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Armenia Local Government Program, Phase 3

Baseline Review

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Armenia Local Government Program, Phase 3

Baseline Review

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Democracy and Social Reform Office, Armenia Mission
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Prepared by
RTI International 3040 Cornwallis Road
Post Office Box 12194 Research Triangle Park, NC 27709-2194

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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Abbreviations

ABML	Apartment Building Management Law
ACA	Armenia Councilors Association
AMD	Armenian dram [currency]
AWSC	Armenian Water and Sewerage Company
CD-ROM	Compact Disc, Random Operational Memory
CFOA	Community Finance Officers Association
CNCO	community noncommercial organizations
COE	Council of Europe
CSO	civil society organization
GAI	State Vehicle Inspection
GOA	government of Armenia
GTZ	German Technical Assistance Agency [Deutsche Gesellschaft für Technische Zusammenarbeit]
IAC	Information Analytical Center [Eurasia Foundation]
ICU	intercommunity union
IRTEK	Legal Information Center [Armenian]
ISDTC	Information Systems Development and Training Center
IT	information technology
LGP 3	Local Government Program, Phase 3
LGU	local government unit
LLSG	Law on Local Self Government
MCLS	<i>Marpetaran</i> Cash Ledger System
MOFE	Ministry of Finance and Economy
MOJ	Ministry of Justice
MOUD	Ministry of Urban Development
MSL	Municipal Service Law
MTA	Ministry of Territorial Administration
NGO	nongovernmental organization
OSI	Open Society International
PR	public relations
REDAM	European Project for Regional Development of Armenia
ROA	Republic of Armenia
STS	State Tax Service
TACIS	Technical Aid to the Commonwealth of Independent States program [European Union]
UNDP	United Nations Development Programme
VAT	value-added tax

Additional Terms

<i>marz</i>	(singl.) one of 11 subdivisions of the country for central government administration; similar to province
<i>marzer</i>	plural of <i>marz</i>
<i>marzped</i>	provincial administrator or “governor”
<i>marzpetaran</i>	a regional governor’s office

Overview of Baseline Review

Introduction

In 2000, the Urban Institute conducted a baseline review of local government in Armenia. That previous review is substantially different from this current one. Although the 2000 review was more broadly focused to include all local government in Armenia (930 cities) and this 2006 baseline review focuses on the 26 new program cities, there is substantial overlap of review topics. The overlap is intentional to allow comparison of progress in local government autonomy (administrative decentralization), fiscal capacity (fiscal decentralization), and changes at the local level in citizen participation, civil society organization (CSO) influence, and increased transparency.). In addition, this 2006 baseline review focuses more on specific areas of legislation, policy reform, and local-government capacity building and reform.

This baseline review focuses on 26 cities taken from the list of cities referred to as urban cities, as enumerated in the Law on Territorial Administrative Division. The population of these cities is generally greater than villages, although some of the cities in the review are smaller than many of the “cities” not on the urban cities list (e.g., Akhtala, Tumanian

Each major section below corresponds to a component of the USAID sponsored Local Government Program, Phase Three (LGP 3). Each component is broken down into subcomponent topics that look at a specific area of legislation, policy, local government capacity, citizen communication (public relations), and local council capacity building.

The LGP 3 components are:

- Component 1—Policy Dialogue and Reform
- Component 2—Local Government Financial Management Systems
- Component 3—Public Service Delivery
- Component 4—Strengthening Local Government Public Relations
- Component 5—Assistance to Local Councils

Progress in Many Areas

While progress has been made in many areas in which LGP 3 plans to work, more is needed to elevate Armenian local government to contemporary standards as reflected in the European Council’s Charter on Local Self-Government. More transparency and increased communication with citizens are also needed. The table below presents a comparison of the Urban Institute Baseline Review of 2000 (LGP 1) and the findings of this 2006 baseline review (LGP 3).

Table 1. Comparison of 2000 and 2006 Baseline Reviews

LGP 1 Key Baseline Findings (2000)	LGP 3 Key Baseline Findings (2006)
Government Decentralization: Administrative Issues	
<ul style="list-style-type: none"> • LGUs¹ have limited political autonomy through directly elected local representatives who can exercise their functions freely. 	<ul style="list-style-type: none"> • Some progress has been made in this area, but more needs to be done. The <i>marzped</i>² still exercises an inordinate amount of influence over local-government decision making.
<ul style="list-style-type: none"> • LGUs have limited legal authority and practical capacity to carry out their functions as they see fit. 	<ul style="list-style-type: none"> • Some progress has been made in this area. However, local governments that must rely on the central government for approximately 60 percent of their funding can exercise little autonomy.
<ul style="list-style-type: none"> • LGUs have limited administrative autonomy and freedom from hierarchical supervision by other tiers of government. 	<ul style="list-style-type: none"> • LGU administrative autonomy and freedom from hierarchical supervision by the central government has increased, though the autonomy needs to be increased further.
<ul style="list-style-type: none"> • LGUs are not effectively represented in the ROA³ government or legislative process 	<ul style="list-style-type: none"> • LGU representation in the ROA government and legislative processes through proactive efforts of local government associations (professional and political) has begun but needs to be institutionalized.
Government Decentralization: Fiscal Issues	
<ul style="list-style-type: none"> • LGUs have limited financial autonomy and ability to allocate and manage resources commensurate with their responsibilities. 	<ul style="list-style-type: none"> • LGUs have limited financial autonomy and ability to allocate and manage resources commensurate with their responsibilities (no improvement).
<ul style="list-style-type: none"> • LGUs are by necessity too reliant on national government subventions, which are unpredictable 	<ul style="list-style-type: none"> • LGUs are by necessity too reliant on national government subventions, which are unpredictable (no improvement).
<ul style="list-style-type: none"> • LGUs have inadequate authority to finance or be held accountable for carrying out many public functions that are commonly associated with LGUs in other countries. 	<ul style="list-style-type: none"> • LGUs have inadequate authority to finance capital investments.
<ul style="list-style-type: none"> • Most LGUs generate insufficient revenue from local sources 	<ul style="list-style-type: none"> • All 26 LGUs generate insufficient revenues from local sources.

¹ Local government units

² Provincial administrator or “governor”

³ Republic of Armenia

LGP 1 Key Baseline Findings (2000)	LGP 3 Key Baseline Findings (2006)
<ul style="list-style-type: none"> • LGUs are forced to rely on land and property taxes as their primary discretionary sources of local revenue, but assessment and collection is problematic and controlled by national government authorities. 	<ul style="list-style-type: none"> • LGUs are forced to rely on land and property taxes as their primary discretionary sources of local revenue, but have no control over setting the tax rate or tax base.
Service Delivery	
<ul style="list-style-type: none"> • Most LGUs are too small to be fiscally and administratively able to provide local public services effectively. 	<ul style="list-style-type: none"> • Most LGUs do not have adequate revenues from all sources to improve public services (no change).
<ul style="list-style-type: none"> • Most LGUs do not have significant and meaningful public service functions. 	<ul style="list-style-type: none"> • LGUs have a limited range of public services they provide through mandatory services (no change).
<ul style="list-style-type: none"> • The role of LGUs vis-à-vis <i>marzer</i> (provinces), national government ministries, and legal enterprises delivering local public services is not clearly defined, by law or by practice. 	<ul style="list-style-type: none"> • Progress in this area has been through amendment to the LLSG⁴ that limits the audit and review function of the <i>marzped</i> (governor).
<ul style="list-style-type: none"> • LGUs often have no direct or effective control over the delivery of local public services. 	<ul style="list-style-type: none"> • Local government has control over some specific services it delivers (e.g., kindergarten, street cleaning, solid waste pickup).
Citizen Participation	
<ul style="list-style-type: none"> • Citizen understanding of and participation in local government is low. 	<ul style="list-style-type: none"> • There has been very little change in this issue between the dates of the two baseline reviews, particularly in urban cities.
<ul style="list-style-type: none"> • Citizens are generally dissatisfied with local service delivery, but do not believe that they or the local government themselves can do anything to improve the status quo. 	<ul style="list-style-type: none"> • Progress has been made in this area in kindergartens and solid waste collection, yet even they need further improvements. The 2000 baseline study is actually referring to services provided by health and education ministries.
<ul style="list-style-type: none"> • Local governments, in their present state, are not effective institutions of democracy. 	<ul style="list-style-type: none"> • Progress has been made in this area based on the 26 city interviews, although improvement is still needed.
<ul style="list-style-type: none"> • Citizens lack access to the public information to which they are entitled. 	<ul style="list-style-type: none"> • Progress has been made in this area with the passage of the Freedom of Information Law and because NGOs⁵ and citizens are forcing local governments to make information available.

⁴ Law on Local Self-Government

⁵ Nongovernmental organizations

LGP 1 Key Baseline Findings (2000)	LGP 3 Key Baseline Findings (2006)
<ul style="list-style-type: none"> In most localities, there are insufficient numbers of organized business interests, worker groups, citizen associations, NGOs, and other interest groups to constitute a healthy and pluralistic democracy at the community level. 	<ul style="list-style-type: none"> In the 26 cities, sufficient numbers of CSOs exist to bring about an increased voice in local government decision making (more pluralistic).
<ul style="list-style-type: none"> Condominium associations potentially can provide an effective vehicle for developing cooperative relationships between LGUs and citizen groups, but this possibility has not been developed. 	<ul style="list-style-type: none"> Condominium association development has been a failure in Armenia, at least outside of Yerevan. Although LGP 1 and LGP 2 attempted to increase the number of condominium associations, those outside of Yerevan have not been active in carrying out their responsibilities

From Baseline Study for Armenia Local Government Program, The Urban Institute, March 2000.

Summary

Although progress has been slow in increasing decentralization and building local government capacities, some incremental progress, such as local government land and property tax collection, has been made in isolated areas. The specific areas that show an increase are presented in detail below.

Additionally, this baseline review has collected information used to create an informational profile of each of the 26 cities. In the interest of saving space, this information is attached to this review as a CD-ROM.

I. Policy Dialogue and Reform

Introduction

For a clear picture of the current legislative and policy status of local government legislation, LGP 3 has reviewed reports, analyses, and other relevant documents related to legislative initiatives and policy reform for local government in Armenia. In addition to the document review, LGP 3 has conducted interviews with the Ministry of Territorial Administration (MTA) (LGP 3's legislative counterpart), the Ministries of Justice (MOJ), Urban Development (MOUD), and Finance and Economy (MOFE). LGP 3 has also interviewed staff and committee members of the National Assembly and Presidential Commission on Local Self-Government. In addition to these important sources, LGP 3 has held meetings with mayors and deputy mayors of LGP 3 program cities to solicit their legislative concerns and desires. Finally, LGP 3 has consulted the four local government associations on legislative initiatives and decentralization of the central government. What follows is a general description of the current status of legislation and policies relevant to local government and decentralization in Armenia.

Overall, the baseline review found a considerable lack of commitment to administrative and fiscal decentralization by the central government of Armenia. During the last few years there has been progress in lessening the legal intervention by the *marzped*, particularly for audits of local government financial transactions. However, when using the Council of Europe (COE) Charter for Local Self-Government as a guide, many areas remain where laws that affect local government could better provide increased administrative autonomy and fiscal capacity, allowing local governments to provide services more effectively. (See Annex A-1 for an analysis of the COE Charter items that Armenia does not meet.)

The national referendum on November 27, 2005, that resulted in the passage and adoption of amendments to the Armenian Constitution, gives LGP 3 an opportunity to work with major stakeholders to develop increased local government administrative and fiscal autonomy (increased decentralization). Based on the constitutional amendments, the government of Armenia is mandated to draft new legislation to implement the amendments' mandates.

