

FINAL DRAFT

LOCAL GOVERNMENT ASSESSMENT

ARMENIA

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A LOCAL GOVERNMENT LEGAL SUSTAINABILITY PRIVATE 1 Legal Basis The legal basis of local self-government in the Republic of Armenia is generally regulated by the Constitution but is more specifically and most recently defined by the LAW ON LOCAL SELF-GOVERNMENT, which was adopted by the National Assembly on 30 June 1996, signed into law by the President on 22 July, 1996 and took effect 10 November 1996

In Article 3, "The Notion of Local Self-Government" and Article 4, "The Principles of Local Self-Government", what is outlined is a system of local self government embodying admirable principles of local empowerment, substantial autonomy and the basis for democratic local self governance For its part, The LAW OF THE REPUBLIC OF ARMENIA ON ELECTIONS FOR THE BODIES OF LOCAL-SELF GOVERNANCE provides for elections of the Community Head [Mayor in municipal communities, Chief of the Neighborhood in the neighborhood communities of Yerevan and Chief of the Village in rural communities] and the Community Council

to three-year terms of office, by universal, equal and direct suffrage via secret ballot. Community members 18 years and above are eligible to vote. Under the LAW ON ELECTIONS FOR THE BODIES OF LOCAL SELF-GOVERNANCE, procedures existed for the rapid calling of extraordinary elections to fill vacancies at the Community Head or Council levels. However, this law has since been replaced by the Universal Electoral Code which now limits extraordinary elections to twice a year, i.e., the third Sunday in May and the third Sunday in October. Regarding the transition to a more democratic society, this is, unfortunately, movement in the wrong direction.

The Local Self-Governance Law essentially establishes a "strong mayor" system of local self-government. However, an empowered Council is equipped with countervailing powers, e.g., the council must approve the annual budget for it to go into effect, the community chief must provide the council with quarterly reports on budget performance plus an annual statement regarding budget performance, the council has operational oversight rights and responsibilities, the council may organize an audit of the performance of the budget, and in the final analysis, can petition the Marzpat for the removal of the chief of the community.

In Article 6, "The General Description of the Powers of Local Self-Government Bodies", the powers of local self-government entities are divided into their own powers and those powers delegated to them by the National Government. Their own powers are further divided into those which are mandatory and those designated as voluntary powers. The Article goes on to state that mandatory powers and powers delegated to the self-government entities by the National Government "shall be subject to mandatory funding and regular performance." It would appear to the Team, that in the current context of a weak economy, a pauperized tax base, and a highly centralized financial regime, by stating that mandatory and delegated powers are subject to mandatory funding, and then defining those powers so loosely and vaguely, this Article sets the stage for constant friction regarding the timing, amount and adequacy of central government transfers. Voluntary and mandatory powers are by and large, too loosely and grandly defined to translate into specific operational budget amounts and programs which are to be funded jointly.

The breadth of the various spheres of activity represented by both mandated and delegated powers falling to the Chief of a Community may be grasped by the following listing:

- Article 27, Protection of the Rights of Citizens
- Article 28, Protection of Public Security
- Article 29, Defense
- Article 30, Planning, Building-up, Construction and Land Use
- Article 31, Public Utilities and Provision of Amenities
- Article 32, Transport
- Article 33, Trade and Services
- Article 34, Education and Culture
- Article 35, Public Health, Physical Culture and Sport
- Article 36, Labor and Social Services
- Article 37, Agriculture

## 2 Issues

Lack of community differentiation by size. There are 930 separate local self-government units. The Law on Local Self-Government makes no distinction by size of community in relation to the scope of responsibility. The problematic nature

of this decision becomes apparent when considering a rough classification of local self-government units by size of population

As defined by the GOA, there are 47 cities  
Of these, 25 have populations of 10,000 to 60,000  
There are 2 cities with populations from 200,000- 250,000  
Yerevan has approximately 1,500,000 inhabitants  
There are 465 communities with a population of 1,000 inhabitants  
or less

From the public administration perspective, many of these atomized units of local self-government are not viable financially or administratively, nor will they be in the near future. The various alternative solutions, some in combination, which might be explored with the GOA under the aegis of a possible USAID local government intervention, are

Consolidating 5 and more adjacent villages into a single, self government unit would start to produce more viable units of local self-government. Careful structuring of a unified council could ensure equitable, democratic representation.

