The Fiscal Decentralization Initiative
for Central and Eastern Europe

Fiscal Equalization in the Caucasus

Edited by

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Fiscal Equalization in the Caucasus

Comparative Summary

Introduction

Fiscal Equalization in the Caucasus is the title of the policy development forum organized by the Fiscal Decentralization Initiative (FDI) held in Bodrum, Turkey on June 16–18, 2005. At this forum, three authors from Armenia, Azerbaijan and Georgia presented their papers and held policy discussions and exchanged experience on the intergovernmental finance reform in their countries, with a particular emphasis on fiscal equalization. The existing local government finance systems of the three countries developed from an identical administrative and legislative history inherited from the Soviet Union and although they have dealt with reforming municipal finances in different ways, they continue to face a set of similar challenges. One of the most striking ones is the increasing disparity of revenue distribution among local governments and thus, a rising inequality in the level and quantity of municipal services.

Even though the three interested countries have a lot in common, each of the papers presents slightly different information. This varied approach makes it difficult to consistently and thematically compare the intergovernmental systems in the three Caucasian countries. Equalization measures also vary and the leader is Armenia – by already utilizing the formula and suggesting a new one.

The Georgian author describes all aspects of reforms, including the political situation in the country and provides a short historic overview. The Armenian author describes the intergovernmental financial system more thoroughly and describes the direction of reforms on the basis of expenditure needs and revenue potential. The author from Azerbaijan thoroughly presents the weaknesses of the intergovernmental finance system, gives reasons for them and provides possible solutions.

Based on the above, I decided to summarize the papers broadly focusing on the most important aspects, with valuable detailed information still available from the original texts. Thematically summarized and compared papers are chapters B to E below.

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Editor