There are signs that local government, local government associations, and perhaps individual mayors have increased their lobbying efforts and advocacy for increased funding and autonomy for local government. This trend coincides with COE pressure and other donor efforts to motivate Armenia to implement greater decentralization. One recent example has been tabling the amendment to the LLSG that provides for the establishment of intercommunity unions (ICU). Mayors, three of the four local government associations, and others opposed the proposed amendments to the LLSG for many reasons, but paramount among them was fear that the voluntary aspect of the ICUs would be made mandatory, i.e., forced mergers of local governments were feared. The sponsors of the amendment, the MTA did little to calm these fears by

discussing the need to amalgamate or merge small governments with adjacent larger governments. ICU legislation is covered in more detail further in this baseline analysis.

The baseline review found each of the four municipal associations actively involved in a variety of legislative activities. Each association has submitted proposals and recommendations on a wide range of issues related to their interests and areas of specialization. Additionally, the associations are recommending a number of technical changes in a variety of laws and administrative procedures related to the operations and financial management of local government. All the local government associations have listed legislation advocacy as a high priority at their annual conferences, and they have established an active lobbying effort. At the annual conference, the membership will vote on the association action plan, which includes the legislative action plan as a subpart.

1.1 Status of General Decentralization

Government's Commitment to Administrative Decentralization⁶

The primary law regulating local government is the LLSG, adopted in May 2002, and amended on several occasions during the 4 years since adoption. During this period, the central government has made some incremental effort towards decentralization. For example, the Law on Municipal Service attempts to address the need for a local civil service cadre that is well trained and kept up-to-date in best practices in their respective fields through a certification process. The central government is now attempting to implement the law that requires several collateral laws, amendments to law, and a system that ensures local government staff can receive the training necessary to meet certification requirements.

Some constitutional amendment provisions reflect a significant advance towards decentralization. (A summary of the affected laws and provisions are presented in Annex A-2.) Additionally, the process of executing these amendments also provides a 2-year window of opportunity for LGP 3 to assist the Ministry of Territorial Administration in addressing and problems that are not directly a part of the changes in laws based on these constitutional amendments.

All the amendments have been sponsored by the MTA. Although the process allows for comment from stakeholders, currently no systematic or institutionalized set of procedures exists for draft legislation input. Also, after legislation has been passed, often no implementation plan accompanies it.

Government's Commitment to COE's Charter on Local Self-Government

Upon becoming a member of the COE, Armenia implicitly agreed to abide by and attempt to meet the guideline criteria of the COE's Charter on Local Self-Government. Annex A-1 provides an analysis of the current status of how the

⁶ Administration decentralization is used here to mean granting increased mandatory powers to local governments.

Charter's requirements are being met. In the beginning of 2006, of the Charter's 30 clauses, Armenia was meeting approximately half of the provisions. LGP 3 anticipates that many of the remaining provisions will be met when the government of Armenia (GOA) enacts and implements the legislative changes required by the constitutional amendments. However, it is possible for the GOA to address the constitutional amendments and still not meet all of the COE's Charter requirements.

Government's Commitment to Fiscal Decentralization

The baseline review finds that the central government has made no new legislative proposals related to fiscal decentralization since 2002. The central government has not sought to include further advances towards fiscal decentralization since the adoption of the LLSG, the Budgetary System Law, and the Law on Local Duties and Fees, despite the efforts of city mayors and the municipal associations, particularly the Community Finance Officers Association (CFOA), to introduce language to increase fiscal support to the cities. The CFOA recommended amendments to the LLSG that would add or increase the share of environmental fees, profit taxes, and other revenues; however, there has been no action by the GOA to do so.

Laws Affected by the Constitutional Amendments

Currently, the government's fiscal decentralization plans include developing and enacting legislation that carries out the constitutional amendments that were adopted in 2005. This process must be completed in 2 years. To comply with this timeframe, the following laws have been identified for amendment:

- Law on Legal Acts
- Land Code
- Law on Local Self-Government (LLSG)
- Law on Local Referenda
- Law on Managing and Conducting Control/Oversight in the GOA
- Law on Local Duties and Fees
- Law on Budgetary Systems
- Law on Territorial Division

Please see Annex A-2 for required changes to specific articles of the above laws that are needed to carry out the constitutional amendments.

1.2 The Law on Local Self Government (LLSG)

Several amendments to the LLSG have been enacted recently. One amendment revised the process of removing a city's mayor. The removal process was clarified through amendments to the LLSG that require the *marzped* to go to court to have a mayor removed as opposed to the former process in which the *marzped* took the case to the council of ministers. Mayors regard the change as a step in the right direction, but they would prefer that the power of the *marzped* to remove the mayor would itself be eliminated. A second amendment is the requirement of the mayor to provide the

council with a draft of his decisions in advance of their deliberations as well as posting the meeting agenda in a public place at least 7 days in advance. A third amendment requires the mayor to send to the council members within 3 days all individual acts that have been passed and to post these acts in the council meeting room. A fourth amendment made very minor changes to the *marzped's* role of administrative (legal and performance) oversight of city decisions and actions.

1.3 Fiscal Decentralization Process

Budget Transfers

The baseline review found a lack of central government initiative to increase budget transfers to local governments during the last 4 years. The amount of the transfers have not changed from the 4 percent amount of the previous year's central government revenue receipts, but also the transfers have not taken inflation into account. Hence, local governments have actually lost some fiscal capacity because of inflation, even though no changes have been made.

Currently cities and local government associations are discussing fiscal transfers for possible reform. Local governments and their associations are asking the central government to identify percentages of profit, income, and value-added taxes (VAT) to be shared with local government. The central government response is perhaps to increase the equalization transfer to off-set the loss of profit, income, and VAT taxes that LGUs are requesting.

Law on Equalization

The MOFE has not changed its distribution formula in the last six years. Consequently, the subsidies do not now approach the original goal of equalization among communities. This situation is exacerbated for those communities that simply do not have the economic base from which to grow or meet current operations cost increases based on inflation.

Mandatory and Delegated Powers

The baseline review of current mandatory and delegated powers included administrative decrees and legislative changes. One of the constitutional amendments requires the passage of a law that establishes central government payment for delegated services. However, many of the delegated services need to be more clearly defined before the accepted costing methodology can be applied.

Local governments lack the authority to set the tax rate in their localities or assess the value of property. The current land tax legislation provides for the cadastre office to set the value of land which then serves as a base for the tax bill calculation. However, the land appraisals that are used often do not reflect the real value (appraisal has been based on the expected productivity of the land and not on market prices). Hence, often the appraisal and resulting tax bill do not reflect the real land value. Land owners resist paying the land tax because they see the process as unfair. Cities have the added

burden of trying to collect taxes from land owners while they have had no say in calculating the tax bill.

Cities are expected to collect taxes on land that does not produce crops. Also, cities can not collect taxes on land while it has been declared a disaster zone by the central government. While the cities would agree that taxes should be waived during a disaster, they are often not notified in a timely manner when the waiver period has ended.

1.4 Intercommunity Unions

The baseline review found that, beginning with the LLSG of 2002, a number of provisions related to ICUs have been recommended.⁷ However, a number of suggested provisions that would have provided more specific provisions for ICU formation and operation were excluded from the final adopted law. The proposed amendment does not include adequate clarity or made no provisions at all for the following areas:

- Conducting ICU meetings
- Funding ICUs
- Determining procedures for establishing ICU budgets
- Establishing clear distinctions between member communities' mandatory powers and powers to be "assigned" to the ICU
- Clarifying disposition of ICU property (whether one community withdraws or the whole ICU is disbanded)

In 2005, in an effort to revise Article 8 in the LLSG, the central government proposed a lengthy amendment to address many of the above mentioned items. However, the National Assembly tabled the proposed law on the first reading. Opposition within the central government and from the local government associations and prominent mayors contributed to stopping the progress of the proposed amendment. One amendment feature leading to the opposition was the confusion the draft created about what the amendment was supposed to accomplish. In some sections of the proposed amendment, the language appeared to provide for the voluntary establishment of ICUs, whereas in other areas of the amendment, the establishment of ICUs appeared to be mandatory. Where the draft amendment appeared to be mandatory, local mayors feared that the amendment really brought about forced consolidation of small cities. Substantial political opposition resulted because there was not an explanation clarifying the amendment's intention.

Opposition also came from the National Assembly's State and Legal Standing Committee. Based on an interview with the committee's chairman, the proposed amendment did not clearly spell out the funding of the ICU, address mandatory powers, nor define what is supposed to happen to assets contributed to the ICU when

⁷ These are found in the 2002 draft of the LLSG in Chapter 8, Articles 78, "The Right of Forming Intercommunity Associations," Article 79, "The Procedure of Forming Intercommunity Associations," and Article 80, "The Bodies of the Intercommunity Association."

a member community of the ICU withdraws from the ICU. A similar question arose about the disbanding of the whole ICU in terms of asset disposition and the procedures to be used.

Also, the consulted local government associations stated that the draft amendment to the LLSG did not provide for incentives for the cities to voluntarily become members. The associations pointed out that financial incentives from the central government were essential if local governments were to voluntarily establish ICUs that would be sustainable. With the possible exception of moving ICUs to the top of capital investment “subventions,” the central government currently has no plan to provide incentives to ICUs.

1.5 Legislative and Policy Recommendations

The baseline review has identified several areas where amendments to the LLSG and several other laws would move decentralization along, as well as clarify roles and responsibilities, thus bringing Armenia into compliance with more of the COE’s Charter guidelines.

Recommendation 1

The LLSG treats all communities (except Yerevan) as though they all have the same administrative and fiscal capacity. The 930 communities vary in population, managerial capacity, and available financial resources. Fifty-nine communities⁸ (12 of which are Yerevan districts) are considered urban, and the remaining 872 are small rural towns or villages. No differentiation is made in functional areas, such as planning, in a medium-sized city of 30,000 and a small village of 300.

The central government acknowledges that the annual allocation from the central budget to these villages does little more than finance administrative overhead. The GOA has made a tacit distinction between all cities and the urban list of cities (the urban list of cities as attached to the Law on Territorial Administrative Division). A further distinction between the ranges of capacity related to size and the fiscal resources of local governments needs to be made in the legal definition of powers.

Recommendation 1: A legal distinction be made between the size of local government and the mandatory services they are required to provide.

Recommendation 2

No provision in the current LLSG allows cities and their associations to review and comment on proposed legislation related to all aspects of local government, particularly related to public finance and annual adoption of the national government budget. The draft provision, proposed in 2001, omitted a provision that the national government shall consult with local governments and social organizations and the

⁸ The Law on Territorial Administrative Division was amended on June 13, 2006, granting urban city status to the village of Avrum in Tavush *marz*.

national government shall not force local government by decrees or directives to undertake actions not provided for by law.

Recommendation 2: The Law on Local Self-Government be amended to provide for local government associations to be given an opportunity to comment on legislation prior to passage.

Recommendation 3

The mayor is required by law to submit to the city council a 3-year urban development and investment program. Although the 3-year plan includes objectives, our baseline review finds that the plans are no more than a “wish list” and are not supported by a project feasibility analysis or committed revenues for operational expenditures. In most instances, there has been no public input. LGP 3 sees this situation as a legislative opportunity to upgrade to a more comprehensive 5-year strategic development plan to include citizen participation and identify potential financial sources, backed by an action plan.

Recommendation 3: The LLSG should be amended to provide for a more comprehensive strategic development plan and establish a procedure to provide for citizen participation and comment on proposed development plans.

Recommendation 4

The Municipal Service Law (MSL) was adopted in 2004. However, because of the complexity of this new law, the implementing regulations have yet to be finalized and published. Currently, the United Nations Development Programme (UNDP) has a draft set of regulations and job descriptions to implement the MSL, but these drafts have neither been approved by the central government nor been implemented.

Recommendation 4: Coordinate with UNDP and other donors to move the Municipal Service Law implementation forward.

Recommendation 5

The current Law on Local Referenda requires very complex, time-consuming, and costly procedures to be followed. The procedures need to be streamlined to simplify and make the referenda process less costly.

Recommendation 5: The local government associations and LGP 3 recommend changes to the Law on Local Referenda to make it easier to carry out referenda at the local level.