Differentiating in law, the responsibilities of smaller villages, and in so doing, lightening their administrative burdens and bringing the demands more in line with their available human and financial resources.

Encourage small villages to contract with adjacent cities for services.  
Support demonstration projects to undertake consolidation via the Inter-Community Association route proposed in Articles 52, 53 and 54 of the Local Self-Government Law.

The Team's conversations with GOA officials as well as local government elected officials and staff revealed strong consensus on the need to eliminate the large numbers of non-viable separate administrative units of local government via consolidation.

The differing roles of the Marzes. The current Marz system is a variation on the familiar "Prefecture" system. It is clearly a projection of central government power, and with its ability to remove the elected Chief of a Community, frequently seen as a potential enforcer. In the course of this Assessment, the Team was given anecdotal examples of Marzpets exercising their power over mayors. These examples were

In Vanadzor, the Mayor was charged with impropriety (neither accusers or charges specified) and after a lengthy investigation, the Mayor was cleared. This was reportedly a Marzpet/Mayor vendetta.

The Mayors of Abovian and the Center District of Yerevan endured extensive investigations by marzpedes (they may have been politically motivated above the Marz level). Both officials are members of the National Assembly as well as mayors. The Mayor of Abovian reported that no charges were ever specified to him and he never knew why he was investigated or why the investigation ended after five weeks of daily questioning of him and his staff.

Given the time constraints surrounding the Assessment, the Team was not able to pursue this issue with the Ministry of Territorial Administration to ascertain the number of mayors actually removed on an annual basis, the stated cause for removal, and whether the removal was initiated by the Marzpet or by the Marzpet acting on the request of the local elected council.

The Mayor's Association is attempting to form a type of legal defense committee that would work for a rule of law which would have Marzpets and the GOA abide by more transparent procedures when conducting investigations and would include public disclosure of allegations and formal exoneration if removal is not achieved

Viewed from the perspective of the larger cities, towns, and communities, the Marz, charged with "coordination" and an inadequately defined monitoring function, is intrusive, a potential micro-manager in search of a role, a totally unnecessary appendage of the national government meddling in the affairs of the local government units and threatening to compromise their new found independence. However, seen through the very different prism of the many small, rural, subsistence agriculture communities, (which account for more than 50% of all local self-government units in Armenia), usually lacking in the basic human and financial capital necessary to undertake the very substantial duties and responsibilities devolved to local self government units by the Law on Local Self-Government, the Marz is frequently seen as a welcome technical and financial resource center

The Team would argue that the needs of public administration in Armenia would be better served by

removing the approximately 50 urban centers from the Marz system and permitting them to relate directly to the national government, retrofitting the Marzes, converting them to county government units with the corresponding powers, and simultaneously making the Governor an elected official, establish a separate classification of local self-government unit consisting of the smaller villages, correspondingly reducing their responsibilities and duties, and clearly defining their role vis-a-vis the new "county" (Marz) level of government

Currently, by law, the size of the staff of the local government units is set by the National Government, with the norms relating to population size. This is seen to be excessively intrusive, and micro-management in the extreme

The salary of the Chief of the Community is pegged to that of the Marzpat, with the specific percentage cap depending on the population size of the LG unit in question, e.g.

up to 40% for a community having less than 1,000 population  
up to 50% for a community having 1,001-5,000 population  
up to 60% for a community having 5,001-20,000 population  
up to 75% for a community having 20,001-75,000 population  
up to 85% for a community having above 75,000 population

This is seen as usurping the power of the elected Councils to set the salary figure of their elected Community Chief. Furthermore, some of the Chiefs of the larger urban centers have greater executive and management responsibilities than their corresponding Marzpat

The exclusivity of the National Government's Treasury Operations. In order to effect transfers, the GOA maintains bank accounts in the various cities. The problem arises from the fact that these National Government treasury operations also substitute for a local government treasury operation. When requiring/wanting draw-downs, communities frequently encounter that the funds are either not available, or their decisions on the destined use of the funds

are challenged and questioned. In addition, communities are not permitted independent treasury operations. Even in the case where a community directly collects property taxes, the complete amount collected must be deposited in the respective GOA Treasury account.

