax Inspectorate,
- Traditional shared taxes in which the proceeds from a particular tax by law are shared with the community which originated the revenue, and
- An assignment of national income to a subvention system that is not dependent on a particular source of National Government income. This is best done by law, but can, as is the current practice, be done in the budgetary process.

Revenue can be assigned to municipalities for several different purposes (e.g. for general support, for the purpose of equalizing resources among communities generally, or for equalizing resources among communities for a particular function).

Basically the local government financing approach for the provision of services to local citizens and businesses should be financed by:

1. Charging directly for the services they provide,
2. Using local taxes to make up the "gap" between expenditures and user charges to the extent possible, and
3. Receiving transfer payments from the National Government for general support, and to address equity concerns.

This concept is shown on the chart in Appendix C-3 titled "Basic Local Government Financing Approach."

Changing Role of Local Governments in Transition to a Market Economy

Based on changes which have already occurred and those which are planned, the role of local governments in Armenia is changing rapidly. Local government structures have lost many traditional functions such as housing, the provision of some communal services, and sponsorship of local enterprises; under the draft *Law on Local Self-Government*, they will be gaining a new democratic structure, responsibility for many functions which have been the national government's and importantly, the responsibility for setting local priorities.

The capacity of the emerging local governments to manage service delivery, establish and collect revenues and set priorities for both the short and long term in the new context, will be determined by two major factors: the development of a comprehensive and sustainable approach to designing and implementing the *Law on Local Self-Government,* and the quality and dedication of the officials chosen in the first municipal elections scheduled for November 1996.

DISTRIBUTION OF FUNCTIONS AND REVENUE BETWEEN THE CENTRAL AND LOCAL GOVERNMENT

ANNE SINET

Presenter

The Link Between Decentralization and Privatization

One of the main issues in Central and Eastern Europe is how to achieve both decentralization and privatization: how to distribute the functions between central and local levels, and between public and private sectors.

These concepts are closely linked. For example and in concrete terms:

- The privatization of State-owned enterprises will have a direct impact on the organization of municipalities and also on the management of local public services. These will have to change in the future.
- New performance criteria for public entities will also have direct impact on the local public policy, e.g. transportation or water supply fees.
- Privatization of land and apartment or office buildings will have consequences on tax policy, e.g. property tax and the amount of public revenue.

In concrete terms, the accountability of local government through decentralization goes with the privatization of:

- public industrial and local enterprises (the municipalities will not have the function of producing or selling goods).
- some of the real estate belonging to state or local government, especially housing.

In the short and medium terms, a balance must be found between both reforms. Dick Kobayashi showed us how privatization has started earlier than decentralization in Armenia.

One other question concerns the privatization of local enterprises involved not only in the execution of local public utilities and infrastructure such as water supply and urban transport, but also cultural facilities or kindergartens.

In this matter, Western experience can be useful. It would take too long to describe the different forms of distribution and of partnership between local government and the private sector, so we'll just emphasize these items:

- **A municipality or any public entity can be responsible for a specific function and delegate the production of the service to a private enterprise**; so and on the contrary, there is no incompatibility between public utilities and private production.

  Only functions such as police or registry offices can't be delegated to the private sector. This delegation requires *an agreement* in which generally government fixes the rules regarding the technical norms and the levels of fees, with the main idea of equity; there are several kinds of agreements according to the functions contracted out by an enterprise on behalf of a municipality and the financing sources.
- In fact, **very few local public utilities can be financially balanced and the delegation to private firms often requires subsidies from the municipality.**
- Moreover, **the main advantage** of a privatization is transparency, performance and financial flexibility; the main "disadvantage" is the transparency of the relation with users: if users don't pay for the

service, the enterprise stops delivering the service.

The Example of France

There Is Not "One Best Way" But a Range of Possibilities

Every administrative system is the result of a struggle between central and local governments to exercise functions. Also, every administrative system is the result of an unstable balance: at the same time, the administrative system is reliant on its history, economy and mentalities; it is also the expression of the will to improve itself and to reduce its own failings.

Consequently, we can't say that there is "one best way" but, even better, there is a range of different possibilities given by the constraints, the interests and values of the country at one given moment of its history.

I would just like to give you an example of this situation with France. France is a good example of a very centralized system which has tried very progressively to decentralize its institutions.