Recommendation 6

The MOFE has not established regulations for issuing municipal bonds. Some cities in Armenia have been approached by bond underwriting firms to issue bonds. As a result of a roundtable conference involving major stakeholders held in 2003 by LGP 2, there was agreement that the MOFE would draft regulations for issuing municipal

bonds. However, the regulations have not been adopted, and there has been no progress in making this fiscal tool available to cities.

Recommendation 6: LGP 3, after it has conducted its municipal bond market assessment, will work with stakeholders to move municipal bond regulations forward.

Recommendation 7

A number of State Tax Service (STS) administrative procedures need to be revised. Local governments do not have the power to change land categories, thus losing income generated from land tax sources in two ways. First, when the land is developed, but the cadastre classification remains in a lower category, a loss of land and property tax revenues result until the state cadastre office performs a reassessment. Second, when the state cadastre office performs a reassessment but lowers the value, the old projected property and land tax revenue figures for that year cannot be amended, and as a result, the city must reduce expenditures to accommodate the change and not incur deficit spending.

Change can be accomplished only by government order to the cadastre office. This process is cumbersome, time-consuming, and often does not get done in time to affect the following year's tax bill. STS does not provide updated data on commercial enterprises in a timely manner. Cities have asked that it be provided at least bi-monthly.

Community-owned land and property are not properly registered, thus preventing proper leasing or renting of these properties and the opportunity to receive income. The communities' land and property registration with state cadastre requires substantial payment of fees for survey and registration with no provision to waive or underwrite these fees out of the national government budget.

Recommendation 7: LGP 3 will work with mayors and local government associations to address timely transfer of tax information, changes in tax status, and simplifying and lowering the cost of municipal land registration.

Recommendation 8

The language in the LLSG is ambiguous and often does not provide sufficient guidance for ministries and local governments. For example, Article 3 of the LLSG, adopted in 2002, states that, "Local self-government is the constitutionally guaranteed right and capacity of local self-government bodies acting at their own responsibility and as provided by the legislation, to manage the community's property and financial resources, and to resolve the problems of community importance with a view to improving the well-being of the population."

Article 3, coupled with other articles, tends to provide more guidance, but the language is still not clear enough to provide unambiguous guidance. This situation gives the ministries more latitude to control what, when, how, and in some cases, why

local governments must act. The net result of the ambiguity and the ministerial control encroachment further reduces local government administrative autonomy.

Recommendation 8: LGP 3 coordinate with the local government associations and program city mayors to develop and present amended language for the LLSG to the Ministry of Territorial Administration for consideration and submission to the National Assembly.

Recommendation 9

Fiscal autonomy of local governments is very constrained in Armenia. On average, approximately 40 percent of the total local budget is generated through local land and property taxes, rents and sale of municipal assets, and local fees and charges. The remaining 60 percent of the local budgets are made up of budget transfers from the central government. However, even the 40 percent revenues collected must pass through the central government treasury system that exercises some oversight role in the process of the revenues.

Local governments are able to provide only the barest level of services given local resources and fund transfers. In the short-term, the level of transfers must increase if the local governments are to maintain or increase the current service levels. The current funding level from the central government is less than one-half of the funding levels that Eastern European transitioning governments are providing to their local governments.

Recommendation 9: LGP 3 will work with mayors and municipal associations to encourage the central government to increase the current level of fund transfers to local governments to provide better local services.

II. Local Government Financial Management Systems

Introduction

Armenia local governments continue to struggle to meet service demands with the same level of central government funding that they received four years ago. The central government has not increased its funding transfers to take inflation into account, which means that local governments actually receive less than they received four years ago. Alternatively, the central government and national assembly have passed legislation that mandates costs without any additional transfers (e.g., tax collection costs, kindergarten teachers' salary increases).

Baseline data indicate that financial management in Armenia local government varies greatly from the very rudimentary to quite sophisticated in terms of accounting and bookkeeping knowledge, financial practices and management, internal control, and procurement policies and practices. The difference in skill levels and experience depend on the size of the community and its budget. The baseline data also present a

clearer picture in several areas of local government budgeting and financial management practices.

2.1 Financial Management System

Eleven of the 26 program cities demonstrate superior financial management and budgeting skill levels.⁹ In these cities, the finance staff keeps abreast of recent legislation, developments, and new practices in budgeting and financial management and MOFE changes in regulations. Furthermore, 3 of these 11 cities, Dilijan, Masis, and Vedi, as well as 2 other cities, Abovian and Ijevan, are participating in a program sponsored by the UNDP to develop and implement performance budgets. As an initial step in its cooperation with the UNDP, these cities have produced and distributed budget-in-brief brochures to the community. Although these cities manage to generally keep abreast of financial management and budget principles and practices, all stated that they would welcome an opportunity to gain more information about new practices and procedures relative to financial management and budgeting.

However, the remaining 15 communities are far behind their more skilled and practiced contemporaries. These communities do not produce a budget-in-brief to inform citizens of the budgets' major revenues and expenditures. The smallest communities demonstrate only the most rudimentary financial management and budgeting skills and practices.¹⁰

Many of the cities located further away from Yerevan have complained that they lack current regulations and models of procedure because of the slowness of the central government to disseminate the rules and regulations through its *marz* offices. Some cities remedy this situation by traveling to Yerevan to get the direction on procedures and regulations they need. For the very small cities, this additional cost and time effort can be a substantial burden on their limited budgets. Additionally, the lack of means of communication, such as an Internet connection and old and poorly maintained land telephone lines, makes it difficult to get regulations from a government Web site, not to mention the additional cost of an Internet connection.

Personnel turnover in the smaller cities causes another problem in maintaining local skill levels and knowledge. Because of the change of chief financial officers, the new staff in Chambarak and Noyemberyan face serious problems in identifying or finding the necessary financial documents and reports from previous years, because the former staff's filing and documentation systems were not systemized. By having difficulty in finding previous year's records, uncertainties arise in the figures and in the overall methodology of financial management.

⁹ The cities are Agarak, Armavir, Charentsavan, Dilijan, Gavar, Goris, Hrazdan, Masis, Meghri, Vedi, and Yeghegnadzor.

¹⁰ For example, Chambarak, Noyemberyan, Tashir, and Tumanian are very small communities as reflected in their financial management and budgeting skills.

2.2 Capital Planning, Budgeting, and Project Proposals

The baseline review indicates that the cities do not have well formulated long-term capital planning. The current law requires only a 3-year development program, which is not a long-term capital planning document.¹¹ Based on the 3-year plan, local governments compile requests for subventions to be granted to their city by the central government. There are no standard methodology or subvention criteria. Often the city receives a subvention based on the personal relationships the mayor has with *marz* and central governmental officials.

Alternatively, the 3-year plans neither contain the in-depth analysis that will bring about long-term results to the city, nor are many of them sustainable. Baseline data suggest that there is no citizen input for the choice or prioritization of projects. Data also suggest that only half of the local councils have any input on the selection of capital projects.

Even when there is input from citizens and the local council, baseline data indicate that there is very little project feasibility analysis or fiscal and operational sustainability review or planning in terms of proposing the capital project to anyone other than the Armenia Social Investment Fund (funded by an International Development Agency loan to the government of Armenia). Additionally, review of the types of projects funded in the 26 cities by central government subventions indicates that they are for street resurfacing, infrastructure maintenance, or elimination of consequences of natural disaster, which is important but not necessarily sufficient for long-term sustainable development of the cities.

As described above, cities do not have capital investment plans that would attract potential donors or international organization funding, with the exception of the 12 cities provided technical assistance by LGP 2. Based on the data from the 26 cities, none have sold bonds or receive a bank loan. Although the first reason for not using such financial tools to obtain funds for capital improvements is because of lack of MOFE regulations, an additional reason is that the cities have no experience in development of capital-investment project packaging. There is a clear link between the city's financial management and project package development that is missing. They lack the ability to show potential grantors and lenders that the project is well thought out and engineered and has a specific budget developed for paying debt service and the operational costs of the project.

2.3 Public Procurement and Asset Management

The baseline review indicates that none of the 26 new program cities has implemented an asset management system. Cities are required to have a detailed listing of assets for their balance sheet and reports to the central government.¹² However, without an asset management plan, it is difficult for the mayor and local council to make good decisions on the use, lease, or sale of property. Additionally, without an asset

¹¹ When the mayor takes office, whether newly elected or reelected, he or she must produce a 3-year social and economic development plan within 3 months of taking office. Often these "plans" are little more than a list of infrastructure projects not related to a larger community development plan.

¹² Article 46, Law on Local Self Government

management system, cities often do not use their very limited funds to maintain structures in the most efficient and effective way. Another problem for cities without an asset management system is that they often lease property below the level that would properly maintain it. Baseline data reveals that most cities have no systematic review of assets and their cost-revenue. The available information is located in several different departments and time-consuming to collect for review.

Public Procurement

Financial data from the baseline review indicates that the cities' procurement procedures are not well systematized. Procurement procedures, while generally meeting the requirements of the procurement law, often lack a clear paper trail from which to evaluate whether they generate the best value for the city, are fair, or have not been subjected to fraud. Further procedures reviews are needed to develop them to ensure best value for the city, provide fairness to all potential bidders and suppliers, and dampen the potential for fraudulent processes.

2.4 Cash management

All of the 26 new program cities have land- and property-tax collection cash management systems that conform to the *Marzpetaran* Cash Collection Ledger System (MCLS). In the MCLS property and land tax, cash payments are entered on numbered receipts and submitted to the *marzpetaran*. Tax collectors that have contracted with the city also follow this same procedure.

All other cash transactions are recorded on consecutively numbered receipts and submitted to the treasury office of the MOFE.¹³ Some cities prefer not to handle cash transactions and set up a relationship with a local bank. The bank accepts payment to the city and deposits those receipts into the city's treasury account. This procedure has the benefit of limiting the handling of cash at the local government office and fewer transactions related to the same receipt event. Some of the smaller cities must develop their banking relationships in a nearby city, because there are no banks in their own city.

2.5 Internal audit system

The internal audit and controlling system varies from city to city. No program city has a full-scale internal audit function in the sense that the audit carries out both performance (proper authority and responsibility to approve transactions) and transaction review (review of sample transactions for accuracy and completeness). However, under the guidance of the MOFE, local finance department staff does carry out a review of municipally owned enterprises.

It should be noted that in all the cities the internal auditor, if one exists, reports to either the finance director or directly to the mayor. In many ways this approach defeats the purpose of internal auditing either of municipal departments or municipal enterprises. The mayor appoints and the local council approves the management for

¹³ Examples of these transactions are lease rents, payments for services, and other documents.

the municipal enterprises. He also appoints the heads of departments.¹⁴ Thus, in many cases, the person conducting the audit reports to the person whom he is auditing, the mayor.

Eighteen cities have a specific person on the finance department staff to carry out the function of internal audit. Eight cities do not carry out any internal audit function. The general procedure is that the city finance office develops an audit work plan and schedule and submits it to the MOFE for approval. Upon approval by the MOFE, the city financial department staff conducts the audit of the city's enterprises. When the audit is completed, a written report is made to the mayor, to the local council (and in some cases), and then forwarded on to the MOFE.

The MOFE audit guidance given to local governments is weak because the audit capacity within the MOFE lacks sufficient resources to audit all local governments. A United States Treasury program is currently working with the MOFE to strengthen the audit capacity of the MOFE. This effort will strengthen the support and oversight that the MOFE provides to local governments.

2.6 Tax Database

All 26 new program cities have received computers and software from the German Technical Assistance Agency (GTZ) to manage land and property tax collection. In some cities, the Financial Departments are in charge of property and land tax collection; whereas, in others, there are separate departments with varying names, such as, Department of Tax Collection, Department of Property Tax Registration, Service and Collection, and Department of Revenues.

The percentage error in tax records databases for personal land and property and legal land and property varies from city to city. Baseline data indicates that there are problems with both the land and property tax data base for individuals as well as legal entities (enterprises). For example, in 6 cities of the 26, the percentage error in the property tax ranges from 30 to 40 percent.¹⁵ Generally, the same cities that have data base problems with property tax data also have problems with their land tax data base.

