

**STRENGTHENING LOCAL GOVERNMENT
FISCAL AND MANAGEMENT CAPACITY**

YEREVAN, ARMENIA

May August 1997

Prepared for

U.S. Agency for International Development
ENI/EEUD/UDH

By

Douglas Shumavon
ICMA Consultant

INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
Shelter Sector Reform Program for the Newly Independent States
USAID Contract No. CCS-0008-C-00-2056-00
USAID Project No. 110-0008
Task Order #117

TABLE OF CONTENTS

1 INTRODUCTION	1
2 APPROACH AND PROJECT DESIGN	1
3 SEMINAR CONTENT AND FORMAT	1
3.1 March Seminar	1
3.2 May Seminar	2
3.3 June Seminar	3
3.4 July Seminar	4
4 SITE VISITS	5
4.1 Introduction	5
4.2 Assessment of Selected Cities	5
5 OBSERVATIONS	7
6 RECOMMENDATIONS	8

ATTACHMENT A. List of Participants

ATTACHMENT B. List of Experts and Observers

ABSTRACT

This report summarizes the progress to date of USAID's project to strengthen local government finance and management in Armenia. The project is comprised of a series of two-day seminars held in the Armenian School of Public Administration in Yerevan. The first seminar was held in March 1997. The second through fourth were held in May, June, and July. Between each of the later three seminars, ICMA local staff, the author of this report and an additional ICMA consultant made site visits to the communities. The communities selected included Abovian, Ashtarak, Jermuk, Sevan, Sisian, and Vanadzor and the Yerevan Community Neighborhoods of Achapnyak and Arabkir.

The content of the seminars included community assessment methods, identification of program strategies, goals and objectives, program budgeting, and performance measurement. Technical assistance included visits to assist with identification of programs, strategies, goals, and objectives as well as forecasting of revenues.

Several of the communities demonstrated exceptional aptitude and initiative in their struggle for independent decision-making at the local level. Two notable successes were Ashtarak and Sisian. Recommendations for the future include working with the same communities through a complete fiscal year and expanding the training to another set of communities.

STRENGTHENING LOCAL GOVERNMENT FISCAL AND MANAGEMENT CAPACITY

1 INTRODUCTION

The consultant served as Municipal Advisor to the Government of Armenia under USAID's Program of Legal and Institutional Reforms, Strategy Component #1, Strengthening Local Government Fiscal/Management Capacity, carried out by ICMA. The project provided technical assistance in program budgeting. Seminars were held monthly in Yerevan with field visits by the consultant between seminars to work with local partners and with local government officials. The first seminar was held in March. Succeeding seminars were held May 24–25, June 26–27, and July 28–29. The remainder of the project calls for a study tour to Hungary and Romania in September and a final wrap-up seminar in Yerevan in October.

2 APPROACH AND PROJECT DESIGN

The project was designed to reach two groups. First, it reached the communities and neighborhoods of Yerevan selected for inclusion in the project. The specific individuals participating from those communities are the deputy mayors and finance officers. The second group includes counterpart (partner) staff. These individuals include four teaching staff and two support personnel. To facilitate transfer of information and knowledge about local government budgeting and finance a series of seminars was designed to present information to deputy mayors and finance officers. These seminars were presented by ICMA consultants and partner staff. Guidance and information was presented to the partner staff prior to the seminars with portions of the seminar presentation assigned to each individual. Homework assignments were given to participants at each seminar. They were obligated to complete these assignments in their localities and to bring back their completed work for discussion and elaboration in the succeeding seminar. Supplementing this, ICMA staff worked with local officials in the communities to facilitate completion of the assigned tasks.

3 SEMINAR CONTENT AND FORMAT

3.1 March Seminar

The March seminar introduced the concept of local government budgeting and worked with seminar participants to introduce the notion of community assessment through a SWOT (strengths, weaknesses, opportunities, and threats) analysis. In addition to case studies, seminar participants were assigned the task of completing a community assessment between the first and second seminars. Participants were required to identify two programmatic areas that would be used throughout the seminar as the focus of budgeting efforts.

