



Strengthening Institutional Frameworks
for Local Governance 2015-2017

Local Finance Benchmarking Toolkit: piloting and lessons learned

ARMENIA

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LOCAL FINANCE BENCHMARKING TOOLKIT: PILOTING AND LESSONS LEARNED

ARMENIA

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Foreword

The Local Finance Benchmarking (LFB) project in Armenia started in 2016 under the thematic programme “*Strengthening institutional frameworks for local governance*” and is ongoing. It is managed by the Centre of Expertise for Local Government Reform, Good Governance Division, Directorate General of Democracy, Council of Europe under the CoE/EU Eastern Partnership Programmatic Co-operation Framework. The project¹ aims to support the local government reform, primarily by increasing the efficiency and accountability of local authorities.

Benchmarking of local financial resources and financial management practices is based on the toolkit developed by the Centre of Expertise. The toolkit builds on a simple municipal management rule: in a decentralised environment local governments learn from each other, so comparison and information sharing will improve their performance.

The LFB toolkit assesses the local financial resources and financial management practices by scoring them along a standardised set of criteria. Then the scores are compared with the results in other similar municipalities, indicating the areas of the best and lower performance in a particular municipality and helping to identify the directions of improvement.

In Armenia the adaptation of the standard LFB has been completed through piloting. The LFB survey was implemented in two cities (Ashtarak, Abovyan) and in three newly created multi-settlement municipalities (Dilijan, Tumanyan, Tatev). The new municipalities lack established practices of financial management, so in these communities the survey focused on the largest, central town. The localised survey covers fifty-seven critical areas of local finances.

During the LFB implementation, we closely cooperated with the Ministry of Territorial Administration and Development and the Community Finance Officers’ Association (CFOA). The results of the LFB survey and reports on the pilot municipalities were transferred to CFOA who has the right to use the final, revised version of the LFB toolkit and in the future it be the partner for further disseminating and promoting this instrument among the other local governments in Armenia. The adapted toolkit is available in Armenian and the local expert team was trained to continue the benchmarking.

This publication contains all the outputs of the project:

- (i) adapted LFB toolkit;
- (ii) reports on the pilot municipalities;
- (iii) final reports with policy recommendations and proposals on the continuation of the project.

Jutta GÜTZKOW

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¹ Project website: http://www.coe.int/t/dgap/localdemocracy/Centre_Expertise/Local_Finance_Benchmarking/

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Local Finance Benchmarking Toolkit

LOCAL FINANCE BENCHMARKS

BENCHMARKS OF FINANCIAL RESOURCES OF LOCAL AUTHORITIES

SECTION and AREA	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES			
1. Local tax policies design			
1.1. Local revenue policies should be approved by elected bodies	Decisions made by council on <ul style="list-style-type: none"> delegation of powers to set exemptions, tax relieves prices of services authorisation of allocating subsidies for user charges 	Law on Local Self-Government Law on Budget System Audit reports Local statutes Organizational charts and procedures	0-10
1.2. Impact assessment of local revenue policies should be made public	<ul style="list-style-type: none"> Social and economic impact of local decisions on taxes and user charges are regularly assessed Public access to local budget documents Public is involved in local budget design Diversity of methods for disseminating information on local budgets 	Rules and procedures of local government operation Municipal budget document Channels for informing the general public	0-10
2. Transparency and involvement of the public			
2.1. Budgetary and financial discussions should be made at open meetings	<ul style="list-style-type: none"> Participation at public (committee, council) meetings Intervention at public meetings Media reporting on local budgets Channels of communication with the public 	Minutes of meetings Media reviews	0-10
3. Timing of fiscal decisions			
3.1 Decisions on revenues should be made parallel to expenditure	<ul style="list-style-type: none"> National tax laws are known (approved) by the start of local budgeting Local budget amendments are made by elected bodies 	Law on Budget System Municipal budget document	0-10
4. Use of IT			
4.1 Managerial efficiency should be improved by IT in :	<ul style="list-style-type: none"> Accounting software is used by the finance department Service organisations are linked to municipal accounting systems electronically Treasury system is in operation Number of electronic datasets available/used by the local administration Local databases are connected and integrated Councillors have email address and access to internet Local government has a website Draft council documents are put on the website 	Local IT procedures, equipment	0-10
5. Capacity development of local staff			
5.1. Training in various forms are needed for the local staff	<ul style="list-style-type: none"> Number of training courses organised locally for municipal servants Staff days spent at training courses in a year Number of training courses organised locally for staff of the service organisations Number of training courses organised locally for elected local officials and councillors Budget for training is included in local budget Subjects of training courses (legal, financial, fiscal, management, other skill development) 	Human resource department Local budget	0-10

SECTION and AREA	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
5.2. Systems should be set up to enhance professionalism in financial and fiscal matters	<ul style="list-style-type: none"> • Access to fiscal information by all units of local administration 	Municipal employment statistics	0-10
5.3. Systems should be set up to enhance ethics of staff in financial and fiscal matters	<ul style="list-style-type: none"> • Local regulations are harmonised with national rules 	Internal regulations Code of conducts Laws and national regulations on public procurement, conflict of interest,	0-10
II. LOCAL TAXATION			
6. Local tax policy design			
6.1. Local taxes should be based on the principle of fairness (ability to pay)	<ul style="list-style-type: none"> • local tax regulations interpret exemptions set by law • differences between nominal and actual tax rates • effective tax rates compared to national averages 	Local tax regulation Municipal fiscal statistics	0-10
6.2. Local taxes should produce a significant part of the community budget	<ul style="list-style-type: none"> • Tax yield compared to total cost of tax administration (by local taxes) • Local tax revenues in percentage of local own source revenues • Local tax revenues in percentage of total/current budget • Total tax administration costs in percentage of local expenditure on administration 	Municipal fiscal statistics Local budgets	0-10
6.3. Number of local taxes should be kept low	<ul style="list-style-type: none"> • Number of local taxes • Changes in number of local taxes 	Local tax regulations	0-10
7. Tax policy			
7.1. Local taxes should be based on stable tax base	<ul style="list-style-type: none"> • Composition of local taxes • Annual changes in local tax base • Number of tax payers by major types of local taxes 	Local tax regulations Local tax statistics	0-10
7.2. Tax avoidance and evasion should be prevented	<ul style="list-style-type: none"> • The ratio of collected tax to the tax base (by taxpayers groups) • Total amount of delinquencies in local tax collection • Composition of arrears by time • Number of court cases and litigations stabilised 	Local tax regulations Local tax statistics	0-10
7.3. Quality of tax regulations should be improved	<ul style="list-style-type: none"> • The share of taxes collected as a result of the tax audit in total amount of collected taxes • Litigation cases won, compared to total number of cases on tax • Arrears accumulated annually • Internal audit of tax administration 	Local tax regulations Municipal fiscal strategy Statistics on local tax administration	0-10
7.4. Information on tax base should be updated and has to be founded on legally available sources	<ul style="list-style-type: none"> • Shared information bases by various units of local administration • Local cooperation with horizontal partners on information (e.g. police, utility companies, cadastre) • Cooperation with higher authorities collecting information, relevant for local tax administration: national tax office, business registry, cadastre, vehicle registration 	National and local IT systems	0-10
7.5. Reserves should be set aside for litigation	<ul style="list-style-type: none"> • Litigation cases compared to total number of tax payments • Litigation cases won, compared to total number of cases 	Local budget Statistics on local taxes	0-10
8. Information and publicity			

SECTION and AREA	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
8.1. Information and explanation on local taxes and tax regulations should be made public	<ul style="list-style-type: none"> Diverse means of information sharing (electronic, posters, direct mailing, telephone) 	Local channels of communication with the general public	0-10
8.2. Public information on utilisation of local tax revenues should be comprehensive, understandable	<ul style="list-style-type: none"> Reporting on the implementation of local budgets Explanation of general purpose local tax (land tax, property tax) revenues Public information by types of major local taxes (land tax, property tax) 	Budget reports Local channels of communication	0-10
9. Tax administration			
9.1. Tax registration and timely collection should support smooth cash flow	<ul style="list-style-type: none"> Taxpayers registry is regularly updated Delays and unpaid taxes are followed by the tax information system Notification, warning practice on non-payments are in place Internal legal procedures for non-payment are regulated and publicly known 	Local tax regulation Tax administration Reports on local revenues	0-10
9.2. Tax administration should be simple: few formalities, least administrative efforts by tax payers	<ul style="list-style-type: none"> Public information on local tax regulations Billing: timely call for tax payment Specific justification of taxes due Diverse forms of payment Information on complaint and appeal is publicised 	Local tax regulation Tax administration	0-10
9.3. Payment demands should provide information on tax levies	<ul style="list-style-type: none"> Compulsory elements of local tax claims: <ul style="list-style-type: none"> - identification of taxpayer (property owner) - tax base, exemptions - tax rate, amount due - deadline for payments - forms of payment - consequences of delay or non-payment - options for appeal 	Tax forms	0-10
9.4. Easy payment systems	<ul style="list-style-type: none"> Availability and use of various forms for paying local taxes: <ul style="list-style-type: none"> Personal, through cashier Bank transfer Other 	Local tax regulations Tax administration	0-10
9.5. Complaint procedures should be clear	<ul style="list-style-type: none"> Deadlines for lodging a complaint are set reasonably Methods of complaint: contact point, in writing Decision/response on complaint are limited in time Appealing procedures are set 	Local tax regulations	0-10
10. Tax system audit			
10.1. Comparing collection costs with tax revenues	<ul style="list-style-type: none"> Tax yield compared to total cost of tax administration 	Local budget Reports concerning tax administration	0-10
10.2. Tax coverage: identification of tax payers and collection rate	<ul style="list-style-type: none"> Regular update on tax payer registry Cross-checking tax registries (tax base, tax payer) Trends in collection rate Percentage of complaints 	Reports concerning tax administration	0-10

BENCHMARKS OF FINANCIAL MANAGEMENT OF LOCAL AND REGIONAL AUTHORITIES: LOCAL AUTHORITIES

SECTION and AREA	ACTIVITY, INDICATOR, IMPACT	VERIFICATION STATEMENT, DOCUMENTS	SCORE 0-10
I. SOUND BUDGETING AND FISCAL PLANNING			
1. Fiscal strategy design			
1.1. Overall financial framework of multi-year budget	Budget is based on middle term local policies. Clear connections between local policies, strategies and budget items establishes the accountability. The changes of overall budget cap fit into the macroeconomic framework and accepted by the local policy objectives.	Yearly budget document exist. Budget documents include sheets, comparative data. Budget items are transparent and structured, properly classified.	0-10
1.2. Multi-annual budget plans	The precondition of balanced annual budget is the multi-annual plan, which aligns the resources and service levels. Multi-annual plan does not plays only a formal role it does not have strong managing power. It considers the future consequences of financial decisions on an accrual basis..	Regularly updated multi annual plan Separate long term budget decisions (large projects, investments), which influences the commitments of the actual year.	0-10
1.3. Budget strategy debate	In the budget process the first step is to debate and approve the actual budget objectives and fiscal policy.	Proposal for yearly budget proposal. Predefined components and conditions, which are subject to approve.	0-10
2. Budgeting methods and capacity			
2.1. Technical capacity in budget preparation procedure.	The number of participating departments, including the nature of their work. Budget preparation is supported by all type of local professional capacity. The budget preparation is the most powerful tool to discuss and select the best solutions of service delivery. Comparisons are used to justify the appropriate changes in figures, comparing the former performances, according to the objectives. Broad involvement of staff and available professional capacity supports autonomy and openness	Local technical rule book, which regulates the duties and cooperation of departments. Rule book includes the pattern of working sheets, with ID numbers. IT system which supports the calculations and documentations, and workflow regulates budget development. Annually issued technical bulletin available to address the extraordinary circumstances and to assign obligations. Schedule with deadlines of key decision.	0-10
2.2. Analytical sheets make the budget transparent	The system of connected budget sheets supports the understanding of the budget, providing different dimensions of the data. The objectives of using more dimensions and cross-references to serve information for decision making, and with the same figures to set up the obligations for budget implementations, according the implementation rules. A structured set of analytical budget helps to understand better the power of budget planning	Set of budget sheets with explanations.	0-10
3. Budgeting procedures			
3.1. Involvement of elected bodies	The level of understanding of budget objectives by the elected bodies. Appropriate procedures exist: - raising questions, - avoid conflict of interest, carrying out lobbying and anti-corruptions. Local representatives understand the consequences and future impact of their decision, their influence on the service level. Trainings and other workshops are organized to understand the message of budget.	Clear and understandable local technical rule book, which explains the importance of different items, the role of different classification. Training material and any other evidences of training Code of ethics exists to avoid the conflict of interests.	0-10