Data received from the State Vehicle Inspection (GAI) represents the majority of the property tax base errors. The GAI states that its hardware and software needs to be upgraded, and it needs to be able to cross-check vehicle registrations with the owner's residency more closely. Similarly, the State Cadastre Office has difficulty in maintaining property records where there are multiple owners of the property because of limitations in its software.

In addressing the problems of the eight cities that have the most severe level of database error, it will be necessary to coordinate the information received from the GAI and the State Cadastre Office with the local verification effort.

¹⁴ Until the Municipal Service Law is fully implemented and enforced, the mayors will continue, as they have in the past, to appoint their selection of personnel for the positions in city departments.

¹⁵ The six cities are Akhtala, Artashat, Chambarak, Gavar, Kajaran, and Tashir.

2.7 Computerization and Documentation systems

The computerization level in the baseline cities is generally low. While the specific use of computers varies from city to city, there are some common traits that have been observed. The use of computerization depends on the skills of the staff and also on the presence of an information technology specialist to keep the systems running.

Eighteen cities have networked computer systems, and eight cities are not networked or not fully networked. Tax collection computers are networked if there is more than one as part of the delegated function and control the State Tax Inspectorate has placed on cities before approving their collection of land and property taxes. Of the 26 program cities interviewed, 22 had installed the Information System Development and Training Center's (ISDTC) Office Works software.¹⁶

In terms of budgeting and financial management, the CFOA has developed budgeting software based on Excel spreadsheets that the program cities are using. However, in many of the cities, there is a duplication of effort to keep the computerized systems operating, while at the same time making manual entries on MOFE forms in some cities.

2.8 Recommendations for Financial Management Systems

Recommendation 1

The baseline review indicated a need to develop better capital budgets and capital planning. As a corollary activity, the cities need to be able to put together capital improvement proposals that increase their chances of central government, donor, and lender funding.

Recommendation 1: Provide capital budget planning and proposal writing as a package to increase the potential funding for capital projects.

Recommendation 2

Asset management systems are lacking in the 26 program cities. Decisions on asset use, lease, or sale are made on an ad hoc basis without the benefit of historical cost trend analysis. An asset management system would enable local councils and staff to make informed decisions not only on whether to lease or sell an asset and on the minimum price to set, but also to compare current costs of specific facilities and make decisions on their use (e.g., to consolidate two separate kindergartens into one building).

Recommendation 2: Provide asset management system training, software, and technical assistance in using the asset management system

¹⁶ ISDTC developed this software with donor support to improve local-government citizen registration and the local government archival system to track communications between the mayor and department heads and citizens.

Recommendation 3

Although a majority of the 26 program cities have assigned internal audit responsibilities to a city staff person, local internal control continues to be weak because of the policies and procedures adopted and the limitation of audit skills to be found in local governments.

Recommendation 3: Assist program cities in conducting a review of accounting, bookkeeping, and procurement procedures to strengthen their ability to dampen the potential for corruption.

Recommendation 4

Many cities have made the effort to correct errors in the databases they have received for land and property tax collection. Others have not been able to do so, or have not had the resources to eliminate errors in their databases.

Recommendation 4: Assist program cities that have a greater than five percentage of error factor in their databases.

Recommendation 5

Computer applications for municipal financial management can be improved and integrated further. The current information technology (IT) systems of cities does not allow for efficient and effective use of contemporary hardware and software.

Recommendation 5: Assist program cities to conduct an information technology self-assessment for increased automation and increased information sharing and flow.

III. Public Service Delivery

Introduction

This baseline review includes the public services of all 26 LGP 3 program cities. The information was gathered by using an extensive questionnaire about services that each city provides.

The major services the 26 program cities provide are: kindergarten and special schools (art, music, and sports), street lighting, street cleaning, solid waste collection, street repair, storm drainage, park landscaping, community centers, libraries, cemetery operation, and apartment-building maintenance (in some cases management.)

Water and wastewater services, although the assets are owned by the city, have been conveyed to the Armenian Water and Sewerage Company (AWSC). The AWSC is a national-government-owned enterprise that has hired a management company to manage the day-to-day operations of the water systems in approximately 52 cities.¹⁷ Although water, wastewater, and heating are mandatory local government services,

¹⁷ The AWSC entered into a 5-year management agreement with SAUR Sevan Services in 2005.

very few cities provide these services. Only three of the 26 new program cities manage their own water systems. It is most likely that the previous 10-year leases that the cities had signed, giving the AWSC the right to operate the systems, will continue even though all mayors served by the AWSC system were unhappy with the quality and level of service. Three main reasons support the status quo. First, central government policy supports the approach of AWSC continuing to provide these services. Second, the cities cannot get the capital funding needed to rehabilitate the distribution systems within the cities. Third, most cities do not have the trained personnel to take over the day-to-day operations.

The manner in which local government has provided heating service over the last three years has taken the form of obtaining natural gas service to the city and to the various neighborhoods of the city. None of the 26 new program cities continue to maintain a heating network using the old micro-region boiler system.

All the interviewed cities indicated that kindergarten and special school service, though needing more funds, were not the major source of their day-to-day management concerns. The 26 cities listed solid waste collection, water and wastewater service, and apartment-building maintenance as their major public service concerns. Individual cities also have specific areas of concern. For example, the city of Dilijan has indicated that storm drainage, erosion onto streets (mudslides), and portions of streets washing away pose particularly serious problems.

3.1 Waste Collection and Disposal

Type of Service Management and Ownership

Solid waste collection is carried out by municipal departments, private entrepreneurs (sole proprietorship), open joint-stock companies (private enterprise), closed joint-stock companies (municipal enterprise), and condominiums organizing their own solid waste collection (for several large apartment buildings). Out of the 26 cities, the study found that the following groups engaged in waste collection:

- Three municipal departments¹⁸
- Six municipal enterprises
- Five private enterprises where the city owns a minority of stock
- Ten private enterprises
- One sole proprietorship
- One condominium association

Based on the above information, 35 percent of the cities provide their own solid waste collection either by a municipal department or by a wholly-owned municipal enterprise. If the five enterprises where the cities own less than a majority are counted

¹⁸ A municipal department differs from a municipal enterprise in that the municipal department has day-to-day management oversight by the mayor and municipal department head (a civil service employee), while the municipal enterprise does not have the day-to-day oversight by the mayor. The municipal enterprise only reports periodically to the mayor and local council.

as private, and the sole proprietorship is included, the majority of solid waste collection is done by private enterprise (62 percent). The condominium association does not serve the whole community but provides the only solid waste collection available for large apartment buildings (See Appendix A).

Population Served and Contracts with Customers

The local coverage for waste collection in the 26 cities ranges from a low of 21 percent of population served to 100 percent. Of the 26 new program cities, only 11 serve the whole community. Limited service is generally a result of lack of equipment, such as collection trucks and containers that are compatible with the lifting arm of the compactor collection trucks. In the other 15 cities, neither the communities nor the entrepreneurs have sufficient capital to serve the whole community. In a few cities, the streets are too narrow for a vehicle to access the garbage containers.

Frequency of service varies substantially from city to city. Nine cities (35 percent) pick up solid waste every day and another nine cities (35 percent) pick up three times per week. Five cities (19 percent) pick up only once per week and three cities (11 percent) pick up twice per week.

Contracts with individual customers have proven to be a positive influence on whether the customer pays the collection fee. Twelve of the 26 cities provide solid waste collection without an individual contract with each household.

Service Fees and Collection Rates

The local service provider sets the collection rate that is then approved by the local council. In setting the rate, unit costs or other such criteria are not taken into account. Recent action by the Yeghegnadzor local council may underscore that it is not necessarily the fee but the quality of service that affects collection rates. When the Yeghegnadzor local council raised the tariff for solid waste collection by 50 percent, the collection rate did not drop. The increased fee will help purchase replacement equipment for collection.

The actual fee collection rate varies drastically from 1.5 percent in Martuni to 91 percent for Berd. However, some of the information is suspect because many of the private enterprises use money paid for street cleaning to cover the solid waste collection costs. The average collection for the group of 25 cities (one city has been unable to provide the collection rate) is 47 percent. In essence, the city budget ultimately pays for the 53 percent that is not covered by fees.

Unit Costs

In 18 of the program cities, solid-waste collection per-unit cost ranges from a low of 650 Armenian drams (AMD) for a cubic meter of solid waste to AMD 2.268 per cubic meter of solid waste. In 8 cities insufficient data was available to make a calculation. With such a wide variation of solid-waste pick up, more analysis must be conducted

to determine the basis for such a wide variation. Also, it is important to develop an average cost-per-unit amount to detect whether corruption might be occurring.

Land Fill Operations and Recycling

Except for Nor Hachn and Artashat, all program cities operate their own landfills, but none are currently meeting landfill operation requirements specified in Armenian environmental law. Primarily, the cities fail to (1) fence in the landfill to prevent material from flying away, (2) cover dumped garbage with a soil layer to prevent the spread of material and bacteria, (3) provide appropriate drainage away from the landfill, and (4) limit burning and the release of toxins in the air.

Additionally, there are environmental concerns with dumping garbage in chutes in the large buildings and infrequently picked-up containers. This is a problem in the summer time when the pick-up is less than three times per week.

None of the 26 cities have a recycling program. In a few, there are local entrepreneurs that collect glass and paper. Currently, plastics, metal, and nonmetal wastes are not picked up for recycling. The landfill impact can be reduced by recycling and reusing much of the material that is currently being dumped.

3.2 Other Public Works Services

Type of Management and Ownership

In all but four of the cities (Byureghavan, Kajaran, Nor Hachn, and Charentsavan), the same organization that provides the solid waste collection also provides many of the other public works activities such as street cleaning, landscaping, cemetery operations, street lighting maintenance, and street repair. As mentioned above, this arrangement blurs the distinction of where the city funds allocated for specific services and paid to these entities are used. For example, money coming from the city's general fund to pay for street cleaning may be diverted to cover solid waste collection costs. The current process may also provide an opportunity to overcharge or pay corrupt officials. It is essential that the city get a detailed accounting of the provided services that is linked closely to the payment for those services.

Population Served

The public works services described in the section above are services that affect the entire community. With the exception of street cleaning, the services are provided on an as-needed basis.

3.3 Kindergarten, Specialized Schools, Community Centers, and Libraries

Types of Management

All of the 26 cities provide kindergarten and specialized schools (art, music, and sports). Most also provide a community center and a library. These services are

provided through city departments often referred to as community budget organizations. In 2005, a new law provided for the conversion from community budget organizations to community noncommercial organizations (CNCO). This law has brought about increased decentralization where the fees for education are retained by the CNCOs as opposed to first going to the city and then to the education budget organization. Expenses not covered by fees must come from the city's budget. To date, the cities of Charentsavan, Gavar, Martuni, Masis and Yeghegnadzor have adopted the CNCO management and organizational structure.

Population Served and Fee Collection

Community centers, libraries and kindergartens usually serve the entire city. However, not all children attend the kindergartens because their parents cannot pay the monthly fee that represents from 10 to 50 percent of the actual kindergarten costs. Many of the cities attempt to address the needs of families living at poverty level by waiving the kindergarten fee. Art, music, and sports schools also serve the entire community. Like the kindergartens, art and music schools charge a monthly fee per student. Currently, sports schools have not been charging a fee; however, there are few cities now attempting to charge a fee for specific sports training such as basketball and taekwondo.

On average, the cities cover 83 percent of the cost of kindergarten, with parents picking up 17 percent. Art schools receive 76 percent of their budget from the city and 24 percent from parents, and music schools receive 60 percent of their budgets from the city and 40 percent from parents. Sports schools fare the best; all but two receive 100 percent of their budgets from the city. All cities stated that they have programs to assist low income families.

3.4 Apartment Building Management and Maintenance

Types of Management

Among the 26 new program cities, management and maintenance of large apartment buildings can be divided into three groups. The first group consists of condominium associations working and providing the management and maintenance for the buildings. Three cities have active, properly working condominium associations—Charentsavan, Nor Hachn, and Kajaran.