The topics of the first seminar included:

- **What budgets are.** A description of the necessity of financial planning. Explanation of multi-year budgets, strategic budgeting, and introduction to the types of budgets.
- **Purposes of budgets.** An explanation of how a budget is a plan for revenues and expenditures so that communities may make informed decisions about their condition.
- **Financial management reform.** Illustration of the effort of initiating new means for thinking about revenue generation and spending. Explanation of what procedures were in the former government and how alternative budget strategies and techniques assist in local government budgeting and create reform.
- **Building community databases.** Presentation of what information is to be collected. A list of indicators was presented to assist finance officers with the development of local databases. Processes and purposes of creating community databases was elaborated.
- **Evaluating community social and financial conditions.** Processes for assessing the community's social and financial conditions. A list of potential city services was presented for participants to use in evaluating the level of services currently provided and to assess need for maintenance and improvements.
- **Homework assignment.** Communities were given the assignment of conducting a study to survey community conditions and to identify two areas for ultimately developing a program budget. SWOT analysis calls for assessment of Strengths, Weaknesses, Opportunities, and Threats projected after collection of data on communities' conditions.

3.2 May Seminar

The May seminar began with each community providing a report on the completion of the homework assignment. The presentations by individual communities varied significantly. All communities completed minimal identification of community conditions, with some lists of conditions significantly more thorough and complete than others. While the format showed variation, most communities were able to present a significant amount of information about their local conditions. This included:

- Population—characteristics, trends, patterns
- Economic conditions—employment/unemployment, municipal financial conditions
- Areas where greatest governmental activity was needed
- Potential for addressing the problems

The presentations by consultants included methods for identifying strategic and programmatic goals and objectives and distinguishing between strategic goals and programmatic goals. Topics of presentation by ICMA staff included municipal policy (what municipal policy is, how local officials work to identify and structure such policies), strategic goals and objectives (linked to municipal policy), and programs (identification of what a program is and how one links activities to programs and program goals). Consultants also defined the three-year plan and how to organize the plan for presentation to the community council. Particular attention was paid to this issue

since the concept of planning under the former governmental structure was radically different and because success in achieving programmatic goals is critically dependent upon realistic planning.

The topics of the May seminar were as follows:

- **Identifying and defining strategic municipal policy.** Explanation of what strategic policy is. How it grows from the vision of elected officials and is translated into community plans. What role the deputy mayors and finance officers might have in facilitating this.
- **Goals and objectives defined and identified.** Explanation of goals (broad, more general statements about what is hoped for) and objectives (specific targets for achievement). Also an explanation of how to identify employees who are responsible for the achievement of goals.
- **Components of the three-year plan.** Outline of what was needed for completion of the three-year plan. Explanation of the differences between previous planning exercises and a practical guide for identifying community needs and matching those needs with budget capacities.
- **Homework assignment.** Communities were to identify goals and objectives for the two programmatic areas selected during the first seminar and to outline the components of the three-year plan. Participants were instructed in linking programmatic goals to a community strategy, linking objectives (targets) to goals, and assigning responsibility for achievement of those objectives to someone within the city organization structure.

3.3 June Seminar

The June seminar began with an explanation of the recently passed Budget Law of the Republic of Armenia (ROA), which Parliament passed just prior to the June seminar. The final version of the new law differed in several important ways from the previous drafts and followed several recommendations offered by ICMA. At the seminar the special assistant to the Prime Minister explained the new law and some of the implications for local government officials.

Several critical principles of the new law were presented to participants:

1. Local governments must have balanced budgets.
2. Accuracy of local government estimates for land and property taxes should be increased because both rates and the tax base are fairly known and consistent.
3. The local government budget process should be transparent; that is, open to public scrutiny and challenge.
4. A separate capital budget should be established (operating expenses should be separated from capital expenses).
5. A financial equalization law is still pending but is anticipated to be passed within the next year.

In distinction from the first draft of the budget law, the final provisions do not leave the state governments (Marz) with significant influence over the local government process or budget. Specifically, the review and approval of local community budgets by the Marz was eliminated. The implications of this are that local governments will have greater autonomy from the state government oversight than previously anticipated.

As in the previous seminars, each community presented homework completed between the May and June seminars. Communities presented their municipal strategies and the goals and objectives developed between the seminars. Most communities demonstrated a significant grasp of the concepts, although one or two did not adequately link their goals and objectives to the programmatic areas selected at the outset of the seminar.