SECTION and AREA	ACTIVITY, INDICATOR, IMPACT	VERIFICATION STATEMENT, DOCUMENTS	SCORE 0-10
3.2. Separate debate and adoption of complex, major investment projects or other significant programs	Procedure exists to involve citizens to identify significant investment projects.	Decision procedure exists. Content and other documents of proposals. Evidences on citizen participation.	0-10
3.3. Outsiders' contribution helps accountability	Occasional and/or regular procedures. Local rule sets up the obligation to consult regularly with the social partners, citizens. An open forum exists to collect citizen contributions. Regular consultancy supports autonomy.	Local rules Evidences on forums	0-10
3.4. The timeframe of budget debate by elected bodies	There is sufficient time to review and understand the budget proposal and to organize the debate.	Actual time schedule Minutes of discussions.	0-10
3.5. Openness of budget documents	Openness helps accountability and citizen participation. <ul style="list-style-type: none"> Information, minutes of meetings, publication on internet Leaflets, which present the main objectives, figures, graphs. Public hearing, as part of budget debate. 	Places where budget documents are accessible. Documents on internet in a user friendly way Leaflets Minutes of public hearings	0-10
4. Fiscal policy objectives			
4.1. Cost saving strategies are adopted and sustained	<ul style="list-style-type: none"> share of current expenditures in total local government budget ratio of payroll in total administrative budget 	Local government annual financial reports, budget Local regulations on fiscal planning	0-10
4.2. Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	<ul style="list-style-type: none"> municipal services contracted to community, non-profit organisations grants and subsidies provided to NGOs for local services comparison of unit costs of services provided by community organisations 	Local financial reports and budgets on transfers to NGOs Contract and agreements with the third sector	0-10
4.3. Cooperation with other local authorities	The level of cooperation and cost sharing to improve the efficiency and effectiveness (both to vertical and horizontal direction.) Separate decision before cooperation. Budget figures and explanations on cost-sharing, advantages, the expected results, and the long term financial consequences in the phase of operation.	The objectives of cooperation Changes of budget items are parts of cooperation agreement. Decisions, contracts on cooperation. Data and explanations of relevant budget items.	0-10
4.4. Adjoining authorities share administrative and professional resources (tax collection, audit implementation)	<ul style="list-style-type: none"> declared objectives of inter-municipal cooperation local governments cooperate for providing basic services and improving service quality scope of technical (utility, communal, transportation) services organized in cooperation joint purchases of goods and services use of electronic procurement for buying goods and services 	Cooperation agreements Joint management of municipal service organisations Council decisions on joint service provision Procurement regulations	0-10
II. SPECIAL RULES OF BUDGET ADJUSTMENTS AND IMPLEMENTATION			
5.1. Regular evaluation keeps track of budget implementation	Mid year evaluations, quarterly monitoring reports make a regular supervision of implementation. They provide opportunities to decide adjustments, when necessary.	Mid year evaluations. Quarterly monitoring reports Regulated warning system, where irregularities are detected.	0-10

SECTION and AREA	ACTIVITY, INDICATOR, IMPACT	VERIFICATION STATEMENT, DOCUMENTS	SCORE 0-10
5.2. Local framework of supervision, monitoring and reporting system set up to audit budget implementation	<p>The approved budget, the report and statements about implementations together establish the framework of accountability.</p> <p>The final report is made in the same structure as the budget.</p> <p>Appropriate explanation on budget implementation exists, highlighting the causes of differences.</p>	<p>Final report.</p> <p>Financial statement. Documents on internet on a user friendly manner</p> <p>Leaflets</p> <p>Minutes on the debate of budget implementation reports.</p>	0-10
5.3. Independent opinion on final reports and financial statements.	<p>Independent opinion (external audit) helps the elected members to trust in the submitted final reports and in the correctness of financial statements.</p> <p>If external auditor fails to certify the statements, it means that serious problems were found, which could mislead the decision makers.</p>	<p>Clear understanding of the role and limitations of the opinion of external auditing</p> <p>Report of external auditing.</p>	0-10
5.4. Budget adjustment during the year is limited.	<p>It is predefined when budget adjustment is necessary.</p> <p>Too frequent adjustments create uncertainty.</p> <p>Too frequent adjustments make too bureaucratic decisions, which could overwrite the original objectives.</p> <p>Too frequent adjustments are against the transparency, because the subject can avoid the proper budget debate.</p>	<p>Local rule on budget adjustment.</p> <p>Cases and scope of budget adjustment.</p>	0-10
5.5. Relations between the local government and its subsidiary organisations are regulated by transparent agreements	<ul style="list-style-type: none"> • local government and service organisations' finances are clearly separated • performance of services rendered are specified in written contracts • sources of funding contracted services are specified annually (user charges, municipal subsidies, loans, etc.) • information on the municipal service contracts is accessible by the general public within the framework of the national legislation 	<p>Local government budgets and financial reports</p> <p>Local government framework agreements and annual contracts with utility, communal and transportation companies</p> <p>Establishing documents of municipal service organisations</p>	0-10
5.6. Local government service contracts cover asset management and social issues	<ul style="list-style-type: none"> • regulations on the use of municipally owned assets by service organisations are covered by the contract • responsibilities for operation, maintenance, repair and reconstruction of transferred assets are specified • local governments receive compensation for their assets used by contractors • low income users of municipal services receive targeted social benefits 	<p>Regulations on local government asset management</p> <p>Local government framework agreements and annual contracts with utility, communal and transportation companies</p>	0-10
5.7. Local service management should be made efficient	<ul style="list-style-type: none"> • service performance measurement system is in place • outputs of municipal service provision are regularly assessed • unit costs of services are evaluated • service efficiency is a key target indicator for the service organisation and its management 		0-10

SECTION and AREA	ACTIVITY, INDICATOR, IMPACT	VERIFICATION STATEMENT, DOCUMENTS	SCORE 0-10
III. SPECIAL CONTROL, SUPERVISION ON ACTIVITIES			
6.1. Framework and role of internal audit	<p>Locally clarified legal power of internal audit. Exact reporting line. Proper audit strategy helps to concentrate resources. The role of internal audit is to support the top managers, to improve the activities inside the local authorities. As external audit is destined for helping elected members to exercise their controlling power, it is necessary to limit the internal audit reporting line to managers. Lack of auditing resources should encourage effective cooperation between the two type of auditing.</p>	<p>Local, internal principles and policies on audit. Local standing orders Rule book on internal audit.</p>	0-10
6.2. Special consideration have to guarantee PPP projects	<p>PPP construction is a potential way to finance public service infrastructure, to save resources of current situation. But it needs careful consideration to prevent unconditional risks and extra cost in the future. Proper debate establishes the potential usage of PPP financing and its guarantee. First it is recommended to search for other solutions.</p>	<p>Local, internal principles and policies. Proposals and calculations of future financing needs of PPP projects Contracts of PPP projects Internal audit reports on implementation.</p>	0-10
6.3. Procedure of situation in financial difficulties	<p>Procedure specify:</p> <ul style="list-style-type: none"> • The position, whose responsibility the recovering, • or whom to report the noticed signs, • General principles of recovery plans • Rules and responsibilities to devise the situation of problem solving. • Key decisions. 	<p>Local standing orders Local policies Manual for special, high risk situation and frequently faced problems.</p>	0-10

Piloting Local Finance Benchmarking toolkit

ABOVYAN MUNICIPALITY

INTRODUCTION

Good local government depends on sufficient financial resources, which allow local authorities to offer services that are adjusted to their citizens' expectations, and on good financial management procedures, ensuring local budget flexibility and accountability of financial decisions. Focusing on local government resources, expenditures and financial management, benchmarking helps national and local governments to identify the factors for an equitable system of intergovernmental fiscal relations, efficient local finances, and effective local government financial management.

The benchmarks on financial resources and financial management use two types of assessment methods: surveys and financial indicators. Each benchmark survey item is assessed on a ten-unit scale.

The LFB project started in Armenia in April of this year. The pilot municipalities are Tumanyan, Tatev, Dilijan, Abovyan and Ashtarak.

The LFB benchmarking toolkit covers 31 topics in 12 broad areas related to financial resources and 24 topics in six areas related to financial management. In these two fields of local finances, local government performance was measured by around 250 indicators.

We have used the scoring methodology to assess each indicator measuring the efficiency of municipal finance management within the benchmark of 0 to 10 (0 being the minimum and 10 being the maximum value of indicator). As a result, we have identified the strengths and weaknesses of municipal finance management. Based on this, we have offered some recommendations concerning the priority areas of government and donor assistance to Abovyan Municipality.

Abovyan is a town in Armenia within the Kotayk Province. Abovyan has been built on the Kotayk plateau, between the rivers of Hrazdan, Azat and Getar, at a height of 1,450 metres above sea level. It is located 16 kilometres northeast of Yerevan and 32 kilometres southeast of the province centre Hrazdan. With a motorway and a railway running through the city, connecting Yerevan with the areas of the northeast, Abovyan is considered a satellite city of the Armenian capital. Therefore, Abovyan is generally known as the "northern gate of Yerevan".

Abovyan has 10 public education schools, 9 kindergartens, and 2 state intermediate colleges. It is also home to the Abovyan University named after Levon Orbeli. Abovyan has a cultural palace and a public library. The town is also home to a museum opened in 1982 and dedicated to the brotherhood and friendship between the Armenian and the Russian nations.

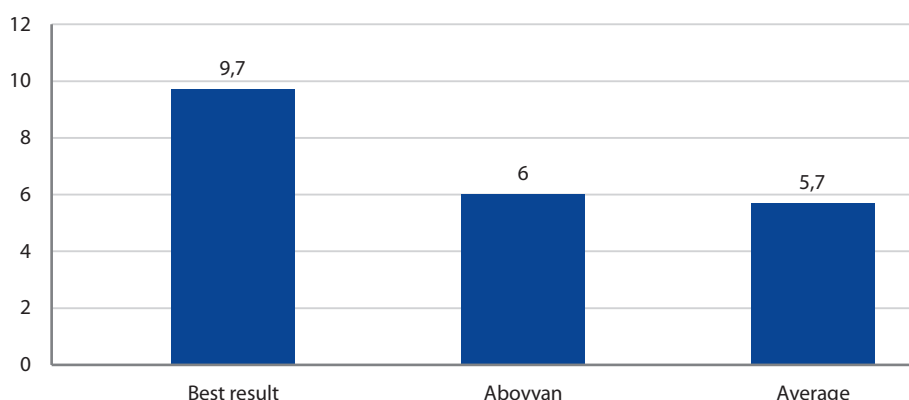
According to the 2011 census, the population of the town is 43,495, down from 59,000 reported at the 1989 census. The town of Abovyan covers an area of 11 square kilometres.

EVALUATION OF FINANCIAL RESOURCES OF ABOVYAN MUNICIPALITY

GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

The evaluation result on **"Local revenue policies should be approved by elected bodies"** is 6 points. The average result of all 5 pilot municipalities is 5.7 points, while the highest result is 9.7 (Chart 1). This means that the Local Council should take proper steps and adopt relevant decisions to delegate powers for determining exemptions, tax reliefs, prices of services, authorisation of allocated subsidies for user charges.

Chart 1. Local revenue policies should be approved by elected bodies



Abovyan Municipality generally ensures that the **impact assessment of local revenue policy** is published. With regard to public access to local budget documents, public involvement in local budget design, diversity of methods for disseminating information on local budgets, the Municipality earned 7.7 points from 10 possible, which is the highest result in this area. The average result of all 5 pilot municipalities is 6.5 points.