The second group lacks management structure and organized maintenance to the extent that the city has taken over the management and maintenance function, often appointing a specific staff position for this function (including collecting fees to cover the costs of maintenance). Nine cities make up the second group.

The third group consists of the 14 remaining cities where the city provides neither management nor periodic maintenance and does not collect any fees.

Maintenance

Depending on the type of management, large apartment buildings receive either periodic maintenance or none at all. Active condominium management provides periodic maintenance and repairs as resources permit. However, the collection rate, even among active condominiums, is low (30 to 50 percent). In those cities where the city has established a responsible party and a maintenance budget, the maintenance also tends to be periodic. However, even with periodic maintenance, the city often does not have the funds for major repairs and must collect fees until the funds are sufficient to carry out the repair.

Those cities without active condominium management, either private or city-operated, remain without periodic maintenance or repairs being carried out. Under the Law on Large Apartment Building Management, if the owners of the apartments do not establish a management structure (there are three structures provided for in the law), the city must step in and make repairs once the building has reached a critical stage of structural unsoundness. This stop-gap, last resort approach is intended to address the lack of any systematic maintenance and repairs. However, it places a burden on the local government that it can not meet financially. Although the law provides for the city to take the emergency measures, the collection of funds to cover the emergency repairs is left to the city. Cities must then take nonpayers to court and incur the legal costs, not to mention the time delay in payment, if the court decides in its favor.

3.5 Heating Service

Heating service is still a mandatory service of local government based on Article 38, Subparagraph 7 of the LLSG. However, none of the 26 program cities is providing heat through the former centralized heating networks that existed during the Soviet era. Instead, cities have expended public funds to extend gas lines to their cities and within the cities to service individual residences and large apartment buildings.

The gas supply is provided by a private company that signs agreements with individual apartment or house owners. The private company manages the service once the gas lines have been installed. However, some cities have provided individual households (apartments or separate houses) with heating service and equipment for low income families.

3.6 Water and Wastewater Service

With the exception of 3 of the 26 cities, water and wastewater services are provided by the AWSC, a national-government-owned enterprise. AWSC has contracted with SAUR for management services.¹⁹ AWSC has leased the water and sewer systems from the cities for various periods of time, from ten years to 25 years.

Although the 26 interviewed cities almost unanimously stated that the water and wastewater services are not at a level with which consumers are satisfied, the cities are unlikely to be able to take over water and wastewater services. On the one hand,

¹⁹ The firm is SAUR Sevan Services.

the cities lack the fiscal capacity to rehabilitate the existing systems or to build new systems. In addition, the cities have few, if any, employees who are qualified to operate the water or wastewater treatment plants. On the other hand, AWSC does not appear to have the capital to move quickly with new distribution lines and treatment plant and reservoir rehabilitation or replacement in the cities it serves.²⁰ In fact, most of AWSC's capital to date has gone for transmission line replacement and repairs, water meter installation, general management, billing and accounting system upgrades, and other equipment needs that can be used regionally.

3.7 Recommendations for Public Services Delivery

Municipal Solid Waste Management

Recommendation 1

Management of the solid waste collection and landfill operations must be improved if increased performance and coverage of the community is to take place.

Recommendation 1: Establish a performance-management working group, develop a performance-improvement plan, and an action plan to ensure that agreed performance criteria are met. The action plan would include fee collection improvement.

Recommendation 2

Solid waste collection, kindergarten, and other fee services must improve their collection rates before service improvements can become sustainable.

Recommendation 2: To increase the service provision system

- Establish a break-even service fee (initially)
- Establish a support program for those who cannot pay
- Install new billing software, initially for solid waste, and then for other services
- Establish the two-receipt billing system
- Implement a customer service program

Recommendation 3

The solid waste collection process has negative environmental impacts that can be reduced or eliminated. Given the limited financial resources of the cities, they should focus on no-cost or low cost efforts to reduce the negative environmental impacts of solid waste collection.

²⁰ According to the AWSC's 2005 annual review, it operates 12 water treatment plants and 14 wastewater treatment plants (on lease from the cities).

Recommendation 3: Conduct an environmental scan with the goal of reducing the negative impact of solid waste collection and landfill operations. Additional activities should be to

- Develop brochures that encourage residents to recycle solid waste materials (recycle and reuse)
- Develop a solid-waste landfill management plan

Recommendation 4

Recent legislation allows for the conversion of municipally owned enterprises that provide educational services to be converted into community noncommercial organizations. One of the purposes behind the legislation is to ensure that the fees collected for local kindergartens and special schools are not diverted to other services or expenditures. Hence, under the new legislation, fees collected for kindergartens or other special educational activities must be spent for those purposes.

Recommendation 4: Assist cities in establishing the community noncommercial organizations and establish a working group to determine performance goals and an action plan to accomplish the performance goals for kindergartens and special schools (music, art, and sports).

Recommendation 5

Apartment building maintenance and management should be carried out by apartment owners based on the Apartment Building Management Law (ABML). Yet, this law has not been successful in getting apartment owners to establish condominium associations or other management structures and to effectively carry out apartment building maintenance. Cities, however, are obligated by the ABML to step in when the maintenance situation begins to threaten the soundness of the building and to carry out the maintenance. Many local mayors have implemented municipal departments for apartment building maintenance as a way of meeting the ABML requirements and to proactively address the maintenance before it becomes a critical situation.

Recommendation 5: Assist program cities in evaluating the viability of establishing apartment building maintenance programs in cooperation with apartment building owners.

Table 2. Garbage Collection

Cities	Name and Type of Management	Percent of People Served (%)	Percent of the People with Signed Contracts (%)	Percent of Actual Collected and Disposed Waste (%)	Fee Collection Actual Rate (%)	Calculated Cost per Unit (AMD per 1 m ³)	Number of Dump Trucks (unit)	Number of Compactors (unit)	Average Frequency of Waste Collection from Each Location (daily, every 2 days, etc.)
1	2	3	4	5	6	8	9	10	11
Agarak	"Gihon KBT" CJSC, 100% municipal company	76.92%	50.0%	48.08%	2005-77%	not calculated	1	1 rental	2-3 times per week
Akhtala	"Diiva" Ltd, 100% private company	48.39%	0%	48.39%	2005-27.8%	650	1 rental	-	once every 10 days
Armavir	"Barekargum", 100% municipal company	37.50%	37.5%	43.30%	2005-80%	N/A	3	2	every day
Artashat	"Artashat Communal Services" OJSC, 34% owned by the municipality	100.00%	0%	88.60%	2005-36%	1500	6, 1 rental	2	once every 2 days, once every 10-15 days
Ashtarak	"Victoria" Ltd, 100% private company	100.00%	11.75%	93.10%	2006-15%	not calculated	1 rental	2 rentals	once every 2 days
Berd	"Jramatakararum & Barekargum" CJSC, 100% municipal company	49.38%	51.88%	100.00%	2005-91%	not calculated	2	-	once every 2-3 days
Byureghavan	"Communal Enterprise of Byureghavan" OJSC, 34% owned by municipality	63.73%	52.77%	100.00%	2005-34%	2500	2	1	every day
Chambarak	"Chambarak BKT" OJSC, 34% owned by municipality	20.77%	20.74%	100.00%	2005-53%	1700-1900	1	-	once every 3-4 days

Cities	Name and Type of Management	Percent of People Served (%)	Percent of the People with Signed Contracts (%)	Percent of Actual Collected and Disposed Waste (%)	Fee Collection Actual Rate (%)	Calculated Cost per Unit (AMD per 1 m ³)	Number of Dump Trucks (unit)	Number of Compactors (unit)	Average Frequency of Waste Collection from Each Location (daily, every 2 days, etc.)
1	2	3	4	5	6	8	9	10	11
Charentsavan	"SAMBARK" Ltd, 100% private company	100.00%	75.47%	91.93%	2005-60%	900	2	2	once every 3 days
Dilijan	"Dilimaq" Ltd, 100% private company	100.00%	0.00%	74.10%	2005-19%	1800	5	1	once every 2 days
Gavar	GavarTrans Limited, 100% private company	100.00%	0.00%	100.00%	n/a	888	1	2	every day
Goris	"Goris TNT" CJSC, 100% municipal company	40.21%	0.00%	100.00%	2005-52%	1800	3, 1 rental	-	every day
Hrazdan	"Hrazdan Communal Economy" CJSC, 100% municipal company	62.50%	condominiums	93.87%	2006-37.5%	1300-2500	5 rental	2 rental	every day, once every 2-3 days, once per week
Kajaran	"Qajarani komunal intesutyun" OJSC, 100% private company	100.00%	100.00%	100.00%	2005-90%	2268	4	-	every day
Martuni	"Martunu Pail" CJSC, 100% municipal company	90.11%	0.00%	67.26%	2006-1.5%	N/A	1 rental	-	once every 2 days
Masis	"Masis BKT" OJSC, 100% private company	100.00%	7.60%	27.80%	2005-9%	not calculated	2, 1 rental	2	every day
Meghri	"Meghri BKT" OJSC, 34% owned by the municipality	48.08%	22.40%	88.67%	2005-50%	1600	1	-	once per week

Cities	Name and Type of Management	Percent of People Served (%)	Percent of the People with Signed Contracts (%)	Percent of Actual Collected and Disposed Waste (%)	Fee Collection Actual Rate (%)	Calculated Cost per Unit (AMD per 1 m ³)	Number of Dump Trucks (unit)	Number of Compactors (unit)	Average Frequency of Waste Collection from Each Location (daily, every 2 days, etc.)
1	2	3	4	5	6	8	9	10	11
Nor Hachn	Condominiums and "Communal" municipal non commercial legal entity, 100% owned by municipality	100.00%	condominiums	71.43%	2005-70%	1250	2	-	every day
Noyemberyan	"Baretēs" CJSC, 100% municipal company	27.21%	31.33%	100.00%	2005-25%	780	1	1	once per week
Spitak	"Housing and Communal Services of Spitak" OJSC, 100% private company	100.00%	0.00%	100.00%	2005-30%	1097	1	3	once every 2-3 days
Stepanavan	"Municipal Economy of Stepanavan" OJSC, 34% owned by municipality	100.00%	0.00%	77.65%	2005-30%	1000-1100	4	6	once per week
Tashir	"Municipal Economy Services" Company, 100% municipal company	44.84%	12.00%	85.56%	2006-50%	1400	1 rental	-	once every 2 days
Tumanian	"Samvel Veranian" Individual Entrepreneur	45.72%	0.00%	100.00%	2005-71.6%	not calculated	1 rental	-	once per week
Vayk	"Gogi" Ltd, 100% private company	47.59%	0.00%	100.00%	2005-30%	1500	1	-	once every 2 days
Vedi	"Communal Service", 100% municipal company	100.00%	0.00%	11.00%	2005-60%	not calculated	2	-	once every 2 days, 4 days in a week
Yeghegnadzor	Housing Communal Organization" OJSC, 34% owned by municipality	76.19%	36.85%	100.00%	2005-75%	3500	-	2	every day

IV. Strengthening Local Government Public Relations

Introduction

Cities in Armenia differ from each other in their attitude toward public relations (PR); therefore, the way PR is handled varies from city to city. While some cities discourage citizen participation and disdain transparency, others encourage it. There are numerous reasons why a city adopts a specific attitude toward PR. Two important factors that set the tone for the local attitude are the personality and preferences of the mayor and the local staff's experience and attitude toward communicating with citizens.²¹ Attitude, as reflected in a continuation of the Soviet era attitude toward city residents, presents a special and long range problem. In some cities, this Soviet era attitude is still practiced, and staff feels that the resident does not have a right or need to know what local government is doing or plans to do.

However, the recent trend toward more decentralization is granting local government increased powers and responsibilities because it is the local government that is closest to those they are supposed to serve. The European Council's Charter of Local Self Government provides guidelines and emphasizes the principle of subsidiarity that underscores that the government closest to the beneficiary should provide the service.

