

Programmatic Cooperation Framework for
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Local Finance Benchmarking Piloting in Armenia

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The main areas of local finance benchmarking

- Local tax policies design
- Transparency and involvement of the public
- Use of IT
- Capacity development of local staff
- Tax administration
- Capital Budget Financing
- Local property management

The main areas of local finance benchmarking (cont.)

- Fiscal strategy design
- Budgeting methods and capacity
- Budgeting procedures
- Special rules of budget adjustments and implementation
- Special control, supervision on activities

Potential pilot municipalities

- Multi-settlement municipalities:

1) Dilijan, 2) Tumanyan, 3) Tatev

- Cities:

4) Ashtarak, 5) Abovyan.

Local finance benchmarking toolkit adopted for Armenia

I. General principles of local fiscal policies

1. Local tax policies design

1.1 Local revenue policies should be approved by elected bodies

2. Transparency and involvement of the public

2.1 Budgetary and financial discussions should be made at open meetings

2.2 Local NGOs should be involved in drafting local tax legislation*

1. General principles of local fiscal policies

(cont.)

3. Timing of fiscal decisions

3.1 Decisions on revenues should be made parallel to expenditure

4. Use of IT

4.1 Managerial efficiency should be improved by IT in :

- Information processing
- Preparing decisions
- Following-up to decisions
- Connecting with other systems (local or central)
- Using electronic payments

I. General principles of local fiscal policies (cont.)

5. Capacity development of local staff

5.1 Training in various forms are needed for the local staff

5.2 Systems should be set up to enhance professionalism in financial and fiscal matters

5.3 Systems should be set up to enhance ethics of staff in financial and fiscal matters *

II. Local taxation

6. Local tax policy design

6.1 Local taxes should be based on the principle of fairness (ability to pay)

6.2 Local taxes should be the main part of the communities budget revenues

6. Number of local taxes should be kept low

II. Local taxation(cont.)

7. Tax policy

7.1 Local taxes should be based on stable tax base

7.2 Tax avoidance and evasion should be prevented

7.3 Quality of tax regulations should be improved

7.4 Information on tax base should be updated and has to be founded on legally available sources

7.5 Reserves should be set aside for litigation-

II. Local taxation(cont.)

8. Information and publicity

8.1 Local tax policy should be designed in an open, transparent way

8.2 Information and explanation on local taxes and tax regulations should be made public

8.3 Public information on utilisation of local tax revenues should be comprehensive, understandable

II. Local taxation(cont.)

9. Tax administration

9.1 Tax registration and timely collection should support smooth cash flow

9.2 Tax administration should be simple: few formalities, least administrative efforts by tax payers

9.3 Payment demands should provide information on tax levies

9.4 Easy payment systems

9.5 Complaint procedures should be clear

II. Local taxation(cont.)

10. Tax system audit

10.1 Comparing collection costs with tax revenues

10.2 Tax coverage: identification of tax payers and collection rate

III. Fees, charges and miscellaneous revenues

11.1 User charges should not exceed service costs

11.2 Charges should not reduce demand for services excessively

11.3 Choice between charges or local taxes should be made explicit

11.4 Access to essential services by disadvantaged groups should be preserved

11.5 Exceptional revenues should finance capital revenues

IV. Capital Budget Financing

12.1 Local capital investments are managed effectively

12.2 Capital expenditures are funded by diverse sources of local revenues

V. Local property

13.1 Organisational forms and rules of asset management are transparent

13.2 Regulations on municipal companies ensure their long term financial stability

I. Sound budgeting and fiscal planning

- **Fiscal strategy design**

- 1.1 Overall financial framework of multi-year budget

- 1.2 Multi-annual budget plans

- 1.3 Budget strategy debate

I. Sound budgeting and fiscal planning(cont.)

- **Budgeting methods and capacity**

2.1 Technical capacity in budget preparation procedure

2.2 Analytical sheets make the budget transparent

2.3 Explanations of performance

2.4 Satellite agencies in the budget proposal.

Rules of consolidations of accounts

2.5 Financial reserves for risk management

I. Sound budgeting and fiscal planning(cont.)

- **Budgeting procedures**

3.1 Involvement of elected bodies

3.2 Separate debate and adoption of complex, major investment projects or other significant programs

3.3 Outsiders' contribution helps accountability

3.4 The timeframe of budget debate by elected bodies

3.5 Openness of budget documents

I. Sound budgeting and fiscal planning(cont.)

- **Fiscal policy objectives**

4.1 Cost saving strategies are adopted and sustained

4.2 Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions

4.3 Cooperation with other local authorities

II. Special rules of budget adjustments and implementation

5.1 Regular evaluation keeps track of budget implementation

5.2 Local framework of supervision, monitoring and reporting system set up to audit budget implementation

5.3 Budget adjustment during the year is limited

5.4 Relations between the local government and its subsidiary organisations are regulated by transparent agreements

5.5 Local service management should be made efficient

III. Special control, supervision on activities

6.1 Framework and role of internal audit

6.2 Special consideration have to guarantee PPP projects

6.3 Procedure of situation in financial difficulties

References

1. LOCAL FINANCE BENCHMARKS. Centre of Expertise for Local Government Reform. COE. *Revised version, 2013.*
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3. LOCAL FINANCE BENCHMARKING: A SHARED TOOL FOR IMPROVED FINANCIAL MANAGEMENT.COE.2015