The Municipality received 5 points in the area of **transparency and public involvement**. The average result of all 5 pilot municipalities is 4.8 points, the highest result in this area being 6 points, so the result of Abovyan ranks 2nd. This means that participation and intervention at public meetings and media reporting on local budget are ensured better than in other municipalities, and channels of communication with the public have been established, but there is still room for improvement.

Use of IT got 7.6 points, which is a high score, but it is not the best result in this area. The average result of all 5 pilot municipalities is 6.5 points. The Municipality has a website and some proper information on it. We would suggest to update it regularly and upload draft documents. Using accounting software and integrating local databases would help to increase the efficiency of IT use.

The score for **capacity development of local staff** shows that the Municipality does not pay enough attention to training (legal, financial, fiscal, management, development of other skills). Trainings for municipal servants, staff of service organisations, elected local officials, and councillors are seldom organised. Budget for training is not included in the local budget in the proper form. As a result, the score is 3.3 points, the average being 3.6, so local staff capacity development is not well-organised in all pilot municipalities. Therefore, key policy measures should be implemented including well-justified identification of local staff capacity development needs mainly based on the current LFB assessment, planning trainings and budgeting costs in the local budget in a proper form.

Not all local administration units at the Municipality have **access to fiscal information**. So the score on “Systems should be set up to enhance professionalism in financial and fiscal matters” is 6 points. The average result of all 5 pilot municipalities is 6.2 points. In 2016, the leaders of Abovyan Municipality should continue to ensure the transparency and accessibility of fiscal information to all the users to improve the result.

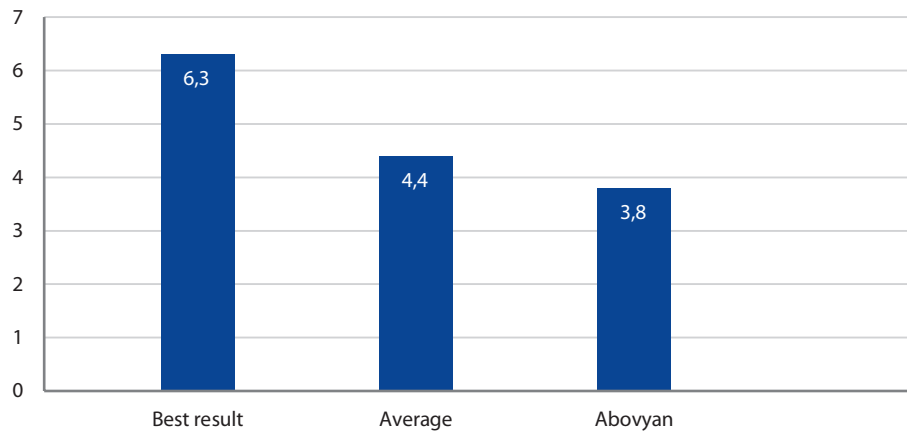
The score on “**Systems should be set up to enhance ethics of staff in financial and fiscal matters**” is lower – 5 points, the average being slightly higher (5.2). Abovyan ranks 3rd among the pilots. This score is formed based on the level of harmonisation of local regulations with national rules.

LOCAL TAXATION

The Local Taxation section yielded both high and low scores. “**Local taxes should be based on the principle of fairness (ability to pay)**” is rated with 4 points, the average being 4.5 points, while the best result being 6.3. This score is formed taking into account local tax regulations specifying exemptions set by law, differences between nominal and actual tax rates, effective tax rates compared to national averages.

The evaluation result on **“Local taxes should generate a significant share of the local budget”** is 3.8 points, the average being 4.4 points (Chart 2). This is because in the other communities local taxes have a slightly higher share in local budget revenue than in Abovyan.

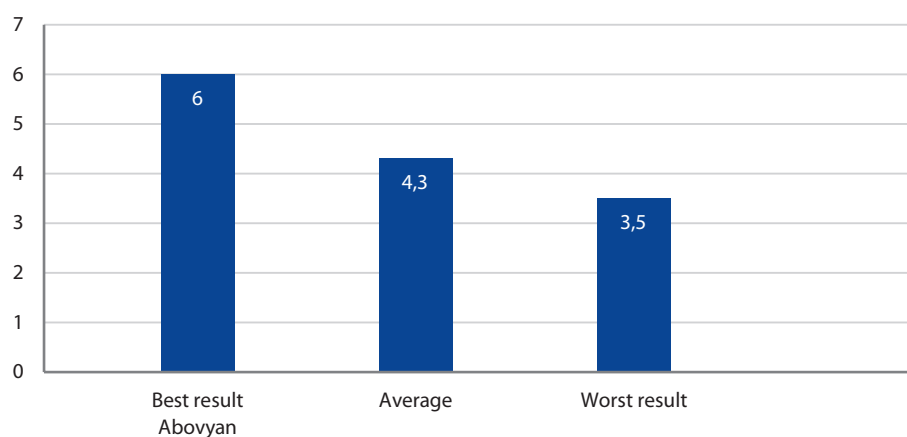
Chart 2. Local taxes should generate a significant share of the local budget



In Abovyan Municipality, the scores on tax policy area are generally high. Based on the evaluation of the composition of local taxes, the annual changes in local tax base and the number of taxpayers by major types of local taxes, the total score assigned on **“Local taxes should be based on a stable tax base”** is 8 points, which is higher than the average – 7.2.

The score calculated based on the ratio of collected taxes to the tax base (by taxpayers’ groups), the total amount of arrears in local tax collection, the evolution of arrears in time, the number of court cases and litigations resolved, is 6, which means that the Municipality takes measures to prevent **tax avoidance and tax evasion**, but there is still room for improvement. The average result of all 5 pilot municipalities is 4.3 points (Chart 3). One of the measures to prevent tax avoidance is to inform taxpayers with a written notice about the date and the amount of taxes to be paid.

Chart 3. Tax avoidance and tax evasion should be prevented



“The quality of tax regulations should be improved” got 4.5 points, which is higher than the average 3.9 points. The Municipality’s administration needs to consider the following recommendations to improve tax regulations:

- Local revenue policy goals should be better translated to tax regulations;
- The share of taxes collected as a result of tax audits in the total amount of collected taxes should be decreased with parallel increase of tax collection;
- The share of litigation cases won in the total number of tax cases should increase;

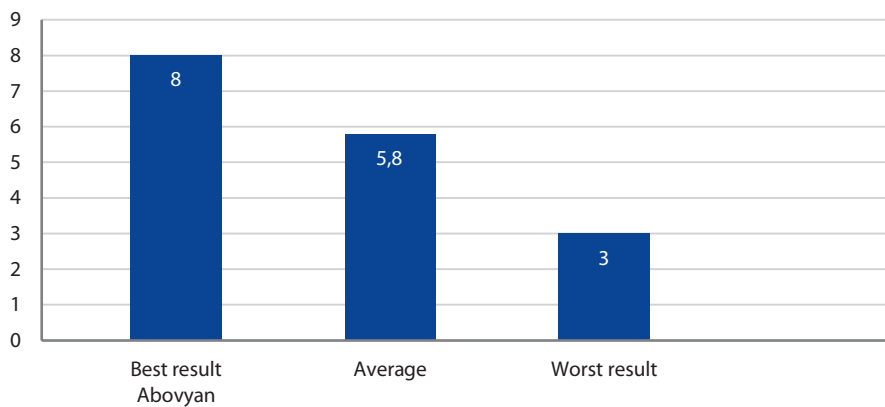
- The amount of arrears accumulated annually should decrease through more efficient tax administration at the municipal level, which needs to be improved based on audit results.

The score on **“Information on the tax base should be updated and has to be founded on legitimate sources”** is relatively high – 7.3 points (the average being 7.1). This means that Abovyan Municipality maintains proper cooperation with higher authorities (national tax office, business register, cadastre, vehicle registration). There is definitely room for strengthening this cooperation.

In Abovyan Municipality, reserves are properly set aside for **litigation**, so the Municipality was awarded the highest 10 points, while the average is low – 3.6 points. The main recommendation here is to file court cases to collect overdue taxes and set aside reserves for litigation.

Abovyan achieved similar results on **“Information and publicity”**: Information and explanations on local taxes and tax regulations should be made public – 8 points (the average being 5.8, see Chart 4); Public information on the use of local tax revenue should be comprehensive and understandable – 6.7 points (the average being 6.3).

Chart 4. Information and explanations on local taxes and tax regulations should be made public



Therefore, there is room for improvement, particularly in the following sub-areas of public information:

- All the diverse means of information sharing (electronic, posters, direct mailing, telephone) should be fully employed;
- Reporting on the implementation of local budgets should be more transparent and public;
- Explanations on general purpose local tax (land tax, property tax) revenues should be more clear and understandable.

The score on **“Tax registration and timely collection should support smooth cash flow”** is slightly lower than the maximum – 9.5, but is the best among pilot municipalities (the average being 7.9). This means that the Municipality makes efforts to ensure that the taxpayers’ register is regularly updated, delays and unpaid taxes are monitored by the tax information system, there is a warning mechanism for overdue payments, and internal legal procedures for non-payment are regulated and publicly known.

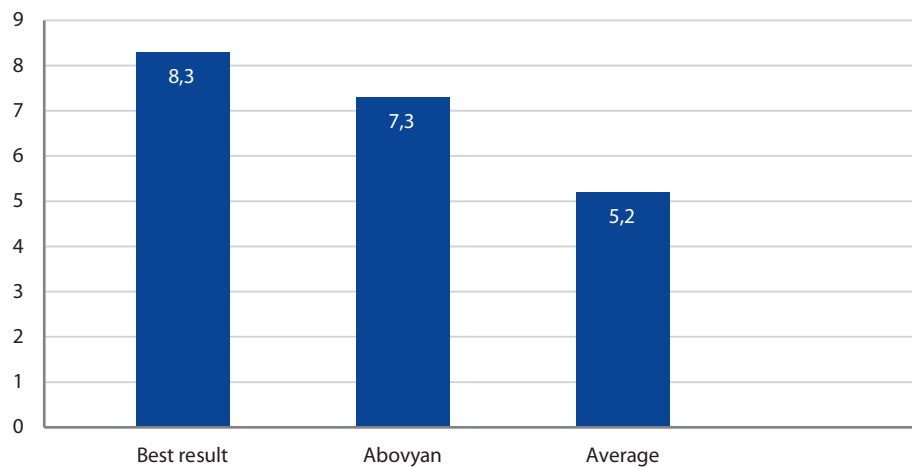
The score of Abovyan Municipality is 5.6 points on **“Tax administration should be simple: few formalities, least administrative efforts by taxpayers”**, while the average score of all 5 pilot municipalities is lower – 5.4 points. However, there is still much to be done to inform the public on local tax payment, billing, justification of taxes, and diversification of payment forms, as well as to ensure transparency of information on complaints.

In Abovyan Municipality, **payment notices provide information on tax levies** including taxpayer identification, tax base, exemptions, tax rate, amount due, deadline for payments, forms of payment, consequences of delay or non-payment, which justifies the highest score of 10 points (the average being 9 points).

The situation with the availability and use of various forms of payment for local taxes is the same, so the score on **“Easy payment systems”** is again the maximum, the average being 9.4.

In contrast to the previous two results, the evaluation result on **“Complaint procedures should be clear”** is lower – 7.3, but is still higher than the average of all 5 pilot municipalities – 5.2 points (Chart 5).

Chart 5. Complaint procedures should be clear



In the tax system audit section, **“Comparing collection costs with tax revenues”** got 4 points (the average being 3.8), while **“Tax coverage: identification of taxpayers and collection rate”** – 6.5 points (the average being 5.5). This means that tax yield is comparable to the total cost of tax administration and the taxpayers’ register is regularly updated. However, the Municipality should make more efforts to achieve better results.

FEES, CHARGES AND MISCELLANEOUS REVENUES

The evaluation result on **“User charges should generally comply with service costs”** is relatively low – 4 points, even though it is the best result in this area, so the Municipality still has weaknesses in the **calculation of service costs** (including total current and capital investment costs). Two-component user charges are not matched with fixed and variable costs, while increase in user charges is not calculated by a regulated formula, reflecting major service cost components (e.g. capital, labour, energy).