Late or insufficient GOA transfers occasionally have Community Chiefs vulnerable to charges of failure to execute mandatory or delegated functions. Taken in the context of the Marzpat's ability to initiate removal of a community chief, this is an additional source of friction.

## B) DEMOCRATIC PROCESS

### 1. Accountability

There appears to be a low degree of accountability of local governments towards the citizenry. Local governance is generally not held accountable by any kind of organized groups such as citizen action groups or NGOs. Accountability is towards the other direction, local government is to some degree accountable to central government and to the marzped. Local governments have certain mandatory responsibilities and standards, imposed by central government and monitored and enforced by marzped, which they must maintain. Marzped monitoring of "regular performance" in regard to central government norms is backed up by the power of marzped to submit motions of removal of community chiefs to the central government.

Municipal authorities generally only hear from citizens on an individual basis when they wish to lodge a complaint over non-receipt of utilities or other municipal services, not being paid or not receiving their pensions, etc. On a few occasions, the Team observed a line of citizens cued in front of mayors' offices and was told they were there to complain or raise an issue with the mayor. It is important to note that while mayors do receive individual citizens to hear their complaints, the team found little evidence of an organized attempt on behalf of the citizenry to hold local government accountable for community affairs.

Even to the degree to which citizens do hold their local government officials accountable for something which is adversely affecting their lives, it is often a matter outside of the municipality's control, such as potable or irrigation water issues. This puts local government in an awkward position as they receive complaints but do not have the authority or financial means to remedy them.

### 2. Local Government Effectiveness

Local government in Armenia is severely limited in their ability to be effective. The main constraint to effective local government is their insolvency, especially in the smaller communities. Most communities are simply unable to be very effective because little can be done without the means to pay for it. Many of the problems faced by local government in Armenia today, including their ineffectiveness, comes back to the fact that the Armenian economy is ruined and communities have little tax base.

Even beyond the insolvency issue, the current law on Local Self Governance also handicaps local government effectiveness. While the Law on Local Self Governance gave local leadership a number of responsibilities they did not previously enjoy, it did not give them responsibility for many of the communities most important functions such as the education system, health care, social services and police. Even in the sphere of activities for which local government is responsible, they are unable to effectively manage them as they are un- or under funded mandates.

One common concern received from all municipal officials the Team spoke to was their lack of control over the police. Armenian police, no matter where they are posted, are not under the control of the municipality. The police answer only to the Ministry of Internal Affairs. Local governments are unable to resort to the police in maintaining public order. Mayors reported that their inability to manage police forces in their own communities made local government less ineffective.

One Mayor was frank in his discussion with the Team over the problems he was having with the police in his community. He attempted to make use of the police in having local businesses pay delinquent fees and duties (itself a questionable practice), both sources of income which flow directly into local government coffers. According to him, the police merely extracted bribes from delinquent businesses, rather than collecting fees and duties. Businesses are also exposed to extortion from local criminal elements. Businessmen, the Mayor reported, were loath to pay fees and duties because the city was unable to protect them from the police or from criminal gangs.

Grigor Voskerchian, the Mayor of Abovian (population 63,000) provided another example of how the lack of control over local police undermined his authority and effectiveness as the community's leader. He reportedly is unable to stop illegal businesses (e.g., the sale of gasoline within certain residential neighborhoods) and illegal construction from taking place. He said that resolution of such problems depended on the personal relationship mayors have with the head of the police within their community. This is particularly embarrassing for him, he said, because the community looks towards him to maintain public order. In fact, at the top of the list of recommendations cities and the 11 neighborhoods of Yerevan, which recently attended a recent local government conference in Yerevan, was that the Law on Local Governance be changed so that the maintenance of public order be included as a mandatory responsibility for local governments.