The topics of the June seminar were as follows:

- **Different types of budgets.** Distinctions between objective of expenditure (line-item), performance, and program budgeting were presented. Emphasis on ease of preparation and the items to be purchased was presented with the line-item technique. The relationship between performance and expectations and how to prioritize objectives and assess program efficiency were emphasized with performance budgeting. Presentation of program budgeting elaborated on the link between functions and total costs by programmatic areas.
- **Budget processes and calendar.** Explanation of timing, requirements, and relationship between the fiscal year and the activities of the local governing council were presented. Additional topics included instructions and guideline development, anticipated revenues, publication and communication of the budget proposal, and linkage with council decisions.
- **Types of local revenues.** Presentation of different types of revenues that are available under the new budget law, identifying those under the control of the local government and those under the control of the national government.
- **Forecasting revenues.** Explanation of estimation techniques for forecasting revenues. Simple trend estimation was the focus.
- **Homework assignment.** Communities were asked to identify the revenue sources and to make estimates of revenues for FY 1998. For preparation, a review of the various possible revenue sources, specifically those that will generate funds for localities, based upon the new budget law were presented.

3.4 July Seminar

The July seminar presented participants with a brief summarizing report of the forecasting observed in the field, a presentation of alternative revenues, distinction between operating and capital budgets, optimization methods, benefit/cost analysis, and issues of performance measurement. The topics were:

- **Operating budgets.** What items may be included in operating budgets. This included identifying which areas of budgeting the local government would be responsible for under the new law and some explanation of differences between operating and capital budgets.
- **Capital budgets.** A definition of capital budgets and what items should be included.

- **Alternative revenue sources.** A discussion of fees and duties as alternative sources that might be accessible by local governments. User fees and ways to evaluate alternative sources were presented as well as a discussion about the factors influencing pricing: units of measure, costs, bases for pricing, billing and collection issues, maintenance, and updating.
- **Benefit-cost analysis introduced.** An illustration of how one can assess longer-term implications of decisions to continue operations as they have been, or to invest larger amounts now and spread the costs over several years.
- **Optimization methods.** A presentation of ways in which to calculate the optimal provision of services; notions of efficiency in the delivery of and compensation for local government activities.
- **Performance measurement.** Identification of ways in which to measure achievement of objectives and issues of effectiveness and efficiency.

4 SITE VISITS

4.1 Introduction

Between seminars all sites were visited at least once by either the consultants or the local partners. Between the May and June seminars this consultant met with seminar participants (deputy mayor/finance officer) from Ashtarak, Sisian, and Jermuk. Between the June and July seminars this consultant met with officials from Achapnyak, Vanadzor, Ashtarak, Abovian, Sisian, Arabkir, and Sevan. Attrition from the program was limited to only one community (Erebuni) which was replaced by Achapnyak.

Site visits during June identified the progress made on identifying the goals and objectives of the two programmatic areas. Site visits during July continued that effort and assisted with issues of revenue forecasting.

During the course of the summer all communities identified their programmatic areas, developed strategic goals and objectives, prepared an outline of their three-year plan, conducted estimates of anticipated revenues, and began the groundwork for their FY 1998 budgets. During the latter part of July the central government announced allocation of the FY 1997 budget, which allowed local governments to complete their 1997 budgets, six months into the current fiscal year.

4.2 Assessment of Selected Cities

Achapnyak

Achapnyak started as a volunteer and later became a participating community. The community conditions are stark: There is low employment and a very low percentage of functioning enterprises. They have a high percentage of obsolete housing registered in the government's category of "uninhabitable." There are more than 120 units declared as "dilapidated," yet most of those units are still housing individuals, many of whom are refugees.

Abovian

Abovian prepared an adequate assessment of community conditions. Work needs to be done on the three-year plan to expand on the elements of the plan itself and to identify what is missing within the community (what the plan needs to address). The community also needs to work on developing the link between the plan and the community's budget.

Arabkir

Arabkir has developed a computerized database of revenues within its jurisdiction. There appears to be a somewhat skeptical view of the government's willingness to relinquish any local control to the community council. Accordingly, the enthusiasm seemed somewhat diminished.