The evaluation result on **“Charges should not reduce demand for services excessively”** is again 4 points but is the 2nd highest among pilot municipalities, the average being 3 points. Local policy preferences are not adequately reflected in average charges, exemptions and subsidies, also pricing methods do not follow local policy goals in an appropriate form.

The scoring result on **“Access to essential services by disadvantaged groups should be preserved”** is higher – 6 points, the average being 5.7 points, while the highest, achieved by Dilijan Municipality – 8.5 points. The score is calculated based on the following indicators:

- Policy on subsidies reflects social policy goals;
- Subsidies are financed from the local budget.

So the policy on subsidies from the local budget should achieve the optimal compromise between following important principles:

1. Maximum self-sufficiency of provided services;
2. Charges should not reduce demand for services excessively;
3. Access to essential services by disadvantaged groups should be preserved.

For example, the Municipality can increase service charges up to the point where demand for services would decrease. For disadvantaged groups, in this case the Municipality can introduce additional family benefits to cover extra expenses resulting from a possible increase of service charges.

The Municipality received 9.5 points on **“Exceptional revenue should finance capital revenue”** (the average being 9.8). This means that in Abovyan Municipality, **windfall revenue** is a separate item in the lo-

cal budget, and own source capital revenue (revenue from the sale of land or property) is used for capital expenditures.

CAPITAL BUDGET FINANCING

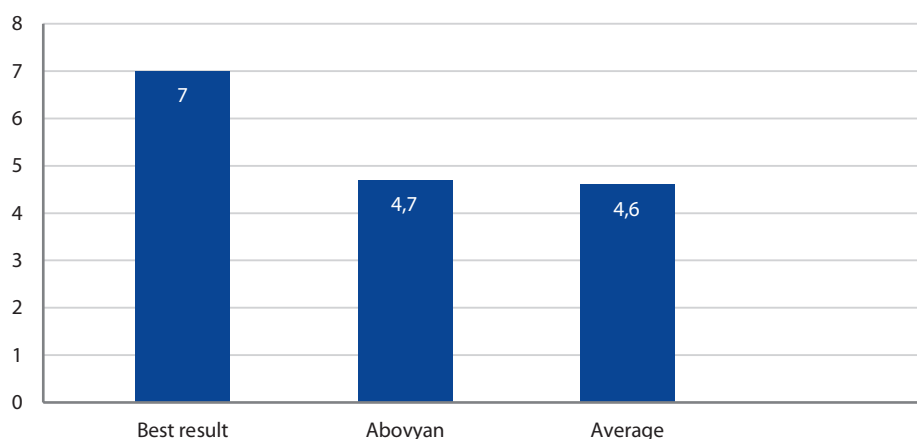
In the Capital Budget Financing section, **“Local capital investments are managed effectively”** gained 9.7 points as most of the indicators correspond to the requirements of national legislation, while **“Capital expenditures are funded by diverse sources of local revenue”** got 7 points, which means that most of the indicators correspond to the requirements of national legislation.

LOCAL PROPERTY

“Organisational forms and rules of asset management are transparent” got 7 points (the average being 8.2), which means that decision-making powers on the sale, use and lease of municipal assets are regulated, and local government control over municipal asset management organisation is quite effective.

The evaluation result on **“Regulations on municipal companies ensure their long term financial stability”** is almost the same as the average (4.6) – 4.7 points (Chart 6). Service provision contracts with local companies are generally signed on an annual basis. They should be concluded for the medium term.

Chart 6. Regulations on municipal companies ensure their long-term financial stability



Another issue is that municipal compensation is covering mainly operational costs but does not enable the companies to make a reasonable profit, which is important for their development.

Ownership of assets and related maintenance obligations are not stipulated clearly in the contracts. The contracts should be changed to reflect these issues, which would improve the efficiency of local property management.

EVALUATION OF FINANCIAL MANAGEMENT IN ABOVYAN MUNICIPALITY

SOUND BUDGETING AND FISCAL PLANNING

The evaluation result on **“Overall financial framework of multi-year budgeting”** is 4.7 points (the best result being 8 points, and the average – 5 points). This means that there is no clear connection between local policies, strategies and budget items, the budget is not based on mid-term local policies, changes in the overall budget cap do not fit into the macroeconomic framework and sometimes do not reflect local policy objectives.

“Multi-annual budget plans” is rated with 3 points, which is higher than the average 2.8 points. The multi-annual plan plays only a formal role in the Municipality and the budget is not based on it. This is a common problem in all municipalities in Armenia. Therefore, one of the priorities of local finance manage-

ment reforms in Armenia should be to introduce multi-year budget planning and to incorporate it into the municipalities' budget process. This reform should be initiated and actively implemented with the support of the Ministry of Finance and MTAD.

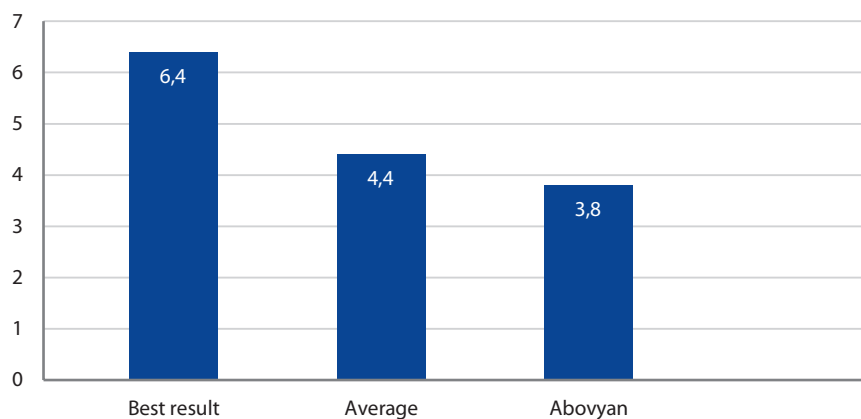
In Abovyan Municipality, the evaluation result on **“Budget strategy debate”** is also low – 4 points (the average being 3 points, the highest – 5 points). So the first step in the budget process should be to discuss and approve current budget objectives and fiscal policy.

Budgeting methods and capacity are not adequately developed. The score on **“Technical capacity in budget preparation procedure”** is 3.8 points, the average being 4.4 (Chart 7), while the score on **“Analytical sheets make the budget transparent”** is 5 points, the highest result being 7.3, while the average – 4.9 points.

This means that the Municipality still has a lot to do to improve the following indicators:

- Budget preparation is supported by all type of local professional capacity;
- Budget preparation is the most powerful tool to discuss and identify the best solutions for service delivery;
- Comparisons are used to justify appropriate changes in figures and compare former performances against the objectives;
- Broad staff involvement and available professional capacity supports autonomy and openness.

Chart 7. Technical capacity in budget preparation procedure

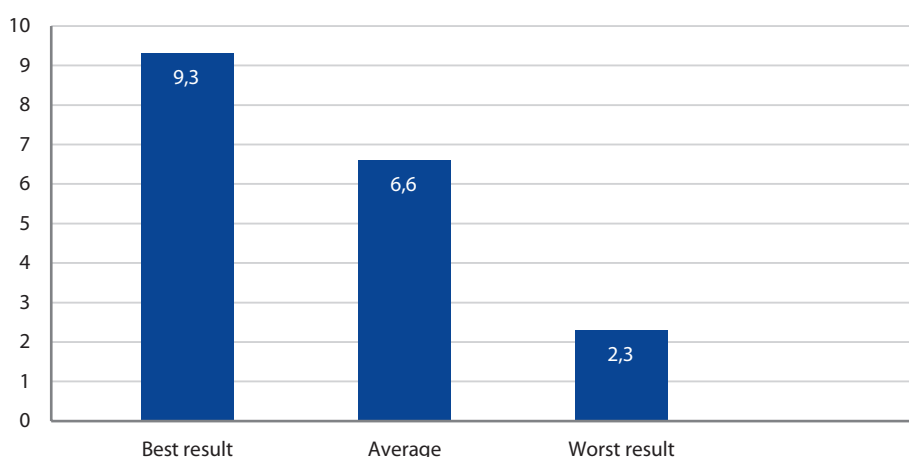


Also, the Municipality still has not paid serious attention to using more dimensions and cross-references to inform decision making, or a structured set of analytical budget in the budget planning process.

Abovyan Municipality achieved relatively high scores on Budget Procedures. The lowest score is 4 points, on **“Involvement of elected bodies”**. It is important to note that the level of understanding of budget objectives by elected bodies is of major significance. Appropriate procedures on submitting questions, avoiding conflict of interest, lobbying and anti-corruption should exist. Trainings and other workshops should be organised to improve understanding of the vision of the budget, the consequences and future impact of local councillors' decision and their influence on the quality of service.

. The evaluation result on **“Openness of budget documents”** is 9.3 points. It is not only much higher than the average – 6.6 but also the best result (Chart 8). The Municipality should continue to emphasise openness as it helps accountability and citizen participation, so it would be good to have minutes of meetings, publications on internet, leaflets, presenting the main objectives, figures, graphs, etc., as well as public hearings as part of the budget process.

Chart 8. Openness of budget documents



In the Fiscal Policy Objectives area, **“Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions”** got 0 points, the result on **“Cooperation with other local authorities”** is much better – 6 points. So the Municipality should first of all improve the level of cooperation with NGOs and enhance cooperation with other local authorities in order to increase the efficiency and effectiveness of local governance.

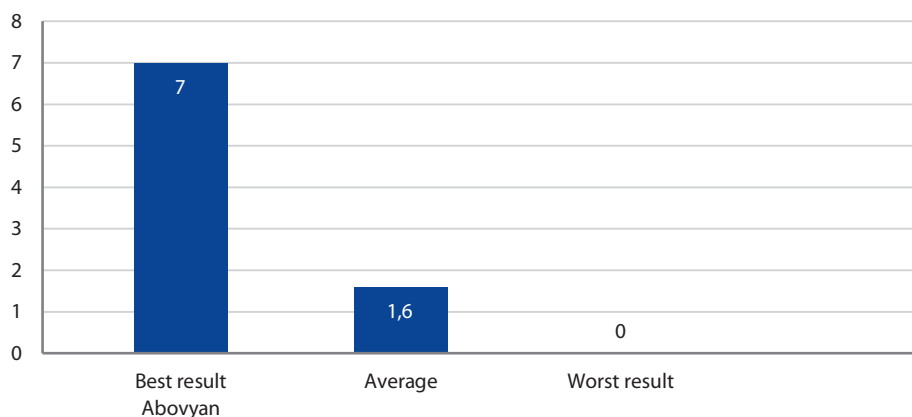
The evaluation result on **“Adjoining authorities share administrative and professional resources”** is 5.2 points. Although this is the best result, the Municipality needs to take steps towards inter-municipal cooperation in the provision of basic services, improve service quality, and use electronic procurement for goods and services.

SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

In the **“Special Rules on Budget Adjustment and Implementation”** area, the Municipality should focus on local service management efficiency because this area scored only 2 points. That is why the outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, while service efficiency should be a key target indicator for the service organisation and its management.

Abovyan Municipality got 7 points on **“Independent opinion on final reports and financial statements”**. This is the best result, the average being only 1.6 points (Chart 9). It is very good that the Municipality has achieved a high score as independent opinion (external audit) strengthens the confidence of elected members in the submitted final reports and the accuracy of financial statements.

Chart 9. Independent opinion on final reports and financial statements



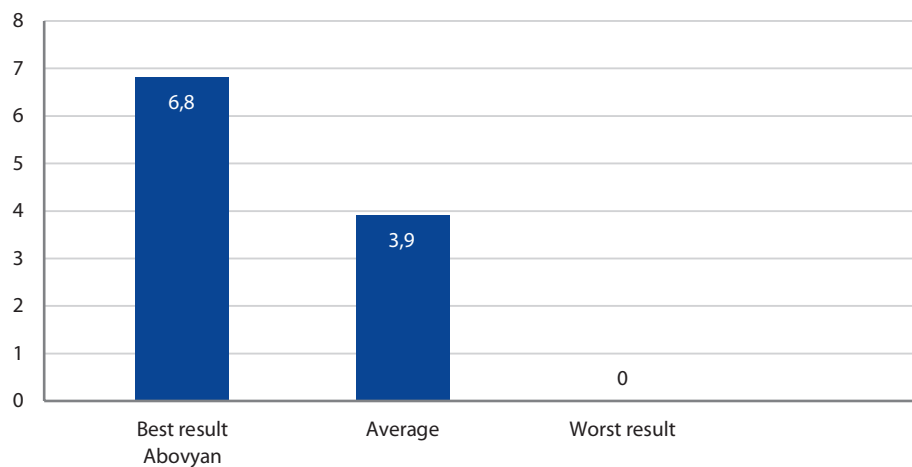
In Abovyan Municipality, **budget adjustments** during the year are not often made; they are rather limited (7.8 points, the average being 5 points). It is important to note that too frequent budget adjustments cre-

ate uncertainty, they work against transparency because the proposed adjustment can avoid proper budget debate, so improving budget planning and strengthening budget discipline would definitely enhance the credibility of the budget.