Lack of control over municipal police forces by local government is not unique to Armenia. Many ENI countries structure police control similarly. According to an AID Democracy Officer, this is often a source of dissatisfaction for many local officials throughout the ENI region.

Police corruption would most likely not cease if local governments controlled police. However, local police control might make the situation for local businesses more tolerable. Mayors should be concerned about being reelected and may not want to upset their business communities too much by allowing the police to harass them.

The inability of local governments to be very effective is especially true for the smallest villages. Villages are confronted with many of the same service delivery questions urban areas face, but have budgets of sometimes less than \$1,000 for an entire year. Faced with a host of problems and few means to resolve them, many village heads choose to step down instead. As a result, an official from the Ministry of Territorial Administration said that a local election could be observed somewhere in Armenia on almost any given Sunday.

Another factor which inhibits the effectiveness of local governance at the village level is a lack of understanding about the Law on Local Self Governance. This Law is not well understood outside of the 18 cities which were involved with the International City/County Management Association programs. Many other

smaller cities, and certainly most villages, are not aware of the decision-making authorities granted to them under this Law

Village council members may have the least understanding of their authority. Many are reportedly detached from the decision-making process. According to Armen Khoudaverdian, Deputy Minister of the Ministry of Territorial Administration and a strong advocate of independent local government, village council members are weak, frequently excluded by the village head from decision-making, and even lack space in which to operate from.

In such communities, some decision-making is not perceived as a function of local government, even by the local government itself. These communities look towards the marzpedes for direction. The Marzpedes even prepare budgets for many of them. These communities may to some degree still perceive decision-making as a function of central government to be merely executed by local governments.

### 3 Transparency

Local government decision-making in Armenia today is generally marked by a lack of transparency. Armenia, as in the rest of the former Soviet Union, has little tradition of transparency at any level of government. Decision-makers do not feel obligated to create transparency in their operations and citizens do not expect it.

The Law on Local Self Governance mandates a certain level of budgetary transparency. It prescribes that community chiefs must make three-year development plans and community budgets accessible to the population through bulletins and brochures. However, the Assessment Team is unaware that this is happening on any considerable scale.

There are some ongoing attempts in increasing transparency at the local government level. The National Democratic Institute (NDI) works with "It's Your Choice", a local NGO in setting up town hall meetings in which local officials answer citizen questions. NDI also works with community action groups.

### 4 Citizen Participation

There appears to be little citizen participation in local government. There are generally no established forums for citizen participation in local affairs and the population does not demand or even expect one. This lack of citizen participation is probably a legacy of the Soviet Union. The Team was told on several occasions that there was simply no tradition of citizens involving themselves in the affairs of their leaders. The closest form of citizen "participation" is probably citizens trying to influence local officials in the form of complaining to them on an individual basis.

This lack of citizen participation may be due to the less-than-ideal relationship which appears to exist between citizens and their leadership. The Assessment Team was told by Khachatour Bezirjian, the Director of the School of Public Administration that citizens generally mistrust government, both at the national and local level. This is some degree understandable as a number of national, parliamentary and local elections have been overshadowed with allegations of wide-spread fraud. There may be a certain level of cynicism which hampers citizen participation as many have experienced that even when they did participate in government by voting, the results were manipulated anyhow.

Anecdotal examples provided to the team suggests that the Armenian mind set regarding politics may still be reminiscent of the Soviet era. The population expects decision-making to flow from the top down. Citizens are not accustomed

to being asked how they think community matters ought to be handled and their leadership is generally not actively soliciting citizen involvement

There are some examples of citizen participation Vartan Surenovian, the Mayor of Charentsavan, reportedly cooperated with local NGOs in deciding on the design of a monument dedicated to those who died during World War II The Armenian Social Investment Fund (ASIF) works together with citizen groups, which many times overlap with community leadership, in the scope and implementation of community infrastructure development or rehabilitation projects Save the Children uses a similar approach in the implementation of their Community Development Projects The ASIF and the Save the Children models have led to increased citizen participation in that citizens cooperated with local government on the implementation of local projects Both organizations have implemented projects in hundreds of Armenian communities over the past four years