Managing the Unity of the State and the Plurality of Local Governments

Today, the French system is still based on two main and *opposite* concepts: unity and plurality.

- *Unity* means the Republic can't be divided. In concrete terms, it means that the State is the only legal entity which has the power to fix its own compe tencies and the competencies it decides to devote for example to the local government entities. This principle is reasserted in the Constitution of 1958 which is the present one. So, the state has the monopoly to establish the law on all the parts of the territory and excludes federalism in which legislative power is shared between National Government and sub-national governments.
- *Plurality* results from the same Constitu - tion of 1958 and it exists to confirm the principle of free administration of local government entities (Article 72).

The Mix of Devolution and Internal Control of the System

To manage these two opposite concepts, the French system has one big instrument with a deconcentration mechanism on each part of its territory.

We can point out that a local government entity is based on four elements:

- It is a *legal entity* (this is not the case of a deconcentrated entity, like the Marz).
- Its members are *elected* (e.g. members of the council).
- It has autonomy (e.g. the entity is responsible for performing specific functions).
- There is an internal control of the system managed by State authority.

An important part of the process of decentralization is in the degree and form of State control. This control has taken several specific forms in France and in other systems. For example:

- Control of the municipal council or of the mayor: before 1982, the mayor and the council could be dismissed by a decree if dissension was a real constraint for the management of the municipality (in fact there was no real application).
- "A priori" or "a posteriori" control of decisions taken by the municipality (for example budgetary or financial decisions).
- Technical control of State deconcentrated departments (e.g. on capital operations: norms and planning and directives).
- Financial control through subsidies.

The key question during the last fifteen years has been how to blend and balance decentralization (devolution) and deconcentration (vis-à-vis Central Government machinery and competence).

- In the first period (1982-1992), deconcentration seems to have been the alternative to decentralization: in fact, while the main political value is decentralization, the Central Government met with problems in the process of deconcentration (e.g. central bureaucrats resisted deconcentration)
- In the second period, since 1992, deconcentration appears more as the essential complement of decentralization, less for the function of control or supervision over local government entities, and more for the modernization of the State. It is seem as a means to shorten procedures and the time to secure decisions: this means municipalities need competent negotiators at the local level.

The Complexity of the System

We also have to emphasize new problems of Western decentralized systems. For example, the responsibility in the distribution of the functions between the different levels, central and local; or failings in the financing of the different levels of local government entities.

Distribution of Competencies

In France, government has taken the option of "the bloc or the unit of competence": each level is competent for a category of competence. This also seems to be the option of the Government of Armenia in the draft of the *Law on Local Self-Government*.

In fact, in France there is still confusion in the execution of many functions, confusion between the State and local level and between the different levels of local entities. The main reason for the confusion is:

- The role of Central Government which tries to keep issuing norms and rules, for example, about education or urbanism polices.
- The increasing of " multi-financing" for investment operation or even for operating expenditures: for example, the departments have the function of building secondary schools, but more and more, municipalities that want secondary schools on their territory have to finance a part of the operations.

Financing Different Levels Continues To Be a Problem

Decentralization has sped up in France, like in other countries, in the last twenty years. In fact it has been an answer to the economic and financial crisis of most of the Western and developing countries.

Today, if we try to make an assessment of France, we can say that..

- We have a more democratic system and decision making is nearer to the people,
- But decentralization has created new needs connected to public services, and
- The distribution of responsibilities and finance between the different public entities has still to be performed.

SUMMARY REMARKS
CENTRAL/LOCAL FISCAL RELATIONS

RICHARD E. WINNIE

Moderator of the Forum

There are two steps in establishing responsibilities of local government, as these decisions are expressed in the *Law on Local Self-Government* and in budgetary legislation affecting local governments. First is the assignment of decision-making and administrative responsibilities as between the central and local government. We know from yesterday's discussion that "assignment" varies with each function and is defined in terms of:

- *"Who decides?"* - policy-making responsibilities,
- *"Who executes?"* - administrative responsibilities and
- *"Who controls?"* - setting performance standards in delegating particular assigned functions.

Once these decisions are made, we reach the second step: how to support the function financially. It is a basic rule that unless assignment of a function is supported by the fiscal means of performing it, the assignment will not accomplish its purpose.