SPECIAL CONTROL, SUPERVISION OF ACTIVITIES

Abovyan Municipality pays significant attention to the framework and role of both internal and external audit (Chart 10). The evaluation result on **“Framework and role of internal audit”** is the best among pilot municipalities – 6.8 points. Proper audit strategy helps to concentrate resources and improve the efficiency of the budget process. So the Municipality should continue practicing internal audit in the coming year and should strive to improve activities within local authorities to achieve better results. In case of lack of auditing resources, effective cooperation between internal and external auditing is suggested.

Chart 10. Framework and role of internal audit



The evaluation result on **“Special consideration has to guarantee PPP projects”** is very low – 1 point. The best result is 7 points, while the average is only 2.2 points. It is important to note that PPPs are a potential mechanism for financing public service infrastructure and saving resources in the current situation. But they need to be considered carefully to prevent potential risks and extra cost in the future. Proper debate establishes rules and guarantees for the potential use of PPP financing.

3.8 points reflect the fact that a **procedure in a situation of financial difficulties** is not in place and should be set up. The Municipality should designate a person, responsible for recovery, to whom any warning signs noticed should be reported (organise an open competition to hire an appropriate person, if necessary). Key decisions on the general principles of recovery plans, as well as the rules and responsibilities for solving the problem, should also be adopted.

RECOMMENDATIONS

In view of the above mentioned scoring results, Abovyan Municipality needs to consider the following recommendations:

- Organise trainings for municipal servants, staff of service organisations, elected local officials and councillors;
- Ensure transparency and accessibility of fiscal information to all users;
- Take measures to prevent tax avoidance and tax evasion;
- Appropriate procedures on submitting questions, avoiding conflict of interest, lobbying and anti-corruption should exist. Trainings and other workshops should be organised to improve understanding of the vision of the budget, the consequences and future impact of local councillors’ decision and their influence on the quality of service;

- The Municipality should continue to emphasise openness as it helps accountability and citizen participation, so it would be good to have minutes of meetings, publications on internet, leaflets, presenting the main objectives, figures, graphs, etc., as well as public hearings as part of the budget process;
- The Municipality should first of all improve the level of cooperation with NGOs and seek cooperation with other local authorities in order to increase the efficiency and effectiveness of local governance;
- The Municipality needs to take steps towards inter-municipal cooperation in the provision of basic services, improve service quality, and use electronic procurement for goods and services;
- The Municipality should focus on local service management efficiency; the outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, while service efficiency should be a key target indicator for the service organisation and its management;
- Pay attention to the framework and role of both internal and external audit. Proper audit strategy helps to concentrate resources and improve the efficiency of the budget process. In case of lack of auditing resources, effective cooperation between internal and external auditing is suggested.

ANNEX

SECTION and AREA	Abovyan	Average
BENCHMARKS OF FINANCIAL RESOURCES		
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES		
1. Local tax policies design		
1.1. Local revenue policies should be approved by elected bodies	6	5.7
1.2. Impact assessment of local revenue policies should be made public	7.7	6.5
2. Transparency and public involvement		
2.1. Budgetary and financial issues should be discussed at open meetings	5	4.8
3. Use of IT		
3.1 Governance efficiency should be improved by IT	7.6	6.5
4. Capacity development of local staff		
4.1. Training in various forms is needed for the local staff	3.3	3.6
4.2. Systems should be set up to enhance professionalism on financial and fiscal matters	6	6.2
4.3. Systems should be set up to enhance staff ethics on financial and fiscal matters	5	5.2
II. LOCAL TAXATION		
5. Local tax policy design		
5.1. Local taxes should be based on the principle of fairness (ability to pay)	4	4.5
5.2. Local taxes should generate a significant share of the local budget	3.8	4.4
6. Tax policy		
6.1. Local taxes should be based on a stable tax base	8	7.2
6.2. Tax avoidance and tax evasion should be prevented	6	4.3
6.3. The quality of tax regulations should be improved	4.5	3.9
6.4. Information on the tax base should be updated and has to be founded on legitimate sources	7.3	7.1
6.5. Reserves should be set aside for litigation	10	3.6
7. Information and publicity		
7.1. Information and explanations on local taxes and tax regulations should be made public	8	5.8
7.2. Public information on the use of local tax revenue should be comprehensive and understandable	6.7	6.3
8. Tax administration		
8.1. Tax registration and timely collection should support smooth cash flow	9.5	7.9
8.2. Tax administration should be simple: few formalities, least administrative efforts by taxpayers	5.6	5.4
8.3. Payment notices should provide information on tax levies	10	9.0
8.4. Easy payment systems	10	9.4
8.5. Complaint procedures should be clear	7.3	5.2

SECTION and AREA	Abovyan	Average
9. Tax system audit		
9.1. Comparing collection costs with tax revenues	4	3.8
9.2. Tax collection: identification of taxpayers and collection rate	6.5	5.5
III. FEES, CHARGES AND MISCELLANEOUS REVENUES		
10.1. User charges should comply with service costs	4	2.3
10.2. Charges should not reduce demand for services excessively	4	3.0
10.3. Access to essential services by disadvantaged groups should be preserved	6	5.7
10.4. Exceptional revenue should finance capital revenue	9.5	9.8
IV. CAPITAL BUDGET FINANCING		
11.1. Local capital investment is managed efficiently	9.7	9.3
11.2. Capital expenditures are funded by diverse sources of local revenue	7	8.1
V. LOCAL PROPERTY		
12.1. Organisational forms and rules of asset management are transparent	7	8.2
12.2. Regulations on municipal enterprises ensure their long-term financial stability	4.7	4.6
BENCHMARKS OF FINANCIAL MANAGEMENT		
I. SOUND BUDGETING AND FISCAL PLANNING		
1. Fiscal strategy design		
1.1. Overall financial framework for multi-year budgeting	4.7	5.0
1.2. Multi-annual budget plans	3	2.8
1.3. Budget strategy debate	4	3.0
2. Budgeting methods and capacity		
2.1. Technical capacity in budget preparation procedure.	3.8	4.4
2.2. Analytical sheets make the budget transparent	5	4.9
3. Budget procedures		
3.1. Involvement of elected bodies	4	3.9
3.2. Separate debate and approval of complex, major investment projects or other significant programmes	6	6.6
3.3. Outsiders' contribution helps accountability	4	4.9
3.4. Openness of budget documents	9.3	6.6
4. Fiscal policy objectives		
4.1. Cost-saving strategies are adopted and sustained	3.5	3.8
4.2. Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	0	1.3
4.3. Cooperation with other local authorities	6	1.9
4.4. Adjoining authorities share administrative and professional resources (tax collection, audit implementation)	5.2	2.2
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION		
5.1. Regular monitoring keeps track of budget implementation	5	6.2
5.2. Local framework for supervision, monitoring and reporting is established to audit budget implementation	6	7.1
5.3. Independent opinion on final reports and financial statements	7	1.6
5.4. Budget adjustment during the year is limited.	7.8	5.0
5.5. Relations between the local government and its subsidiary organisations are regulated by transparent agreements	9.5	8.8
5.6. Local government service contracts cover asset management and social issues	4	5.4
5.7. Local service management should be made efficient	2	2.7
III. SPECIAL CONTROL, SUPERVISION OF ACTIVITIES		
6.1. Framework and role of internal audit	6.8	3.9
6.2. Special consideration has to guarantee PPP projects	1	2.2
6.3. Procedure in situation of financial difficulties	3.8	3.9
TOTAL	6.0	5.4

ASHTARAK MUNICIPALITY

INTRODUCTION

Good local government depends on sufficient financial resources, which allow local authorities to offer services that are adjusted to their citizens' expectations, and on good financial management procedures, ensuring local budget flexibility and accountability of financial decisions. Focusing on local government resources, expenditures and financial management, benchmarking helps national and local governments to identify the factors for an equitable system of intergovernmental fiscal relations, efficient local finances, and effective local government financial management.

The benchmarks on financial resources and financial management use two types of assessment methods: surveys and financial indicators. Each benchmark survey item is assessed on a ten-unit scale.

The LFB project started in Armenia in April of this year. The pilot municipalities are Tumanyan, Tatev, Dilijan, Abovyan and Ashtarak.

The LFB benchmarking toolkit covers 31 topics in 12 broad areas related to financial resources and 24 topics in six areas related to financial management. In these two fields of local finances, local government performance was measured by around 250 indicators.

We have used the scoring methodology to assess each indicator measuring the efficiency of municipal finance management within the benchmark of 0 to 10 (0 being the minimum and 10 being the maximum value of indicator). As a result, we have identified the strengths and weaknesses of municipal finance management. Based on this, we have offered some recommendations concerning the priority areas of government and donor assistance to Ashtarak Municipality.

Ashtarak is a town in the Aragatsotn Province of Armenia, located on the left bank of Kasagh River, 13 km northwest of the capital Yerevan, at an approximate height of 1,110 metres above sea level. It is the administrative centre of the Aragatsotn Province. As of the 2011 census, the population of the town was 18,834. There are 7 public education schools, 6 kindergartens and 4 art schools in Ashtarak. Many museums and public libraries are operating in the city.

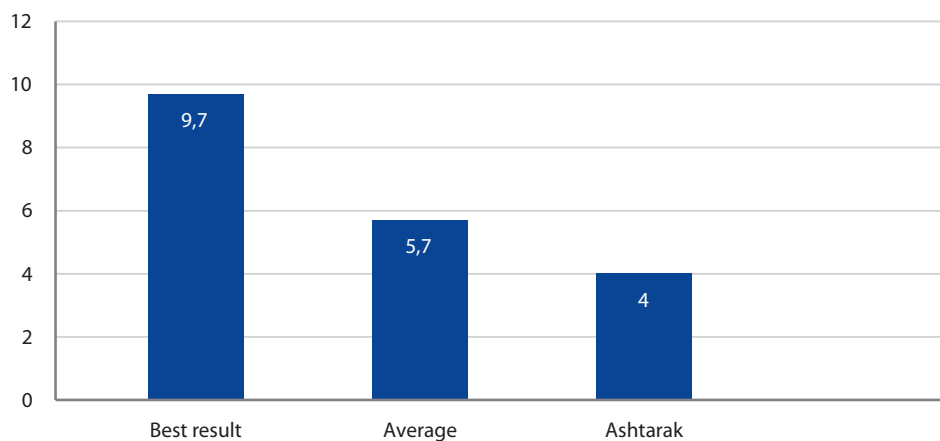
Ashtarak is also home to two major research institutions: the Mikael Ter-Mikaelian Institute for Physical Research and the Institute of Radiophysics and Electronics.

EVALUATION OF FINANCIAL RESOURCES OF ASHTARAK MUNICIPALITY

GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

The score on **“Local revenue policies should be approved by elected bodies”** is 4 points. The average result of all 5 pilot municipalities is 5.7 points, and Ashtarak has one of the worst results in this area (Chart 1). This means that the Local Council should take proper steps and adopt relevant decisions to delegate powers for determining exemptions, tax reliefs, prices of services, authorisation of allocated subsidies for user charges.