#### 5 Opportunities For Participatory Practices

There are many opportunities for greater citizen participation, given the current dearth Some citizen participation is even mandated by law The Law on Local Governance states that one of the duties of community councils is to "periodically meet with the population of the community, and inform its electorate about the work of the community council

However, with one exception, the communities visited by the Team did not appear to be soliciting citizen participation Increasing citizen participation may be difficult given, on one hand, the apparent lack of will of most municipalities to engage in such citizen participatory practices and on the other, the general apathy amongst the citizenry towards their government at all levels

The Mayor of the City of Sisian, a recipient of ICMA training who had also been on an ICMA study tour to the US to observe US local government, told the Team that he was planning on encouraging citizen participation in his city He is planning a public discussion of the budget, wants to incorporate citizen opinion in budget formulation and is planning on broadcasting hearings on television and radio The Mayor also wants to conduct public opinion polls He pointed out that increasing citizen participation would be a difficult process given the level of citizen pessimism

#### 6 NGOs and Local Governments

The Armenian NGO sector appears to be large for a country with a population of only approximately 3 million There are approximately 1,800 NGOs registered with the Ministry of Justice Of this figure, the Team learned that approximately 250 of them are considered to be operational as defined by a USAID-funded NGO training center which measures human resources, financial and service capacities and a number of other criteria

Very few, if any, NGOs are sustainable without international donor organization funding There is a concern that most NGOs might disappear as soon as international donor funds are no longer available to them The NGO Training Center largely shared this opinion

But for one notable exception, the Team did not find that NGOs appeared to have any significant influence on local government affairs When queried, local government officials did not appear to have strong ties with NGOs operating in their communities In one case, a major was not aware of any indigenous NGOs in his community and the Team found out only afterwards from another source that there was in fact one

The one NGO that may potentially have the greatest impact on local governance is the Association of Armenian Mayors. This Association is already actively lobbying the central government on changes they believe need to be made to the Law on Local Self Governance. This NGO is discussed in greater detail in Section X of this report.

The Team met with one NGO in the City of Ashtarak (population 33,000). The Center for Public Initiative is principally involved in citizens' rights and women's health needs. The Center has 62 members and occasionally airs their agenda on local television.

Fenya Tevanian, the NGO's president, reported that they had a congenial relationship with local officials. She also added that, in general, central government officials tolerated NGOs and also took time to meet with them, as long as they were not in opposition to government. Ms. Tevanian complained that NGO life was concentrated in Yerevan and that NGOs outside of the Capitol received little attention by international donors. A lack of financial means, according to Ms. Tevanian, was the NGO's main constraint.

The economic crisis in Armenia, discussed in greater detail below, is probably having an adverse effect on the development of a viable NGO sector. The Team was told that while there is a culture of giving that was fostered even during Soviet times, there is currently not much surplus money available to the population that they could contribute towards NGO membership fees.

7 Local Government And Private Sector Participation In Economic Development? The Assessment Team did not come across any municipalities which actively encouraged private sector participation in economic development (through tax holidays, free utilities or any other such means). However, some of the mayors the Team spoke to were themselves entrepreneurs in their communities and were operating restaurants and factories (this appears to be in contradiction to the Law on Local Self Governance which states that community chiefs may not be involved in any other kind of paid work with some exceptions).

It should be noted that economic growth in Armenia today is a difficult prospect. The country is poor in natural resources, credit for business development is prohibitively expensive, access to international markets is difficult because of an economic blockade and the domestic market is small. An unknown large number of the population was able to supplement their meager salaries and pensions with remittances from Armenians living in Russia. However, the current economic crisis in Russia has negatively affected even that source of income. Economic development of the private sector will require much more than municipal encouragement.