Along with increased decentralization and local government responsibility come the added responsibility to better inform citizens and to seek feedback on how to best provide those decentralized services. This circumstance calls for better PR at the local government level.

The baseline study conducted in 26 Armenian cities indicates that the situation at the local government level follows the pattern described above but can be further defined. Local government officials are very reluctant to share information, not only with city residents but also with one another. A more detailed list of current local-government PR practices emerged from the LGP 3 baseline analysis:

- Soviet era thinking and the lack of transparency and open communication
- Authoritarian approach of keeping information centralized
- Poor understanding of PR principles and practices
- The belief that PR is something “western” and “fashionable” rather than a powerful management tool
- Fear that citizens will know too much and will get too involved with municipal affairs
- Fear that if citizens know more they will require more from the local government

²¹ Communication with citizens is considered a part of local government public relations. In fact, any event where citizens (or customers of local government services) and local government elected or appointed officials meet or communicate with citizens is a public relations event.

- Opinion that citizens “do not understand”; therefore, everything should be decided for them
- Lack of financial and other technical means to ensure PR implementation (printers, computers, Internet)
- Lack of time for PR because municipal staff is too busy with other work

To conduct the public relation baseline, LGP 3 staff prepared a questionnaire and interviewed local government staff in the 26 program cities.²² The PR questionnaire consists of 26 questions that are grouped into the following basic areas:

- Communication (regular newsletters, brochures, mass media, public notice boards, municipal directories, meetings with constituents, etc.)
- PR departments or responsible people
- Citizen information centers
- Training
- Awareness of and compliance with the Freedom of Information Law (FOI)
- Processing citizens’ requests and complaints and providing appropriate feedback
- Open decision making processes (council meetings, budget hearings)
- Cooperation with NGOs and youth groups

4.1 Communication

“Communication” is understood to mean various tools and techniques that local governments employ to keep citizens informed of community affairs, seek citizens’ opinion, and encourage further participation.

These tools and techniques can be, for example, the media, brochures, newsletters, information boards, municipal directories, meetings with the public, and TV interviews. From observations made during the baseline data gathering interviews, local governments, in general, do not effectively use many of the above-mentioned techniques to disseminate information and involve people in local government processes. Television, followed by the print media, is the preferred means of mass communication by local councils and city staff. When there is no local TV station or newspaper, local councils and city staff rely on bulletin boards at City Hall and person-to-person communication. Occasionally, a local government will produce a periodic newsletter, but the cost of this PR tool is beyond some of the smaller cities’ budgets, skills, and initiative.

The table below outlines the types of communication tools the 26 program cities use and the percentage of cities that use these tools.

²² The cities are: Agarak, Akhtala, Armavir, Artashat, Ashtarak, Berd, Byureghavan, Chambarak, Charentsavan, Dilijan, Gavar, Goris, Hrazdan, Martuni, Masis, Meghri, Nor Hachn, Noyemberyan, Spitak, Stepanavan, Tashir, Tumanian, Vaik, Vedi, Yeghegnadzor.

Table 3. Communication Tools

Communication type	No. of cities Using the Communication Tool	Percent of 26 Cities
Local newspaper (articles and public service announcements)	13	50
TV (programs and public service announcements)	14	54
Radio	3	12
Participation in TV programs	12	46
Information boards	16	62
Municipal office directories	4	15
Meetings with the public (group and individual)	21	81
Periodic newsletters/brochures/announcements	7	27
Municipality phone directory	12	46

4.2 Public Relations Responsibility Assignment

The baseline data gathering process revealed that cities have not used communication tools and PR techniques such as periodic TV programs to inform the public or periodic newsletters to inform citizens about local government programs or activities.

Eight of the 26 the program cities have PR departments and have a good understanding of the PR role and goals.²³ In the rest of the cities 26 cities, the PR function is carried out by the chiefs of staff at a very limited level, or performed by department heads who take responsibility for communication concerning their own departments. One result of the lack of a specific PR policy and the dispersion of the PR function is that it leads to poor coordination and overlap of communication activities and confusion.

In municipalities, PR is very often confused with media relations. Local officials think that it is enough to provide information material to local TV stations or newspapers to ensure good PR. The local government council or staff do not have a clear understanding that each interaction with citizens, oral or written, is a manifestation of PR, because it is through these meetings, discussions, and written communication that the image of local government is formed.

Even the cities that have PR departments do not develop a PR strategy or a plan of action. There is no money set aside in the local budgets for publishing or distributing brochures, organizing citizens' events, and other activities that increase communication between local government officials and citizens.

In addition, there exists a poor understanding of the fact that PR can be a strong management tool that can work to the benefit of local government. From interviews

²³ The department may have a different name but performs public relations functions.

with local officials, it became clear that, in a majority of cases, PR is viewed as a tribute to the western style of doing things. The majority of local officials interviewed think that PR is not worth spending the money and effort on brochures, newsletters, TV interviews, and other citizen events, when in fact, good PR practices will eventually result in a higher level of citizen trust and satisfaction with the work of the local government.

The table below shows the assignment of PR responsibilities.

Table 4. PR Responsibilities

	No. of cities	Percent of 26 Cities
PR policies and procedures	8	31
PR department	8	31
Person responsible for PR	10	38

Although 69 percent of cities have assigned the PR responsibility to an individual or established a department, only 31 percent have established PR policies and procedures.

4.3 Information Analytical Centers and Citizen Information Centers

The Eurasia Foundation has established Information Analytical Centers (IACs) in 20 cities (Table 5 below). Initially these centers were to carry out two functions:

1. To serve as a municipal information base for all municipal departments
2. To provide information to respond to citizens' queries and requests for service and to respond to complaints

However, since these IACs were established, several of them have dropped the function of providing information to citizens, archiving and tracking requests for information, service, and complaints received. IACs have become full-time data resources for municipal departments and now function as municipal department support rather than as citizen response offices.

Please see the table below for an overview of services now provided by IACs for LGP 3 new program cities.

Table 5. Eurasia Information Analytical Centers

City Name	IACs Established	IACs Provide Citizen Information	Similar Centers/ Donor Name
1. Akhtala	No		Environmental Center/Eurasia Foundation
2. Ashtarak	Yes (has gone out of operation)	(out of operation)	
2.Charentsavan	Yes	No	

City Name	IACs Established	IACs Provide Citizen Information	Similar Centers/ Donor Name
3. Dilijan	Yes	Yes	
4. Gavar	Yes	No	
5. Goris	Yes	Yes	
6. Martouni	Yes	No	
7. Masis	Yes	No	
8. Noyemberyan	Yes	No	
9. Stepanavan	No		Support to Information Society and Democratic Governance/UNDP
10. Spitak	No		Information Center/TACIS ²⁴
11. Vaik	No		Management Information Center/TACIS-REDAM ²⁵ Project
12. Vedi	Yes	No	
13. Yeghegnadzor	Yes	Yes	Management Information Center/TACIS-REDAM (in process)

4.4 Training

Municipal officials have had very little training on public and media relations and on information handling. Of the 26 program cities, three cities (Vedi, Charentsavan, Noyemebryan), have received PR training on “Citizen Participation and Its Role in Local Government Decision-Making,” conducted by Open Society International (OSI). Another factor impacting the local government’s PR function results from a majority of trained officials having left local government employment or no longer holding office.

4.5 Awareness of and Compliance with the Freedom of Information Law

The Armenian Parliament adopted a Freedom of Information (FOI) Law in September 2003.

The FOI law was a big step forward in terms of regulating citizen access to information. The law specifies the type of information local governments must make available to citizens and other requesters, sets the time frames within which to provide the information, and stipulates the procedures to follow. It also states when information is confidential and not to be made available to the public.

²⁴ Technical Aid to the Commonwealth of Independent States program [European Union].

²⁵ European Project for Regional Development of Armenia.

Access to information is essential for the best results from any PR process. Citizens' right to know what the local government has done, is doing, and plans to do is preserved by the FOI law. In actual practice, however, the baseline study indicates that local government staff and councils must become more familiar with the FOI law and ways to meet its requirements. During the interview of the 26 cities, some communities responded that they were not aware that the FOI law had been passed and that it applied to them. Others interviewed were vaguely aware of the FOI law but not its requirements for local government staff in providing information or the time frames in which to do so.

4.6 Processing Citizens Requests, Complaints, and Giving Appropriate Feedback

Manual Process

Citizen requests for information, requests for services, or lodging written complaints follow a specific process in Armenian local governments. The process is as follows:

1. The mayor's secretary, the general department, or the secretariat receive the request for information or service or receive a complaint
2. The request or complaint is given a tracking number and is forwarded to the mayor
3. The mayor responds directly or sends it to the appropriate department
4. The Chief of Staff monitors the items sent to the departments to make sure that responses are given

Automated Process

In the cities where the Eurasia Foundation established Information Analytical Centers, software developed for Armenia local governments was also installed.²⁶ This software enables staff to enter and process citizens' inquiries, requests for service, or complaints, and tracks the responses. The system works well in terms of ensuring that the local government staff meets the FOI law requirements for responses. However, many cities that have the software do not use it, preferring instead to continue with a manual system. There are two main reasons why the software is not being used. First, the person trained in using the system may have moved to other employment. The second, and related reason, is that staff responsible for using the system may not have been trained to do so and, therefore, prefer to revert to the manual approach for recording and tracking local government responses.

The size of the community affects the information process to a great degree. During the baseline interviews, the number of inquiries, requests for service, or complaints varied from a low of 5 per month to 250 per month. The number of written complaints was low because individuals preferred to lodge complaints in person. A wide range of the requests for information or service presented at the local government level did not lie within the local government's service jurisdiction. From 5 to 70 percent of the

²⁶ The software is called Office Works and was developed by the ISDTC, a local government association that focuses on information technology used for local government applications.

monthly requests for information or services need to be forwarded to the appropriate central government ministry for processing.

4.7 Open Decision-Making Processes

Armenian local governments are not transparent in their decision-making processes. According to the baseline interview of 26 program cities, municipalities may place ads in local or national newspapers and may participate in TV shows presenting specific topics of local government activities. However, citizen participation in local government decision making has not increased over the past 5 years.

Conversely, citizen attendance at local council meetings is very low, and in many cities it is nonexistent. To be fair, citizens are not encouraged to participate in Armenian local council deliberations. The LLSG allows for citizens to attend local council meetings but does not ensure that they are given an opportunity to be heard on specific agenda items. The local councils often do not provide for citizen input in their meeting agendas. Two factors that dampen citizen participation in local council meetings are the small size of the meeting location—often meetings are held in the mayor’s office, which doesn’t accommodate the public—and not advertising the meetings in advance to give citizens adequate time to arrange to attend. On rare occasion, even the local council is not informed of meetings within the legally required timeframes.

The local council’s frame of mind also affects citizen attendance. Because of the retained Soviet era mindset that citizens do not need to be involved with local government decision-making and policies, many councils respond to citizen attendance at council meetings in an adversarial manner. Such an attitude produces a negative response and negative attitude toward local government.

4.8 Cooperation with NGOs and Youth Organizations

The baseline data collection reveals that NGOs are active in many of the communities. Based on interviews, the size of the community may not reflect the number of active NGOs. In many cities, the local government cooperates with NGOs by funding all or a portion of their activities or by providing space for an office at City Hall. However, the link between NGO activities and local government setting priorities or policies is weak. In some cities, NGOs provide policy input on specific problems related to the NGO’s specific area of activity or expertise.

Youth programs in LGP 3 program cities are increasing in activity, primarily based on donor funding. Several of the programs permit or require the local government and council to sponsor youth activities and to increase local government awareness of the needs of local youth. Programs such as the USAID-funded Youth Action Program, Tree Planting Program, Junior Achievement, and others make an effort to involve youth in community programs and in taking on a community activity.

4.9 Recommendations for Strengthening Local Government Public Relations

Based on the interviews in the 26 program cities, the following recommendations are made to address strengthening local government PR.