Ashtarak

Ashtarak has demonstrated the greatest independence and initiative of all communities. Its homework preparation was the most thorough of all communities. It has taken initiative to work closely with the Tax Authority to ensure it gets its appropriate share of land and property tax revenues. It has prepared a detailed mapping of all properties within the community in order to identify its tax base. It has taken initiative to encourage industrial development within its agricultural sector. It has divided the city into sections for the purposes of accountability to citizens and distribution of work responsibilities.

Jermuk

Jermuk has had the greatest difficulty keeping up. This appears to be in part due to commitment and in part due to circumstances (the finance officer had personal difficulties, and his replacement took awhile to catch up). The community's natural environment has great potential—because of its resort status and reputation throughout the former Soviet Union—but has been devastated by the paucity of tourists over the past decade. Jermuk has had a difficult time completing the community assessment. Consequently, the identification of strategies, goals, and objectives and linking any of this to the budget has not been successfully completed.

Sevan

Sevan's work with identifying the community conditions was good, as was its identification of goals and objectives. It has had difficulty in grasping some of the concepts of forecasting. They have failed to distinguish between several of the revenue sources, sometime collapsing different taxes and duties into single categories.

Sisian

Sisian has shown the greatest initiative in working with department heads in the planning and budgeting processes. It has gotten department heads to develop their own goals and objectives. It also has taken initiative to work with villages in thinking about their own budget processes. It has

been creative in developing strategies for alternative revenue sources and variability in tax rates based upon some form of rational zoning.

Vanadzor

Vanadzor has developed a strategy of decentralization of work responsibilities and accountability to citizen inquiries and concerns. It has identified 15 districts within the city for this purpose. It has completed its community survey and applied several of the ideas presented in the seminars to its revised 1997 budget.

5 OBSERVATIONS

Several communities are led by very strong individuals with vision about what they hope to accomplish and a competent staff eager to establish local control of their destinies. One or two other communities are relatively weak in their grasp of the concepts of local government budgeting and will have a more difficult time progressing to independence. Ashtarak is leading in independence from central government and shows the most initiative and creativity. Sisian and Arabkir represent a close second. Vanadzor, Abovian, Achapnyak and Sevan represent the middle tier. Jermuk is having the most difficult time (excluding Erebuni, which discontinued participation).

In terms of budget process, little was observed about the relationship between finance officers and department heads. Thus, it is not possible to ascertain how that relationship works or how the budget office functions with the control and overall planning of municipal operations. Sisian is an exception to this observation. Coordination between the finance officer and the department heads led to identification of goals and objectives for various activities across the community. Furthermore, Sisian has worked to begin introducing these ideas to the surrounding villages. Notwithstanding this illustration of success, more is needed here.

It was not possible to directly see how the budget process works between administrative heads (the deputy mayors or finance officers) and the community council. Presentation of the budget was difficult given the timing of the seminars related to the fiscal year. This was compounded by the lack of a coherent budget law until midway through the seminars. Still there is some inconsistency between the law on local self-government and the budget law. And the amount municipalities are to be subsidized by the central government (pending the enactment of a new law) is still inconclusive.

Two communities have demonstrated a unique approach to local governance. Both Ashtarak and Vanadzor have divided the cities into districts for administrative purposes and have identified individuals who are responsible for attending to issues within those districts.

One of the positive outcomes of the seminar sessions is the exchange of information among seminar participants. Exchange of ideas, debate, and mutual teaching was evident during the seminars. Participants often noted that they previously were unaware of what other communities

were doing. Sharing of ideas and strategies was welcomed, and the exchange was acclaimed by the participants as very beneficial. Related to this was a brief survey conducted at the July seminar to ascertain preference and support for a national professional organization for finance officers.

6 RECOMMENDATIONS

The design of this project, linking site visits and working shoulder to shoulder with local personnel, is well conceived. The model is solid. Given this is the first time through, several shake-outs were necessary. The greatest difficulty was the creation of new materials for all aspects of the program. With yeoman work from the office staff, this was mostly completed in a timely fashion. Additional presentations of this course will be facilitated by having materials readily available.