The Assessment Team visited an SME in the City of Abovian (population 63,000). This small factory employs 320 persons (in three shifts) and produces glass bottles. The company's director reported a neutral relationship to the municipal government. According to him, the City neither encouraged nor hindered his business. The biggest constraint to business, according to him, was the high rate of taxation set by the central government. It should be noted that a city official was present during the entire meeting and that this may have discouraged the director from freely talking. Also, as the Team later found out, this factory received gas and electricity even during Armenia's worst years when nobody else received either. This may be an indication that the factory's director is well-connected and that problems which could impact ordinary businessmen do not affect his operation.

## C Financial Resources

Any discussion of tax revenues and public finances in Armenia must be undertaken against the constant backdrop of an economy ever so slowly returning from collapse, and a tax base that, if it has not disappeared, has been largely pauperized

Based on information received from the Community Chief of one of the mid sized cities of Armenia, the revenue sources, and the per cent they represented of his total budget were as follows

Land tax and Property Tax	approx	30%
Duties and Fees	approx	15%
GOA Subventions and Subsidies	approx	40%-45%

By law, local self-government communities receive 95% of both the Land and Property tax collected in their communities. Much to the chagrin of the community chiefs, the rates of taxation and the assessed valuations of land and property are established by the National Government and not the respective communities. The land and property taxes form a significant proportion of total local government tax revenues. Interviews with the Tax Inspectorate revealed that these two taxes form, on average, approximately 70% of total budget revenues in the case of rural communities, and approximately 40% of total budget revenues in the case of urban communities. The rates of collection of these taxes is low. Many community chiefs allege that this is due to the fact that its collection is not a high priority for the tax inspectorate given that 95% of the proceeds go to the local communities. A recent change now places collection of these taxes, from individuals not enterprises, under the control of the respective community chiefs. In addition, community employees can be authorized to effect collections.

The Law on Local Duties and Fees, among other things, establishes the types of Local Duties eligible to the communities. The list is as follows

- For a license to start construction, or change the exterior of a building
- For a license to take down a building
- For a license setting up temporary construction
- For a one-year license to sell tobacco products
- For a one-year license to sell alcohol drinks
- For a one-year licenses to operate after midnight public facilities for gambling, catering, saunas, other night amusement facilities
- For a one-year license to keep a dog
- License to carry out public gatherings, manifestations, demonstrations and other public measures
- License to use the community's name in the titles of legal entities
- License to bury in the community's cemetery

Local fees established are as follows

- For approval of technical and economic conditions and executive documents on new building construction or changing exterior of an existing building
- For Land measurement of plots to be rented or withdrawn from rent
- For participation in tenders on implementation of local government activities

This schedule of Duties and Fees is subject to the local duty rates that are established by the respective local council, acting on the Mayor's proposal

However, the GOA Law establishing these Duties and Fees also sets ceilings for them, and at rather modest levels! This would appear to be one more example of the National Government undercutting the theoretical powers of local governments by setting the operational rules of the game at levels which effectively emasculate local government authority

#### The Financial Equalization Law

The purpose of this legislation, as stated, is to promote harmonious development of the communities, reduce the financial differences between communities and facilitate the local governments implementation of mandatory powers. The amount of the budget subsidies to be provided is determined by the GOA, which in addition to taking into account the local community per capita income tax, land tax and property tax revenue, also allocates funds based on location in an earthquake zone, and location in border and/or mountainous areas. The basis for the distribution among the different categories is not particularly transparent. Fifteen per cent of the income tax revenues collected are earmarked for distribution under these financial equalization operations. While Equalization operations are relatively new and therefore, don't have an extensive track record, interviews with mayors and several finance officers revealed dissatisfaction with the amounts received and complaints that the bulk of the "equalization" funds were going to the earthquake zone and the border areas.

While clearly taking into account the distressed nature of the GOA's revenue base, the Team would nevertheless like to offer the observation that the percentage of public revenues going to local governments in Armenia is significantly lower than is the case in most other FSU or former Socialist Bloc nations, themselves also embarked on the difficult transition to independent nationhood, a market economy, and a more democratic society featuring the emergence of more empowered, more autonomous local self-government units. Absent progress to increased fiscal decentralization, (which is clearly the desired solution if democratic local self-governance is truly the desired end result) the sharing formula must be more generous, more transparent, with timing and amounts more predictable.