Criteria for Revenue Assignment

It's very difficult to talk about a local government structure without also considering local government finance. In reviewing the responsibilities listed in Articles 22 to 33 of the draft Law, it is important to consider the financial consequences of these activities and the method of paying for them. This brings us to the issue of revenue assignment.

The discussion today described several objectives of revenue assignment. These include:

- *Correspondence*: Perhaps the most important purpose is to ensure that local government obligations (particularly those arising from duties and obligations delegated by the central government) are matched by the ability to finance them.
- *Revenue collection incentive*: If local government benefits from the revenue it is authorized to raise, an incentive is created for the local government to maximize collections.
- *Accountability*: Where the service provided is supported by locally derived revenue, there is greater accountability of locally elected officials to constituents. This is especially true where the relationship is direct, such as with services paid for by user fees.
- *Stability and predictability*: To the extent that local governments rely on intergovernmental transfers, the amount of revenue to be received by the local government should be dependable and predictable. This increases the ability of local governments to plan beyond the current budget year.
- *Equalization*: Services are often funded by revenue transfers from the central government in order to offset differences in the fiscal capacity among localities. This is especially important in providing essential public services and social welfare support.

- *Consistency with macro-economic goals*: The sharing and assignment of revenue sources, as between the central and local governments, should be such that the revenue collection will not adversely affect achievement of economic goals. For example, duplicative taxation of business profits can result in tax evasion or create a disincentive for business development.
- Infrastructure improvement: Local government often is charged with responsibility for installing and maintaining infrastructure such as water distribution facilities. It should be equipped with the ability to pay for and recover capital expenditures for such purposes. This should also include borrowing capability.

Operational Efficiency

Finally, local government units should be composed so that they can perform their functions with operational efficiency.

On one hand, local governments are created to provide a basis for local decision-making. The geographical size, then, is selected for purposes of establishing a functioning democratic institution. However, this purpose may dictate a geographic size which cannot achieve operational efficiency for all types of services.

For example, a single village may be a sound basis of local decision-making, but it may be too small to provide the service efficiently. This may require a mechanism for several villages within a valley to cooperate in this service, thereby constituting an area which can be serviced efficiently. In the United States and other places, there are mechanisms which allow communities to join together to provide services on a larger, more efficient scale.

Conclusion

We hope that the discussion of the past two days has described factors which can guide your decisions in assigning functions and revenue sources to local governments. As you refine the draft *Law on Local Self-Government* you will express how these criteria apply to Armenia.

This is an important junction for your Republic. The formulation of local democratic institutions and local units of government will carry forward the goals of civic and economic restructuring in a crucial way.

Congratulations on the care and diligence with which you are undertaking this historic task.

CONCLUDING REMARKS

THE HONORABLE RUBEN BARSEGHIAN

Minister of Territorial Administration
Republic of Armenia

On behalf of all participants, I'd like to thank all organizers of the Forum—the United States Agency for International Development, The World Bank and the International City/County Management Association—for this very interesting discussion.

These issues are very important. We appreciate the significance of the subject. The presentations provided thoughtful analysis and significant approaches to the formation of an effective system of local self-government, and especially to a structure of fiscal relations between the central and local governments in our Republic.

I'd like to thank the sponsors for your assistance and cooperation with these subjects, and I hope that this collaboration will continue. Interest shown by various countries, various states, and international agencies will bring significant results.

Having studied the experience of other countries and the models of local self-government in other countries, especially in developed countries; taking into consideration the local characteristics of our Republic—and our Republic does have some special characteristics—and having correctly evaluated the specifics of the current period; I am sure that everything will be done to develop the necessary legal basis. At the same time, the Government will do its best to implement the adopted laws and will use all mechanisms at its disposal for this purpose.

There has been much new information, and I am sure that Heads of City and Village Councils, the Marzpets and all other participants have found this most useful. However, we also recognize that we must continue the discussion in the Marzs and we must provide training to local community heads and to present the international experience to them. All this should be done soon, so that before November 10, 1996, we'll be able to provide training and information to local governments. Information is very important. Information enables us to make correct decisions and to apply correct approaches.

I'd like to thank also President Fadey Sargsian* for providing this hall for the Forum. I thank, once again, all participants and the experts for this interesting discussion.

I now declare the Forum officially adjourned.

* President of the Armenian Academy of Sciences