Chart 1. Local revenue policies should be approved by elected bodies

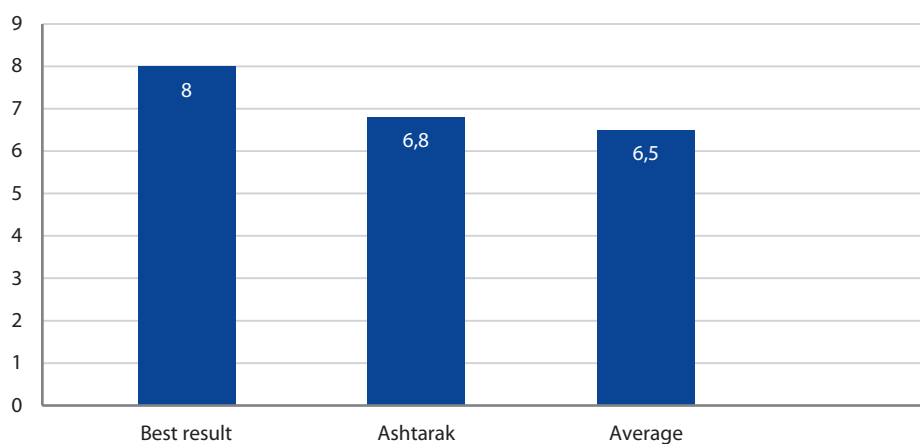


The Municipality generally ensures that the **impact assessment of local revenue policy** is publicised. With regard to public access to local budget documents, public involvement in local budget design, diversity of methods for disseminating information on local budgets, the Municipality earned 7 points from 10 possible. The average result of all 5 pilot municipalities is 6.5 points, and Ashtarak Municipality has the 2nd highest result after Abovyan.

The Municipality received 6 points in the area of **transparency and public involvement**. The average result of all 5 pilot municipalities is 4.8 points, the highest result in this area being 6 points, so Ashtarak shares the 1st place with Dilijan. This means that participation and intervention at public meetings and media reporting on local budget are ensured better than in other municipalities, and channels of communication with the public have been established, but there is still room for improvement.

Use of IT received a relatively high score – 6.8 points but ranks 3rd among pilot municipalities. The average result of all 5 pilot municipalities is 6.5 points, while the highest result is 8 points (Chart 2). The Municipality has a website and some proper information on it. We would suggest to update it regularly and upload draft documents. Using new accounting software and integrating local databases would help to increase the efficiency of IT use.

Chart 2. Use of IT



The score for **capacity development of local staff** shows that the Municipality does not pay enough attention to training (legal, financial, fiscal, management, development of other skills). Trainings for municipal servants, staff of service organisations, elected local officials, and councillors are seldom organised. Budget for training is not included in the local budget in the proper form. As a result, the score is 4 points, the average being 3.6, so local staff capacity development is not well-organised in all pilot municipalities. Therefore, key policy measures should be implemented including well-justified identification of local staff

capacity development needs mainly based on the current LFB assessment, planning trainings and budgeting costs in the local budget in a proper form.

Not all local administration units at the Municipality have **access to fiscal information**. So the score on **“Systems should be set up to enhance professionalism in financial and fiscal matters”** is 8 points. The average result of all 5 pilot municipalities is 6.2 points, Ashtarak Municipality obtained one of the best results. In 2016, the leaders of Ashtarak Municipality should continue to ensure the accessibility of fiscal information to all users.

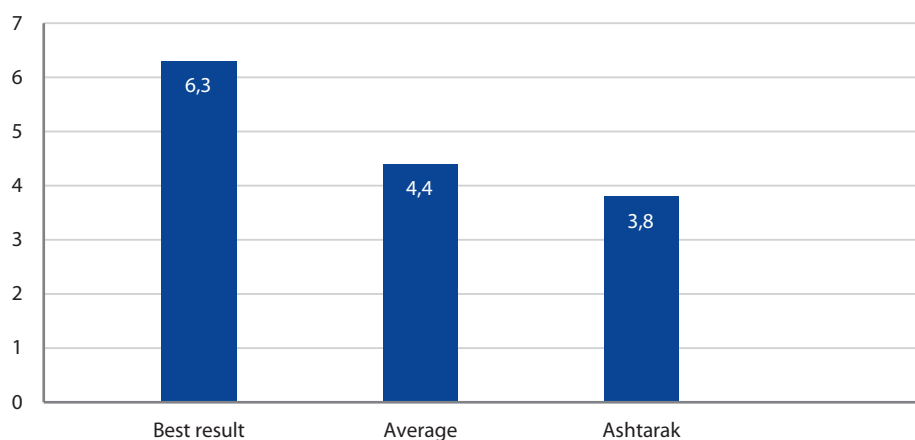
The score on **“Systems should be set up to enhance ethics of staff in financial and fiscal matters”** is lower – 4 points, the average being 5.2, so Ashtarak Municipality ranks 4th among the pilots. This score is formed based on the level of harmonisation of local regulations with national rules. They are generally coherent but there is a need to establish a specific code of ethics in financial and fiscal matters, which has not been adopted yet.

LOCAL TAXATION

The Local Taxation section yielded different scores. **“Local taxes should be based on the principle of fairness (ability to pay)”** is rated 3.7 points, which is the lowest result in this area, the average being 4.5 points. This score is formed taking into account local tax regulations specifying exemptions set by law, differences between nominal and actual tax rates, effective tax rates compared to national averages.

Ashtarak Municipality received 3.8 points on **“Local taxes should produce a significant part of the Municipality budget”**, the average being 4.4 points (Chart 3). This is because in the other communities local taxes have a slightly higher share in local budget revenue than in Ashtarak.

Chart 3. Local taxes should generate a significant share of the local budget



In Ashtarak Municipality, scores in the tax policy area differ significantly, from 8.7 to 2 points (**“Reserves should be set aside for litigation”**). Based on the evaluation of the composition of local taxes, the annual changes in local tax base and the number of taxpayers by major types of local taxes, the total score assigned on **“Local taxes should be based on a stable tax base”** is 8.7 points, which is not only higher than the average – 7.2, but also the highest result in this area.

The score calculated based on the ratio of collected taxes to the tax base (by taxpayers’ groups), the total amount of arrears in local tax collection, the evolution of arrears in time, the number of court cases and litigations resolved, is 3.5, which means that the Municipality should take measures to prevent tax avoidance and tax evasion. The average result of all 5 pilot municipalities is 4.3 points, while Abovyan has achieved the highest result – 6 points. One of the measures to prevent tax avoidance is to inform taxpayers with a written notice about the date and the amount of taxes to be paid.

The score on **“Quality of tax regulations should be improved”** is 5.8 points and ranks 1st, the average being 3.9 points. To achieve even better results, the Municipality’s administration needs to consider the following recommendations to improve tax regulations:

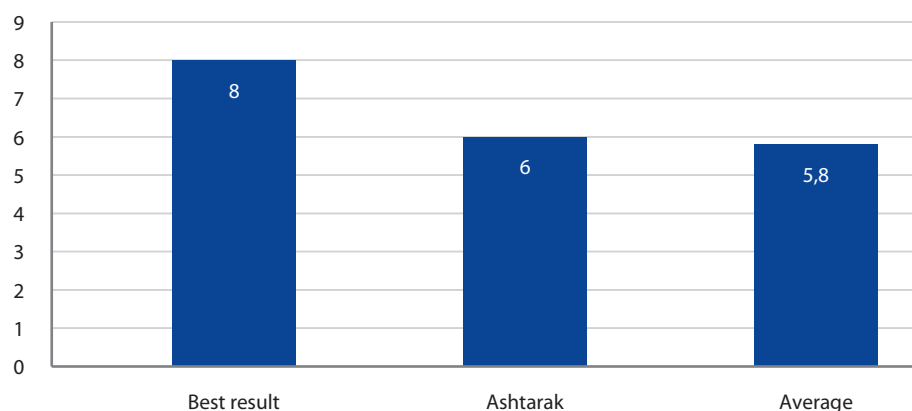
- Local revenue policy goals should be better translated to tax regulations;
- The share of taxes collected as a result of tax audits in the total amount of collected taxes should be decreased with parallel increase of tax collection;
- The share of litigation cases won in the total number of tax cases should increase;
- The amount of arrears accumulated annually should decrease through more efficient tax administration at the municipal level, which needs to be improved based on audit results.

The score on **“Information on the tax base should be updated and has to be founded on legitimate sources”** is relatively high – 7.3 points (the average being 7.1). This means that Ashtarak Municipality maintains proper cooperation with higher authorities (national tax office, business register, cadastre, vehicle registration). There is definitely room for strengthening this cooperation.

In Ashtarak Municipality, reserves are not properly set aside for **litigation**, so the Municipality received 2 points, while Abovyan achieved the highest score of 10 points. The average is also low – 3.6 points. The main recommendation here is to file court cases to collect overdue taxes and set aside reserves for litigation.

Ashtarak Municipality received similar results on **“Information and publicity”**: Information and explanations on local taxes and tax regulations should be made public – 6 points (the average being 5.8, the highest – 8 points; see Chart 4); Public information on the use of local tax revenue should be comprehensive and understandable – 6.7 points (the average being 6.3).

Chart 4. Information and explanations on local taxes and tax regulations should be made public



Therefore, there is room for improvement, particularly in the following sub-areas of public information:

- All the diverse means of information sharing (electronic, posters, direct mailing, telephone) should be fully employed;
- Reporting on the implementation of local budgets should be more transparent and public;
- Explanations on general purpose local tax (land tax, property tax) revenues should be more clear and understandable.

The score on **“Tax registration and timely collection should support smooth cash flow”** is not low – 7.5 points but ranks 3rd (the average being 7.9). This means that the Municipality should make greater efforts to ensure that the taxpayers’ register is regularly updated, delays and unpaid taxes are monitored by the tax information system, there is a warning mechanism for overdue payments, and internal legal procedures for non-payment are regulated and publicly known.

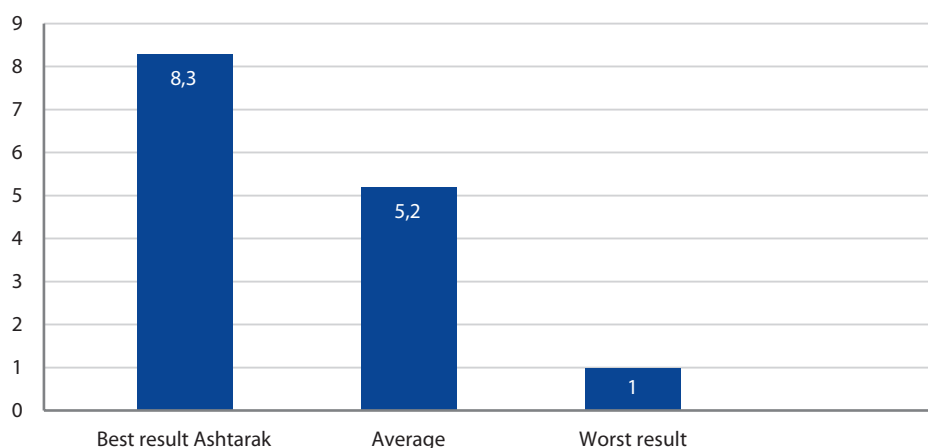
While the average score of all 5 pilot municipalities is 5.4 points, the score of Ashtarak Municipality is 4.8 points on **“Tax administration should be simple: few formalities, least administrative efforts by taxpayers”**. There is still much to be done to inform the public on local tax payment, billing, justification of taxes, and diversification of payment forms, as well as to ensure transparency of information on complaints.

In Ashtarak Municipality, **payment notices provide information on tax levies** including taxpayer identification, tax base, exemptions, tax rate, amount due, deadline for payments, forms of payment, consequences of delay or non-payment, which justifies the highest score of 10 points (the average being 9 points).

The situation with the availability and use of various forms of payment for local taxes is the same, so the score on **“Easy payment systems”** is again the maximum, the average being 9.4.

In contrast to the previous two results, the evaluation result on **“Complaint procedures should be clear”** is lower – 8.3 points, but is the highest among the 5 pilots municipalities. The average result of all 5 pilot municipalities is 5.2 points (Chart 5).

Chart 5. Complaint procedures should be clear



In the tax system audit section, **“Comparing collection costs with tax revenues”** received 6 points (the average being 3.8) because tax revenue per one unit of tax administration cost is still quite low. At the same time, **“Tax collection: identification of taxpayers and collection rate”** got 7.7 points (the average being 5.5), which means that the taxpayers’ register is regularly updated, but the Municipality should make more efforts to achieve better results.