#### D) Municipal Services and Practices

##### 1 Condominiums, Privatization and Market-Oriented Technique

The greatest progress being made in the area of municipal services and assets through privatization and market-oriented techniques is through the condominium program introduced by ICMA in 1993. Legislation now recognizes condominium associations as legal entities. The Law on Local Governance gives community chiefs the mandatory power to supervise and assist in the formation of condominium associations. By the end of 1998, approximately 40% of Armenia's housing stock should be registered as part of a condominium association.

The first piece of legislation which recognized condominiums associations as legal entities was flawed and had to be revised. That law permitted the residents of only one apartment building to form a condominium association. Given that the average building in Armenia contains about 60 apartment units and that many Armenian households have little disposable income, many condominiums were not financially sustainable. Thus, new legislation signed by the President on May 7, 1998 allowed for any number of individual buildings to join together in a condominium.

ICMA founded the Real Estate Association and Condominium Training (REACT) Center. REACT provides training for condominium presidents and accountants in the area of property management and accounting. Courses are offered at an

introductory and advanced levels. Such training is vital to the success of the Condominium program because it is not enough to simply register associations; residents must also be provided with the leadership and management tools needed to run an association.

ICMA also helped found the National Association of Condominium Owners (NACO) which was registered in September 1997. While initially nurtured both financially and managerially, NACO now has a good chance of becoming sustainable; they have now collected enough membership fees to carry them for 10 to 12 months beyond February 1999.

Many municipalities have embraced the condominium concept because it helps to alleviate the tremendous responsibility of caring for the housing stock, much of which is in an advanced state of disrepair due to deferred maintenance. Once a condominium association is formed, it becomes responsible for collecting its own fees and for the provision of its own cleaning, maintenance and repairs.

On the other hand, some municipalities have reportedly resisted the condominiumization of their housing stock. William Schlansker, ICMA's Country Director, told the Team that certain mayors may be benefiting from maintenance fees collected by the JEKS (public housing maintenance services) from non-condominiumized, multi-residential buildings for maintenance. When a multi-residential building becomes a condominium, JEKS can no longer collect fees from them. For this reason, some mayors, according to Schlansker, have actively discouraged condominium formation.

The creation of condominium associations is increasingly leading to the privatization of urban services, which were formerly provided by the state, and market-oriented techniques. Many condominium associations competitively contract with private companies for trash removal and building maintenance. Sometimes, condominium association members will carry out work themselves instead of paying condominium membership dues. This is a necessary alternative to paying condominium fees in a society where even a few dollars per month is beyond the means of many.

In the eyes of the GOA, especially the Prime Minister, the Condominium program has been highly successful. The PM has advocated since early 1999 to keep the condominium formation process going and has reportedly developed a number of proposals on how to use the associations created (at the time of this writing, we unfortunately do not have any of the PM's proposals).

The Team feels that the Condominium program should continue to be supported, whether through ICMA or through another contractor. The creation of condominium associations is helping to foster a new market for private maintenance services. At the same time, associations help relieve local governments of the responsibility of caring for the housing stock. Finally, fostering the creation of condominium associations is an excellent way to get citizens involved in grassroots activities.

## 2 Municipal Infrastructure And Service Delivery Planning

The Team found that some municipalities visited had plans which prioritized infrastructure development. The Yerevan Community of Achapniak has an inventory of their housing stock and a priority list of the work that each building needs. The City of Charentsavan had the entire city, its buildings, road, communication lines, etc., catalogued in a computer-based, geographic information system. This city also had a database of its entire population and calculated proxy poverty indicator. This indicator was used to provide utility subsidies to poor

households At the same time, the city more aggressively collecting from households who were deemed not to be poor This system has resulted in a 30% increase in utility fee collections