Recommendation 1.

Training and technical assistance to start changing the former Soviet era mindset should be implemented. It is anticipated that it will take a long time for the old mindset to change without external pressure being brought to bear on behavior.

Recommendation 1: Change the attitude of local government officials toward public relations from perceptions as a “western fashion” to one that sees public relations as a powerful tool to communicate with citizens and to generate support for local government programs and operation.

Recommendation 2

If PR is to improve, it will be necessary to train local government officials in PR principles and techniques and to assign PR responsibilities to specific staff. Additionally, to ensure that the training and activities are sustainable, the local government should budget for public and media relations activities.

Recommendation 2: Establish responsibility for public relations in those cities that have not assigned the responsibility to specific staff and establish adequate funding for PR activities.

Recommendation 3

Establishing or strengthening PR policies and procedures will help local government departments and elected officials understand and prepare for efficient and effective work with local media.

Recommendation 3: Conduct public and media relations training for local councils and local government staff and establish public and media relations policies and procedures.

Recommendation 4

As described above, the FOI Law is not well known among elected and appointed local government officials. Training local government staff in complying with providing information will help improve citizens’ access to information and local residents’ willingness to trust and rely on local government.

Recommendation 4: Provide training on the implementation of the Freedom of Information Law and assist those cities that have established citizen information centers in meeting the law’s requirements.

Recommendation 5

Many cities do not have a local newspaper or TV station operating in their city. In these cities, it would be beneficial for residents to receive a periodic newsletter, budget-in-brief, or other information on city events.

Recommendation 5: Assist cities that desire to publish a newsletter or other informative publication. Encourage the installation of public notice and directory boards at City Hall.

V. Assistance to Local Councils

Introduction

The role of an Armenian local council member is very limited, based on the local government's powers and fiscal resources. This limitation is also based on the lack of a tradition of strong counterbalance between the mayor and the willingness of the council to act. Few local councils question the mayor's proposals and policies, and even fewer challenge the mayor if he oversteps his authority. Although the LLSG, along with recent amendments, gives local councils a policy-making and oversight role, councils seldom fully exercise the policy-making role, nor have they established rules of procedure that give more depth and specific guidance than is found in the LLSG.²⁷

Local government councils vary in size depending on the size of the community. They may range from 5 local council members to 15. In 2005, the Electoral Code was amended to elect local council members in an at-large capacity, as opposed to representing a specific district.

Local council members have not recently received training on their roles and responsibilities or on establishing their own rules of procedure. Out of the 26 program cities interviewed, only three had established rudimentary rules of procedure for councils. The remaining 13 rely totally on the procedures outlined in the LLSG, although the LLSG requires local councils to establish rules of procedure.

The last round of local elections—for mayors and councils—took place in October 2005. One new feature of local council elections in 2005 provided for council members not to be elected to represent specific city districts, but to be elected at large. Election of mayors and council members take place at the same time, except when the mayor leaves his post prior to the end of his term. In cities where the mayor does not serve out his full term, the date of the election for the mayor changes to the date the vacating mayor is replaced.

The current baseline study of 26 cities includes a general analysis of the mayor-council relationship; general situation of local councils in Armenia; and council roles, responsibilities, and required skills.

²⁷ Article 11, Law on Local Self Government, as amended.

5.1 Mayor-Council Relationship

Party affiliation plays a significant role in the relationship between the mayor and local council. If the mayor and council are of the same party, very little antagonism exists between the mayor and council. However, in a few cities where the local council is made up of a different party than the mayor's party, there tends to be much more friction and disagreement over policies and the local government's performance. Baseline interviews could not determine whether the councils that were made up of opposing party affiliation are more effective watchdogs or simply antagonistic, and if the working relationship between the two results in being less effective in serving the public.

In contrast, when the mayor is dominant and the local council and mayor belong to the same party, the local council often does little more than rubber stamp his policies and decisions. What is lacking is the situation where the local council works positively with the mayor, yet also acts as a counterbalance to his policies and decisions to be more accountable to the electorate and ensure the well being of the whole community.

Mayors, in their turn, can play a significant role in creating a favorable working relationship with local councils. Such efforts as ensuring local council members have the opportunity to attend training, providing the local council with a room at City Hall to meet with constituents, and establishing a council chambers at City Hall (as opposed to using the mayor's office) have helped establish more positive working relationships between the two.

5.2 General Situation of Local Councils in Armenia

The following bulleted statements illustrate the current state of Armenian councils in 26 cities:

- Forty-six percent of the council members in the 26 cities have been reelected during 2005 local government elections.
- Seventy percent of councilors hold executive positions in private businesses or the public sector. (Some councilors are heading city-water service enterprises, local power stations, schools, and social security offices.) The previous LLSG prohibited individuals employed in government or in *marz*-level (regional) organizations such as schools and social security regional offices from running for council. However, recent amendments to the LLSG have been adopted that allow persons to hold such offices while also holding a seat on the local council.
- Fifty-three percent of the cities publish names and phone numbers of council members. Many interviewed local councils stated that everyone knows the council members' names in small cities. However, this argument was also used in the city of Vanadzor, the third largest city in Armenia. It should be noted that previous LGP surveys do not support the notion that local citizens know the name of their council person. The survey compiled in 2004 stated

that only 38 percent of those interviewed could name at least one member of the local council.²⁸

- One hundred percent of the cities interviewed for the baseline data collection had local council rules of procedure; these rules were mere cut-and-paste copies of the LLSG provisions (taken from Chapter 2 of LLSG). Thus, detailed and more specific rules of procedure are lacking in all the program cities.
- Eleven percent of the local councils in the 26 cities have received training on the roles and responsibilities of a council, setting policy, and overseeing budget development and execution.
- Fifty-eight percent of the cities provide a room where local council members can meet with residents. However, 12 of these rooms are in great need of repair and proper furniture. Eleven cities do not provide a place where council members can meet with residents.
- Fifty-five percent of the 26 partner cities do not officially notify the public about coming council meetings.
- Eighty-five percent of the cities confirmed that council decisions and ordinances are published on city information boards, in local newspapers, or announced on local television.
- Sixty percent of the 26 cities confirmed that information on legislative changes arrives with delays and often needs interpretation.
- Sixty-nine percent of the cities receive updates on legislative changes through subscription to the government legislative bulletin. Five cities purchase Legal Information Center (IRTEK) legislative software services, and two cities use the Internet to access the Ministry of Justice Web site to learn of changes in laws and new legislation.
- Thirty-one percent of the local councils have passed ordinances on local payments and fees, land use, or budgetary organizations that have been rejected by the Ministry of Justice and returned to the councils for amendment of the illegal sections.
- Seventy percent of the local councils in the cities think that training relevant to their responsibilities as council members will greatly facilitate their work and make their efforts more efficient.

5.3 Council Roles, Responsibilities, and Required Skills

Local council members must be knowledgeable in several areas. For example, the local council should develop its rules of procedure, is required to approve the mayor's 3-year development plan, and approves the annual budget and oversees its execution. These responsibilities give the local council the role of guiding its own "business" and setting policy for development and budgeting. To carry out these roles and

²⁸ USAID Citizen Participation Program in 12 Cities: Report on 2003–2004 Fourth Annual Household Survey Findings, p.10.

responsibilities, and many more, the local councils need specific training. For more details about the local council's roles and responsibilities and the skills needed, please see Annex A-3.

Local Council Training Assessment

The baseline data review of the 26 program cities indicates that local councils need training in several areas, with many of the topics having been identified by city councils and city administration. In most cities, chiefs of staff also expressed interest in participating in training. Presented below are the areas in which training is needed:

1. Legislative training (roles and responsibilities of council, design of rules of procedures)
2. Updates on laws referring to local government activities (Budget System Law, Financial Equalization law, Law on Local Self Government, Law on Local fees and Duties, Civil Code)
3. Budget training (budgeting, capital planning)
4. Long-term strategic planning for cities
5. Land use planning
6. Asset management training (auctions, selling of property, etc.)
7. Environmental issues (intergovernmental relations with ministries, ecological transfers, ecological fines)
8. Relationship of city authorities with other institutions in the city (police, electrical company, water providers)
9. Use and management of large apartment buildings
10. Different issues related to municipal bonds and credit worthiness
11. Public Relations
12. Municipal Service Law implementation

Clusters and Mini-clusters

LGP 3 has divided the country into three regions, the northern cluster or group of cities, the central cluster, and the southern cluster. Each of these regions can then be divided into smaller groups of cities referred to as Mini-clusters.

Table 6. City Mini-clusters for Training

Participating Cities	Date	Location
Agarak, Meghri, Kajaran Kapan, Goris	July–August	Kapan
Spitak, Vanadzor, Tashir, Stepanavan, Akhtala, Tumanian, Alaverdi	August	Alaverdi
Ijevan, Dilijan, Berd, Noyemberyan	August–September	Ijevan
Yeghegnadzor, Vaik, Jermuk, Sisian	September	Jermuk
Artik, Ashtarak, Echmiadzin, Abovyan, Aparan, Nor Hachen, Byureghavan, Armavir	October	Yerevan

Participating Cities	Date	Location
Ararat, Vedi, Artashat, Masis	October	Artashat
Martuni, Gavar, Sevan, Hrazdan, Charentsavan, Chambarak	September	Gavar

5.4 Recommendations for Assistance to Local Councils

Recommendation 1

To have greater effectiveness, the local council should have its own office space where the council meetings are held and where residents can meet individually with their council members.

Recommendation 1: Recommend and work with cities to establish a local council chamber where council meetings can be held and the chambers can double as a meeting place for individual council members to meet with constituents.

Recommendation 2

The *marz* may add a fee for publications of laws, decrees, and regulations. There are also printing and Internet services that provide copies of the laws, decrees, and regulations, but the cost is significant. LGP 3 will work with LGUs to find the lowest cost alternative for receiving updates of the laws, decrees, and regulations.

Recommendation 2: Work with program cities to receive periodic updates on legislation, regulations, and governmental decrees.

Recommendation 3

Rules of procedure are an integral part of the proper operation of local councils. Not only do the rules of procedure ensure that the requirements for the LLSG is met, but that the council meetings are well organized and well run.

Recommendation 3: Develop a handbook to guide local councils and the chief of staff in establishing rules of procedure that not only comply with the Law on Local Self Government, but also provide more detail on the operations of the local council.

Recommendation 4

The baseline review indicates that citizens do not have a clear understanding of the roles and responsibilities of the local council and local government. Increased information about what the local council's responsibilities are and what the local government should be doing would go a long way toward clarifying responsibilities and communicating that to the citizens.

Recommendation 4: Develop and publish a brochure on the roles and responsibilities of the local council for dissemination among residents. The brochures will typically include a description of a council, its roles and responsibilities, and council member contact information.

Recommendation 5

After the initial council training on roles and responsibilities, a national annual meeting would be useful to exchange ideas and experiences and to provide some additional training.

Recommendation 5: Organize and conduct a national annual conference for local councils of program cities to gather and exchange best practices and lessons learned. The national annual conference could be held in conjunction with the Armenia Councilors Association's annual meeting.

Annex A

**Annex A-1: Council of Europe Charter of
Local Self-Government**

**Annex A-2: Constitutional Amendments—
Law on Local Self-Government**

**Annex A-3: Armenian Council Functions and
Required Skills and Areas of
Knowledge**

Annex A-1: Council of Europe Charter of Local Self-Government

Council of Europe (COE) Charter of Local Self-Government

This matrix represents a set of goals toward which RTI technical assistance will focus in its work with national-level local government advocacy groups to develop draft legislation and policy proposals. RTI will assist local governments, local government associations, CSOs, and NGOs in addressing each point mentioned below. Many of the points can often be addressed by one piece of legislation (e.g., Law on Local Self-Government), while other points may require specific policy or legislative proposals.