Much of the participants' energies were devoted to grasping the concepts. The immediate applicability of these concepts to their own budgeting activities was limited for two reasons. First, the ROA government did not finalize the budget law until mid-June. Related to this was a lack of clarity and internalizing of the implications by the local officials, and to the fact that the revenue-sharing component of the new law needs additional legislation (the percentage of funds dedicated to "equalization") is still unsettled. Second, the match between the fiscal year and the introduction of the seminar materials was not in perfect sync. It was mid-July when the ROA government identified what the transfer of revenues to local governments for FY 1997 would be. This left revenue forecasting activities presented in the seminar incomplete because the communities were trying to deal with the current fiscal year. Meanwhile, the seminar was trying to convey the notion that revenue forecasting is necessary so that one can anticipate revenues. Forecasting was impossible to do for 1997 because revenue sharing was bound to the old—pre-budget law—processes. It was not possible to forecast revenues for 1998, either, because the jurisdictions did not know which revenues they could count on as their own source and because they did not grasp the need for starting the process early in the budget cycle.

There are two possible options for continuing the efforts of this seminar. The first is to continue to work with these eight communities through a complete fiscal year. The second is to extend the seminar to other communities. Both options have merit and are deserving of funding. The benefit of extending the work with the current members would be that close work in the field and direct, timely application of the budget process would allow participants to better see the potential for continued effort. It would also allow timely feedback on the process as the officials are going through the budget cycle. The benefit that would be derived from introducing the materials to new communities would be that budgeting and local management capacity-building would be extended to a significantly larger percentage of the country.

ATTACHMENT A

LIST OF PARTICIPANTS

- | | |
|------------------------|--|
| 1. Armen Hovanisian | Deputy Mayor, Vanadzor |
| 2. Artyusha Muradian | Head of Finance Department, Abovian |
| 3. Ashot Alexanian | Mayor, Sevan |
| 4. Dshora Sardarian | Budget Inspector, Abovian |
| 5. Edik Ghazarian | Head of Finance Department, Sevan |
| 6. Gagik Arzumanyan | Head of Finance Department, Vanadzor |
| 7. Nver Gevorgian | Head of Finance Department, Ashtarak |
| 8. Lernik Maghakian | Deputy Mayor, Yerevan/Arabkir |
| 9. Rubik Markosian | Deputy Mayor, Jermuk |
| 10. Sanasar Poghosian | Head of Finance Department, Jermuk |
| 11. Vahan Movsisian | Deputy Mayor, Ashtarak |
| 12. Vahram Sargsian | Head of Finance Department, Sisan |
| 13. Varhram Shahbazian | Head of Social-Economic Program Department,
Yerevan/Achapniak |
| 14. Vardan Kopian | Finance Officer, Yerevan/Achapniak |
| 15. Varos Simonian | Deputy Mayor, Sisan |
| 16. Volodia Vasilian | Deputy Head of Finance Department, Yerevan/Arabkir |

ATTACHMENT B

LIST OF EXPERTS AND OBSERVERS

- | | |
|-------------------------|---|
| 1. Ara Aslikian | Ministry of Finance, Deputy Minister |
| 2. Armen Khudaverdian | Head, Department of Territorial Administration |
| 3. Artashes Arakelian | City of Yerevan, Director, Scientific Research Institute for
City Management Systems |
| 4. Bagrat Shakian | ICMA consultant |
| 5. David Hambartsumian | Ministry of Finance |
| 6. David Toumanian | School of Public Administration, Trainer |
| 7. Douglas Shumavon | ICMA Municipal Consultant |
| 8. Galust Gamazian | Minister of Territorial Administration |
| 9. Gevork Avagian | Ministry of Finance, Budget Department, first class expert |
| 10. Hasmik Sokhakian | Department of Territorial Administration, Senior Expert |
| 11. Irina Vanian | Institute of Architecture and Construction, Trainer |
| 12. Khosrov Harutyunian | Member, National Assembly |
| 13. Linda Bidrossian | ICMA Consultant |
| 14. Pavel Safarian | Deputy Minister of Finance |
| 15. Phillip Rosenberg | ICMA, Financial Consultant |
| 16. Rudik Haroyan | School of Public Administration, Trainer |
| 17. Steven Anlian | ICMA, Resident Advisor |
| 18. Vahram Shahbazian | Achapnyak, Head, Social-Economic Department |
| 19. Vardan Kopian | Achapnyak, Finance Officer |