However, planning and prioritizing infrastructure development is only one aspect, actually having a budget to carry out any work is another The Yerevan Community of Achapniak knew what work needed to be done but could only implement a small fraction of it such as resurfacing roads, planting trees and other, non-capital intensive projects They are petitioning central government for the remaining balance they need stating that if certain buildings are not seismically reinforced, they will collapse in the event of an earthquake

The City of Charentsavan, a recipient of USAID-funded budgetary training through ICMA, had an innovative approach to forming a capital budget and using it for urgent repairs and projects with high public visibility The Mayor competitively contracted for certain urban services which he found could be carried for less than if the City did them The money he saved went into the City's capital budget The City also sold public property, the proceeds of which flowed into their capital budget The capital budget was then used to renovate the community's theater They also plan on building a sports complex with funds from the capital budget The Mayor reported that these projects had not only resulted in real improvements, they had increased public trust in their government

The Mayor of Sisian, while he did not have a capital budget, managed to obtain some international donor funding for the rehabilitation of the Sisian Art Gallery and Art School He obtained funding from another international organization for the repair of the community's Music School While there are probably other infrastructure repairs that were more important than art and music schools, such as the City's water distribution system, the funding received was nowhere close to what was needed The Mayor therefore wisely chose to use his limited funding for projects with wide public visibility

In general however, it appears that most local governments are barely able to keep up with maintaining their existing infrastructure Planning additional infrastructure development would be a theoretical exercise in the absence of any significant financial means According to Deputy Minister Armen Khoudaverdian of the Ministry of Territorial Administration, many local governments do not know how to plan capital budgets for even the maintenance of existing infrastructure Municipalities practice triage to keep their crumbling infrastructure from fully collapsing

Another constraint in municipalities being able to plan infrastructure and service delivery development is their inability to borrow funds While local governments in theory have the authority to borrow money as per the Law on Local Self Governance, in practice, none have ever borrowed any Several layers of government would have to approve any borrowing and even if they did, it is unlikely that financial institutions would lend funds to any unit of Armenian local government because of their insolvency

### 3 Potable Water

The provision of potable water is a particular problem throughout Armenia Most urban areas receive only a few hours of water in the mornings and evenings Part of this problem is due to the way responsibility for the potable water delivery system is divided National-level authorities are responsible for providing water to a meter at community's boundary The community is then

responsible for all distribution systems within the community The community is also responsible for collecting water fees from its residents

Water fees are based on a person-per-household basis because there are no water meters to monitor a household's water consumption Water fee collection rates are at only about 30% because many citizens resist having to pay for an erratic water supply and/or are unable or unwilling to pay for something which had pervasively been provided for a symbolic amount Local officials are unable to cut off water to households for non-payment because 1) there is no physical means to cut off just one household without cutting off the entire building and 2) even if water could be cut off at a residential level, it would be politically unacceptable to do so as water, unlike other utilities such as electricity, is life-sustaining

At the same time, communities have to pay the national water authorities for 100% of the amount of water that passes through the city-wide meter However, local authorities the Team spoke to estimate that 40% to 60% of the water the communities were receiving is being lost to underground leaks Even the few water fees communities manage to collect are turned over to the national water authorities so little if any resources are available for maintaining the system Many mayors the Team spoke to regret having inherited water distribution systems in very poor condition without the financial means to maintain them

Several mayors noted that they had been given responsibility for service delivery systems which were in a hopeless state of disrepair, such as the potable water delivery systems or housing maintenance Other more lucrative services, notably electricity, has remained in the hands of the central government

#### 4 Residential Electricity

Cost recovery for electricity has advanced much further along than for water Armenia went from having a sporadic electricity delivery system starting from 1992 (because of an energy embargo and other complications) to 24 hours of electricity in 1995 onwards This was accomplished by approaching a nearly 100% electrify bill collection rate

One step had to be taken before collections rates could increase Electricity meters throughout the country were removed from within houses and apartments where they had been and put in public areas in lock boxes This was done for two reasons, 1) to prevent residents from tampering with meters thereby showing less consumption and 2) to allow authorities to cut a household off for non-payment

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