FEES, CHARGES AND MISCELLANEOUS REVENUES

The evaluation result on **“User charges should generally comply with service costs”** is critically low – 0.7 points, which reflects the fact that the Municipality still has considerable weaknesses in the **calculation of service costs** (including total current and capital investment costs). Two-component user charges are not matched with fixed and variable costs, while increase in user charges is not calculated by a regulated formula, reflecting major service cost components (e.g. capital, labour, energy).

The evaluation result on **“Charges should not reduce demand for services excessively”** is even lower – 0 points, the average being 3 points. Local policy preferences are not reflected in average charges, exemptions and subsidies, also pricing methods do not follow local policy goals in an appropriate form.

The scoring result on **“Access to essential services by disadvantaged groups should be preserved”** is higher – 4 points, the average being 5.7 points, while the highest, achieved by Dilijan Municipality – 8.5 points.

The policy on subsidies from the local budget should achieve the optimal compromise between following basic guidelines:

- Maximum self-sufficiency of provided services;
- Charges should not reduce demand for services excessively;
- Access to essential services by disadvantaged groups should be preserved.

For example, the Municipality can increase service charges up to the point where demand for services would decrease. For disadvantaged groups, in this case the Municipality can introduce additional family benefits to cover extra expenses resulting from a possible increase of service charges.

The Municipality received 9.5 points on **“Exceptional revenue should finance capital revenue”** (the average being 9.8). This means that in Ashtarak Municipality, **windfall revenue** is a separate item in the local budget, and own source capital revenue (revenue from the sale of land or property) is used only for capital expenditures.

CAPITAL BUDGET FINANCING

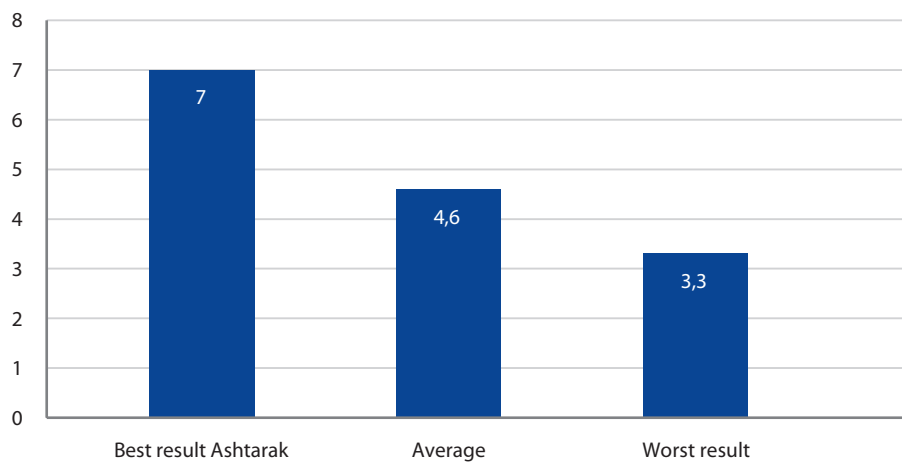
Two areas in the Capital Budget Financing section, **“Local capital investments are managed effectively”** and **“Capital expenditures are funded by diverse sources of local revenues”**, received the same score – 9.3 points as most of the indicators correspond to the requirements of national legislation.

LOCAL PROPERTY

“Organisational forms and rules of asset management are transparent” got 8 points (the average being 8.2), which means that decision-making powers on the sale, use and lease of municipal assets are regulated, and local government control over municipal asset management organisation is quite effective.

The evaluation result on **“Regulations on municipal companies ensure their long term financial stability”** is not only above the average (4.6) – 7 points, but also it is the highest among pilot municipalities (Chart 6). However, service provision contracts with local companies are generally signed on an annual basis. They should be concluded for the medium term.

Chart 6. Regulations on municipal companies ensure their long-term financial stability



However, municipal compensation is covering mainly operational costs but does not enable the companies to make a reasonable profit, which is important for their development. Ownership of assets and related maintenance obligations are not stipulated clearly in the contracts. The contracts should be changed to reflect these issues, which would improve the efficiency of local property management.

EVALUATION OF FINANCIAL MANAGEMENT IN ASHTARAK MUNICIPALITY

SOUND BUDGETING AND FISCAL PLANNING

In Ashtarak Municipality, the evaluation result on **“Overall financial framework of multi-year budgeting”** is the best among pilot municipalities – 8 points (the average being 5 points). This means that there is clear connection between local policies, strategies and budget items, the budget is based on mid-term local policies, and changes in the overall budget cap fit into the macroeconomic framework.

“Multi-annual budget plans” is rated with 3 points, which is higher than the average 2.8 points. The multi-annual plan plays only a formal role in the Municipality and the budget is not based on it. This is a common problem in all municipalities in Armenia. Therefore, one of the priorities of local finance management reforms in Armenia should be to introduce multi-year budget planning and to incorporate it into the municipalities’ budget process. This reform should be initiated and actively implemented with the support of the Ministry of Finance and MTAD.

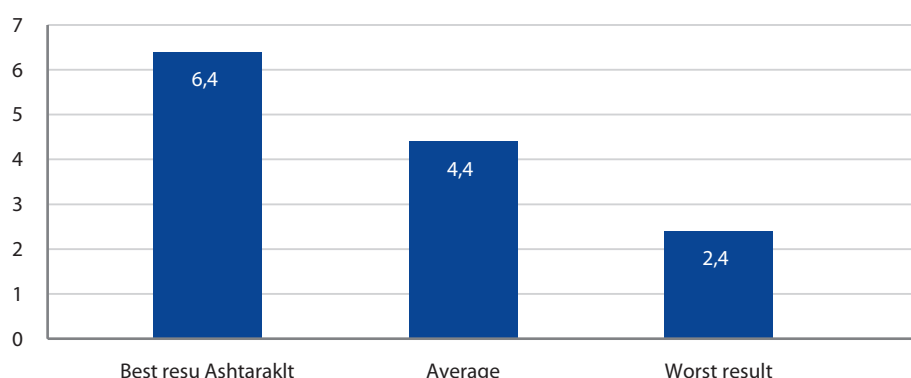
The evaluation result on **“Budget strategy debate”** is also low – 2 points (the average being 3 points, the highest – 5 points, Dilijan). So the first step in the budget process should be to discuss and approve current budget objectives and fiscal policy.

Budgeting methods and capacity are partially developed. The score on **“Technical capacity in budget preparation procedure”** is 6.4 points, the average being 4.4 (Chart 7), while the score on **“Analytical sheets make the budget transparent”** is 5.7 points, the highest result being 7.3 (Dilijan), while the average – 4.9 points.

However, the Municipality still has a lot to do to improve the following indicators:

- Budget preparation is supported by all type of local professional capacity;
- Budget preparation is the most powerful tool to discuss and identify the best solutions for service delivery;
- Comparisons are used to justify appropriate changes in figures and compare former performances against the objectives;
- Broad staff involvement and available professional capacity supports autonomy and openness.

Chart 7. Technical capacity in budget preparation procedure



Also, the Municipality still has not paid serious attention to using more dimensions and cross-references to inform decision making, or a structured set of analytical budget in the budget planning process.

The Municipality received generally high scores on Budgeting Procedures, but **“Involvement of elected bodies”** was rated 2.5 points. It is important to note that the level of understanding of budget objectives by elected bodies is of major significance. Appropriate procedures on submitting questions, avoiding conflict of interest, lobbying and anti-corruption should exist. Trainings and other workshops should be organised to improve understanding of the vision of the budget, the consequences and future impact of local councillors’ decision and their influence on the quality of service.

The evaluation result on **“Openness of budget documents”** is 8.3 points, higher than the average 6.6 points. The Municipality should continue to emphasise openness as it helps accountability and citizen participation, so it would be good to have minutes of meetings, publications on internet, leaflets, presenting the main objectives, figures, graphs, etc., as well as public hearings as part of the budget process.

In the Fiscal Policy Objectives area, both **“Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions”** and **“Cooperation with other local authorities”** got 0 points. The Municipality should first of all improve the level of cooperation with NGOs and seek cooperation with other local authorities in order to increase the efficiency and effectiveness of local governance.

The evaluation result on **“Adjoining authorities share administrative and professional resources”** is very low – only 0.8, points, so the Municipality needs to take steps towards inter-municipal cooperation in the provision of basic services, improve service quality, and use electronic procurement for goods and services.

SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

In the **“Special Rules on Budget Adjustment and Implementation”** area, the Municipality should focus on independent opinion on final reports and financial statements to improve its result, which is 0 points. Also there are problems with local service management efficiency (the related area scored 1.8 points); that is why the outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, while service efficiency should be a key target indicator for the service organisation and its management.

In Ashtarak Municipality, **budget adjustments** are made rather frequently during the year (2.3 points, the average being 5), so there is still work to be done to reduce the number of budget adjustments because improving budget planning and strengthening budget discipline would definitely increase the credibility of the budget.

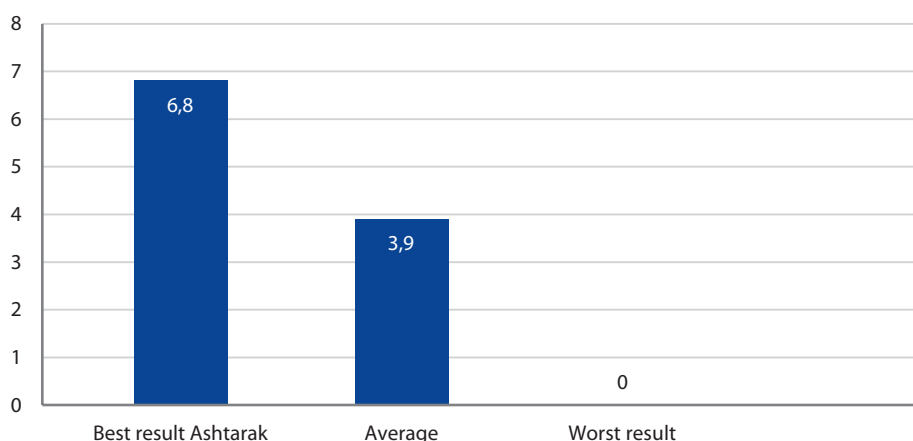
“Relations between the local government and its subsidiary organisations are regulated by transparent agreements” sub-area scored relatively high – 8.5 points, which means that there is still room for improving transparency in the relations between the local government and its subsidiary organisations .

“Local government service contracts cover asset management and social issues” sub-area received 7.7 points, which is the highest score (the average being 5.4). At the same time, Ashtarak Municipality needs to implement certain policy actions, first of all to include asset management issues in future contracts.

SPECIAL CONTROL, SUPERVISION OF ACTIVITIES

Ashtarak Municipality pays significant attention to the framework and role of both internal and external audit (Chart 8). The evaluation result on **“Framework and role of internal audit”** is the best among pilot municipalities – 6.8 points. Proper audit strategy helps to concentrate resources and improve the efficiency of the budget process. So the Municipality should continue practicing internal audit in the coming year and should strive to improve activities within local authorities to achieve better results. In case of lack of auditing resources, effective cooperation between internal and external auditing is suggested.

Chart 8. Framework and role of internal audit



The evaluation result on **“Special consideration has to guarantee PPP projects”** is the lowest possible – 0 points. The best result is 7 points, while the average is only 2.2 points. It is important to note that PPPs are a potential mechanism for financing public service infrastructure and saving resources in the current situation. But they need to be considered carefully to prevent potential risks and extra cost in the future. Proper debate establishes rules and guarantees for the potential use of PPP financing.

The next score (4 points) reflects the fact that a **procedure in a situation of financial difficulties** is not in place and should be set up. The Municipality should designate a person, responsible for recovery, to whom any warning signs noticed should be reported (organise an open competition to hire an appropriate person, if necessary). Key decisions on the general principles of recovery plans, as well as the rules and responsibilities for solving the problem, should also be adopted.