Article 3. Concept of local self-government

COE Charter Article	Armenian Context	Action to Address
3.2 This right shall be exercised by councils or assemblies composed of members freely elected by secret ballot on the basis of direct, equal, universal suffrage, and which may possess executive organs responsible to them. This provision shall in no way affect recourse to assemblies of citizens, referendums, or any other form of direct citizen participation where it is permitted by statute.	There is a Law on Local Referendum that has not been used.	Initiate constitutional and LLSG amendments to provide for referendum. Provide information about the Law on Referendum so that local citizens can implement the tool.

Article 4. Scope of local self-government

COE Charter Article	Armenian Context	Action to Address
4.3 Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy.	It could be argued that the Armenian law meets this subarticle. However, the thrust of the provision is that local citizens and their local government have the authority to determine their own policies and programs. Amendments to the law on local self-government will enable citizens and local governments to take on greater responsibility and exercise greater autonomy.	This is the subsidiarity concept that has been broadly supported as the foundation of local autonomy and improved service to citizens throughout the COE member countries. RTI technical assistance will work through municipal associations to lobby for increased local autonomy in all areas important to local issues and problems. The primary objective would be to amend the LLSG.
4.4 Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law.	The <i>marzped's</i> dominance and influence in local policies and ministerial oversight greatly reduce any real local autonomy.	Press for amendments to LLSG relative to the role of the <i>marzped</i> and other ministerial intervention in local government decision making.

COE Charter Article	Armenian Context	Action to Address
4.5 Where powers are delegated to them by a central or regional authority, local authorities shall, insofar as possible, be allowed discretion in adapting their exercise to local conditions.	Delegated powers are totally controlled and monitored by the <i>marzped</i> and appropriate ministerial offices.	Amend LLSG to make it clear that delegated powers give the local government the right to provide the service with the greatest discretion.
4.6 Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision making processes for all matters which concern them directly.	Local governments are not consulted prior to legislation adoption. There is no institutional setting for such interaction.	Assist in the institutionalization of parliamentary procedures that check with local government associations.

Article 5. Protection of local authority boundaries

COE Charter Article	Armenian Context	Action to Address
5.1 Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute.	Parliament can change boundaries at will without consultation with local government.	Amend LLSG relative to boundary questions to allow for joint agreement on boundary changes to include annexation and breaking away from an existing city.

Article 6. Appropriate administrative structures and resources for the tasks of local authorities

COE Charter Article	Armenian Context	Action to Address
6.2 The conditions of service of local government employees shall be such as to permit the recruitment of high-quality staff on the basis of merit and competence; to this end, adequate training, opportunities, remuneration, and career prospects shall be provided.	Although there is a new municipal service law, it remains to be seen how well its implementation meets this objective. Even if the municipal service law is implemented, a real lack of relevant training opportunities exists.	RTI technical assistance will work with central government and local governments to implement the civil service law. This effort may include working with other institutional initiatives such as the National Public Administration Academy.

Article 7. Conditions under which responsibilities at local level are exercised

COE Charter Article	Armenian Context	Action to Address
7.2 They shall allow for appropriate financial compensation for expenses incurred in the exercise of the office in question as well as, where appropriate, compensation for loss of earnings or remuneration for work done and corresponding social welfare protection.	Local council members, if paid, are inadequately remunerated for their time and personal expenses unless reimbursed by donor programs.	RTI will work with cities and municipal associations to develop an acceptable norm to reimburse local council members for expenses incurred while doing business on behalf of the city.

Article 8. Administrative supervision of local authorities' activities

COE Charter Article	Armenian Context	Action to Address
8.2 Any administrative supervision of the activities of the local authorities shall normally aim only at ensuring compliance with the law and with constitutional principles. Administrative supervision may, however, be exercised with regard to expediency by higher-level authorities in respect to tasks the execution of which is delegated to local authorities.	This is a key shortcoming of Armenian deconcentration because the <i>marzped</i> and ministry offices frequently intervene and intrude.	Amend LLSG to limit the type, frequency, and areas of intervention the <i>marzped</i> and ministries can carry out as part of their oversight responsibilities.
8.3 Administrative supervision of local authorities shall be exercised in such a way as to ensure that the intervention of the controlling authority is kept in proportion to the importance of the interests which it is intended to protect.	The comments of subarticle 8.2 apply to this subarticle.	Actions are the same as for subarticle 8.2.

Article 9. Financial resources of local authorities

COE Charter Article	Armenian Context	Action to Address
9.1 Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers.	This is clearly not met, and it may not be a priority of the government of Armenia.	RTI technical assistance will press for legislation in the Budget Law that would provide approximately 8 % of GDP, ²⁹ which would bring it in line with the COE average for new joining members.
9.2 Local authorities' financial resources shall be commensurate with the responsibilities provided for by the Constitution and the law.	The delegated powers are not fully funded, and there is not adequate funding to properly cover mandated powers.	RTI technical assistance will press for changes in the Budget Law and LLSG to specify adequate payment for delegated powers.
9.3 At least part of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate.	Local governments have no control over setting land and property tax rates.	Amend the Property Tax Laws to allow local councils to set the property tax rate and to what it applies (e.g., apartments assessed at AMD3 million and under).
9.4 The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks.	Technically, Armenia meets this subarticle, but in practice the local taxes are less beneficial than other taxes or financial resources. The difficulty stems from the maximum revenues land and property taxes can generate as opposed to other taxes or increased share of transfers from the central government.	Work to amend Budget Law to provide funding from personal income tax and corporate income tax.

²⁹ Gross domestic product.

COE Charter Article	Armenian Context	Action to Address
9.6 Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them.	Neither Parliament nor the government of Armenia consult with local governments on the annual Budget Law or Equalization Law.	Assist in the institutionalization of parliamentary procedures that checks with local government associations.
9.8 For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law.	Insufficient national legislation and regulation prevent this from being an avenue of capital.	RTI will provide technical assistance relative to the potential issuance of municipal bonds and establishment of Ministry of Finance regulations to enter the capital markets.

**Annex A-2. Constitutional Amendments—
Law on Local Self-Government**

Constitutional Amendments—Law on Local Self-Government

Constitutional Amendments affecting local governments require new laws or amendments to several existing laws. The articles of the Constitution that require legislation and the laws affected are listed below.

Constitutional Article	New Constitutional Article Language	Required Actions and Affected Laws
106	<ul style="list-style-type: none"> • The law shall define the sources of the community revenues; the law shall define the sources of community finances that will secure the discharge of community responsibilities. • Responsibilities delegated to the communities shall be funded from the national government’s budget. • The communities shall establish local taxes and duties within the scope defined by law. The communities can set forth fees for their services. 	<ul style="list-style-type: none"> • Currently the amendment requires possible change to current LLSG, Budget Law and Law on Budgetary Systems. • Requires possible amendment to current LLSG or new law on delegated functions. • This also requires possible revision to current LLSG and Budget Systems Law, Budget law, Law on local duties and fees and possibly new law on local taxes.
	<ul style="list-style-type: none"> • Responsibilities delegated to the communities shall be funded from the state budget. 	<ul style="list-style-type: none"> • This will require passage of a law that will provide for payment of central government delegated functions to local government. Standard costs per unit will need to be determined and the central government will have to budget for the additional expenditures.
107	<p>The Council of Aldermen of the community shall, in conformity with the procedure defined by the law, manage the community property; approve the community budget upon submission by the Head of Community; oversee the community budget execution; collect local taxes, duties, and fees in conformity with the procedure defined by the law; and adopt legal acts subject to observance within the boundaries of the community. The acts adopted by the community Council of Aldermen shall not contradict the legislation; the law shall define the procedure for their publication and coming into force.</p>	<p>Parts of this amendment are covered in the Law on Local Self Government while others relate to the Budget Law provisions on local taxes, duties, and fees. However, these do not completely conform fully to the amendment, and therefore, will require revisions to the LLSG and Law on Local Duties and Fees and require a new law on Local Taxes, as well as changes to the Law on Legal Acts.</p>
109	<p>The government may remove] the Head of the Community in cases prescribed by the law that are based on conclusion of the Constitutional Court.</p>	<p>Law on Local Self-Government</p>

Constitutional Article	New Constitutional Article Language	Required Actions and Affected Laws
110	<p>The communities may, based on the interests of the public, be merged with each other or separated by the law. The appropriate law shall be adopted by the National Assembly upon the recommendation of the government. Before submitting the legislative initiative, the government shall appoint local referenda in those communities. The outcomes of the local referenda shall be attached to the legislative initiative. The communities may be merged or separated irrespective of the outcomes of the local referenda. The law shall define the principles and procedure for consolidation or separation of the communities as well as the terms for the election of local self-government bodies of the newly formed communities.</p>	<p>The amendment is not covered in the LLSG. Specifically, the LLSG will need to stipulate under what circumstances local governments can merge and how they can be merged. The Law on Referendum will also need to be amended.</p>

Annex A-3. Armenian Council Functions and Required Skills and Areas of Knowledge

Armenian Council Functions and Required Skills and Areas of Knowledge

Function No.	Function	Required Skills/Area of Knowledge
1.	Develop and adopt council rules of procedures.	Law on Local Self-Government
2.	Approve the mayor's 3-year social economic development program for the community.	Strategic planning, Capital budgeting
3.	Approve the community annual budget, amendments, and annual statement of the mayor on the execution of the budget.	Public Finance, Budget Systems Law
4.	Supervise the execution of the community budget and the use of loans and other financial means received by the community.	Law on Financial Equalization, Law on Local Self-Government, Municipal bonds
5.	Determine the procedure and required financial resources for the implementation of voluntary responsibilities.	
6.	Initiate and define the date for local referendum.	Local government legal framework
7.	Supervise the decisions of the mayor on the subject of compliance with law and council decisions.	General legal
8.	Establish the official salary of the mayor.	General legal
9.	Adopt decision to bring a motion to the regional governor, with regard to the removal of the Mayor.	Law on Local Self-Government
10.	Decide on submitting proposal to the authorized state body regarding unification with other communities and creation of ICUs; decide on the appointment of the local council's representative in the ICU.	Law on Intercommunity Unions
11.	Decide on demanding from state bodies and officials the documentation for community issues and demanding documentation for information that is legally defined as nonconfidential.	Council Rules of Procedures
12.	Decide on prior termination of mandate of a council member.	Law on Local Self-Government, Council Rules of Procedures
13.	Make decisions about establishing, reorganizing, and liquidating community budgetary institutions, as well as commercial and noncommercial organizations, with community participation.	General legal
14.	Provide consent to the candidates for positions of directors of the budgetary institutions and noncommercial organizations, submitted by the head of the community.	Law on Local Self-Government
15.	Approve the composition of the boards and supervisory bodies of the commercial organizations with community participation in the manner defined by the legislation of the Republic of Armenia.	Law on Local Self-Government
16.	Approve community regulations for operations for trading, public catering, and services.	Law on Local Payments and Fees

Function No.	Function	Required Skills/Area of Knowledge
17.	Define the size of local duties and fees as defined by law; define the rates for payments for services rendered by the community.	Law on Local Payments and Fees
18.	Make decisions, in accordance with the rural area and city rules, about granting or eliminating the title of honorary resident of the community to the Republic of Armenia and foreign citizens.	Law on Local Self Government, Council Rules of Procedures
19.	Decide on using community property; approve rates of rents, prices, and conditions for the alienation (sale) and the starting price in case of alienation through public sale.	Law on LSG, Law on Public Sales (Auctions),
20.	Make decisions on naming or renaming streets; avenues; squares; community parks; and educational, cultural, and other institutions and organizations under the community's jurisdiction; present their proposal or consent to the state-authorized body for community name changes; adopt decisions on the community's coat-of-arms.	Law on Local Self-Government, Council Rules of Procedures
21.	Approve the number of personnel, the payroll, and the salaries for municipal staff and administrative organizations subordinated to the municipality (enterprises wholly owned by the municipality).	Law on Municipal Service
22.	Approve the zoning scheme of the community; approve the urban development charter of the settlements.	Land use regulations and planning, City master plan
23.	Approve annual inventory list of the community property.	Asset management

Annex B

City Profiles

(PLEASE SEE ATTACHED CD)