RECOMMENDATIONS

In view of the above mentioned scoring results, Ashtarak Municipality needs to consider the following recommendations:

- Organise trainings for municipal servants, staff of service organisations, elected local officials and councillors;
- Ensure transparency and accessibility of fiscal information to all users;
- Take measures to prevent tax avoidance and tax evasion;
- Appropriate procedures on submitting questions, avoiding conflict of interest, lobbying and anti-corruption should exist. Trainings and other workshops should be organised to improve understanding of the vision of the budget, the consequences and future impact of local councillors’ decision and their influence on the quality of service;
- The Municipality should continue to emphasise openness as it helps accountability and citizen participation, so it would be good to have minutes of meetings, publications on internet, leaflets, presenting the main objectives, figures, graphs, etc., as well as public hearings as part of the budget process;
- Strengthen the connection between the local mid-term development strategy and the budget by starting budget discussions on key fiscal policy issues coherent with mid-term development plans;
- The Municipality should first of all improve the level of cooperation with NGOs and seek cooperation with other local authorities in order to increase the efficiency and effectiveness of local governance;
- The Municipality needs to take steps towards inter-municipal cooperation in the provision of basic services, improve service quality, and use electronic procurement for goods and services;
- The Municipality should focus on local service management efficiency; the outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, while service efficiency should be a key target indicator for the service organisation and its management;

- Pay attention to the framework and role of both internal and external audit. Proper audit strategy helps to concentrate resources and improve the efficiency of the budget process. In case of lack of auditing resources, effective cooperation between internal and external auditing is suggested.

ANNEX

SECTION and AREA	Ashtarak	Average
BENCHMARKS OF FINANCIAL RESOURCES		
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES		
1. Local tax policies design		
1.1. Local revenue policies should be approved by elected bodies	4	5.7
1.2. Impact assessment of local revenue policies should be made public	7	6.5
2. Transparency and public involvement		
2.1. Budgetary and financial issues should be discussed at open meetings	6	4.8
3. Use of IT		
3.1 Governance efficiency should be improved by IT	6.8	6.5
4. Capacity development of local staff		
4.1. Training in various forms is needed for the local staff	4	3.6
4.2. Systems should be set up to enhance professionalism on financial and fiscal matters	8	6.2
4.3. Systems should be set up to enhance staff ethics on financial and fiscal matters	4	5.2
II. LOCAL TAXATION		
5. Local tax policy design		
5.1. Local taxes should be based on the principle of fairness (ability to pay)	3.7	4.5
5.2. Local taxes should generate a significant share of the local budget	3.8	4.4
6. Tax policy		
6.1. Local taxes should be based on a stable tax base	8.7	7.2
6.2. Tax avoidance and tax evasion should be prevented	3.5	4.3
6.3. The quality of tax regulations should be improved	5.8	3.9
6.4. Information on the tax base should be updated and has to be founded on legitimate sources	7.3	7.1
6.5. Reserves should be set aside for litigation	2	3.6
7. Information and publicity		
7.1. Information and explanations on local taxes and tax regulations should be made public	6	5.8
7.2. Public information on the use of local tax revenue should be comprehensive and understandable	6.7	6.3
8. Tax administration		
8.1. Tax registration and timely collection should support smooth cash flow	7.5	7.9
8.2. Tax administration should be simple: few formalities, least administrative efforts by taxpayers	4.8	5.4
8.3. Payment notices should provide information on tax levies	10	9.0
8.4. Easy payment systems	10	9.4
8.5. Complaint procedures should be clear	8.3	5.2
9. Tax system audit		
9.1. Comparing collection costs with tax revenues	6	3.8
9.2. Tax collection: identification of taxpayers and collection rate	7.7	5.5
III. FEES, CHARGES AND MISCELLANEOUS REVENUES		
10.1. User charges should comply with service costs	0.7	2.3
10.2. Charges should not reduce demand for services excessively	0	3.0
10.3. Access to essential services by disadvantaged groups should be preserved	4	5.7
10.4. Exceptional revenue should finance capital revenue	9.5	9.8
IV. CAPITAL BUDGET FINANCING		
11.1. Local capital investment is managed efficiently	9.3	9.3
11.2. Capital expenditures are funded by diverse sources of local revenue	9.3	8.1
V. LOCAL PROPERTY		
12.1. Organisational forms and rules of asset management are transparent	8	8.2

SECTION and AREA	Ashtarak	Average
12.2. Regulations on municipal enterprises ensure their long-term financial stability	7	4.6
BENCHMARKS OF FINANCIAL MANAGEMENT		
I. SOUND BUDGETING AND FISCAL PLANNING		
1. Fiscal strategy design		
1.1. Overall financial framework for multi-year budgeting	8	5.0
1.2. Multi-annual budget plans	3	2.8
1.3. Budget strategy debate	2	3.0
2. Budgeting methods and capacity		
2.1. Technical capacity in budget preparation procedure.	6.4	4.4
2.2. Analytical sheets make the budget transparent	5.7	4.9
3. Budget procedures		
3.1. Involvement of elected bodies	2.5	3.9
3.2. Separate debate and approval of complex, major investment projects or other significant programmes	9	6.6
3.3. Outsiders' contribution helps accountability	6.3	4.9
3.4. Openness of budget documents	8.3	6.6
4. Fiscal policy objectives		
4.1. Cost-saving strategies are adopted and sustained	3	3.8
4.2. Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	0	1.3
4.3. Cooperation with other local authorities	0	1.9
4.4. Adjoining authorities share administrative and professional resources (tax collection, audit implementation)	0.8	2.2
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION		
5.1. Regular monitoring keeps track of budget implementation	7	6.2
5.2. Local framework for supervision, monitoring and reporting is established to audit budget implementation	6.3	7.1
5.3. Independent opinion on final reports and financial statements	0	1.6
5.4. Budget adjustment during the year is limited.	2.3	5.0
5.5. Relations between the local government and its subsidiary organisations are regulated by transparent agreements	8.5	8.8
5.6. Local government service contracts cover asset management and social issues	7.7	5.4
5.7. Local service management should be made efficient	1.8	2.7
III. SPECIAL CONTROL, SUPERVISION OF ACTIVITIES		
6.1. Framework and role of internal audit	6.8	3.9
6.2. Special consideration has to guarantee PPP projects	0	2.2
6.3. Procedure in situation of financial difficulties	4	3.9
TOTAL	5.5	5.4

DILIJAN MUNICIPALITY

INTRODUCTION

Good local government depends on sufficient financial resources, which allow local authorities to offer services that are adjusted to their citizens' expectations, and on good financial management procedures, ensuring local budget flexibility and accountability of financial decisions. Focusing on local government resources, expenditures and financial management, benchmarking helps national and local governments to identify the factors for an equitable system of intergovernmental fiscal relations, efficient local finances, and effective local government financial management.

The benchmarks on financial resources and financial management use two types of assessment methods: surveys and financial indicators. Each benchmark survey item is assessed on a ten-unit scale.

The LFB project started in Armenia in April of this year. The pilot municipalities are Tumanyan, Tatev, Dilijan, Abovyan and Ashtarak.

The LFB benchmarking toolkit covers 31 topics in 12 broad areas related to financial resources and 24 topics in six areas related to financial management. In these two fields of local finances, local government performance was measured by around 250 indicators.

We have used the scoring methodology to assess each indicator measuring the efficiency of municipal finance management within the benchmark of 0 to 10 (0 being the minimum and 10 being the maximum value of indicator). As a result, we have identified the strengths and weaknesses of municipal finance management. Based on this, we have offered some recommendations concerning the priority areas of government and donor assistance to Dilijan Municipality.

Dilijan is a spa town in the Tavush Province of Armenia. The town lies on the banks of Aghstev River, spanning more than 20 kilometres in length at a height of 1,500 metres above sea level. Usually called Switzerland of Armenia, Dilijan is one of the most important resorts in the country, situated within the Dilijan National Park. According to the 2011 census, Dilijan has a population of 17,712, down from 23,700 reported in the 1989 census. Dilijan is currently the fastest-growing urban settlement in Armenia.

Dilijan was incorporated in 2016 with the RA Law amending and supplementing the RA Law on the Administrative and Territorial Division of the Republic of Armenia (adopted on November 24, 2015). As a result, Dilijan city and the villages of Haghartsin, Teghut, Gosh, Aghavnavank, Khachardzan, Hovk have formed Dilijan Municipality. The municipal center is Dilijan city.

Table 1. Indicators of permanent population by 01.01.20151

N	Name	Permanent population
1	Dilijan	17,666
2	Haghartsin	3,551
3	Teghut	1,497
4	Gosh	1,107
5	Aghavnavank	284
6	Khachardzan	357
7	Hovk	423

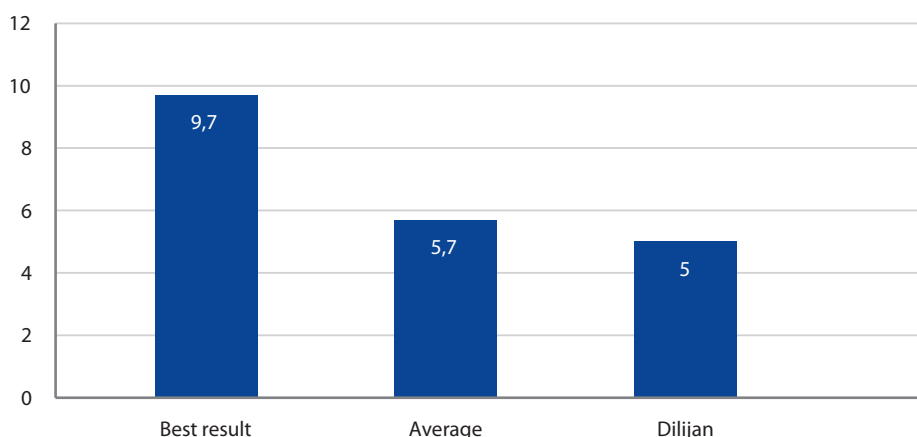
1 <http://www.armstat.am>

EVALUATION OF FINANCIAL RESOURCES OF DILIJAN MUNICIPALITY

GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

The evaluation result on “**Local revenue policies should be approved by elected bodies**” is 5 points, lower than the average result of the 5 pilot municipalities – 5.7 points, the best result being 9.7 points (Chart 1). This means that the Local Council should take proper steps and adopt relevant decisions to delegate powers for determining exemptions, tax reliefs, prices of services, authorisation of allocated subsidies for user charges.

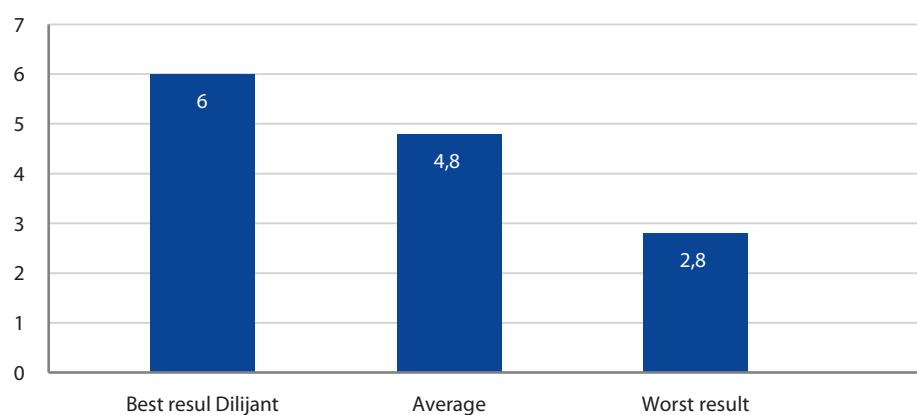
Chart 1. Local revenue policies should be approved by elected bodies



The Municipality generally ensures that the **impact assessment of local revenue policy** is publicised. With regard to public access to local budget documents, public involvement in local budget design, diversity of methods for disseminating information on local budgets, the Municipality earned 6 points from 10 possible. However, the result is below the average 6.5 points.

Dilijan Municipality received 6 points in the area of **transparency and public involvement**, which is the best result in this area. The average result of all 5 pilot municipalities is 4.8 points (Chart 2). This means that participation and intervention at public meetings and media reporting on local budget are ensured better than in other municipalities. At the same time, there is room for strengthening participatory budgeting principles in local finance management.

Chart 2. Budgetary and financial discussions should be made at open meetings



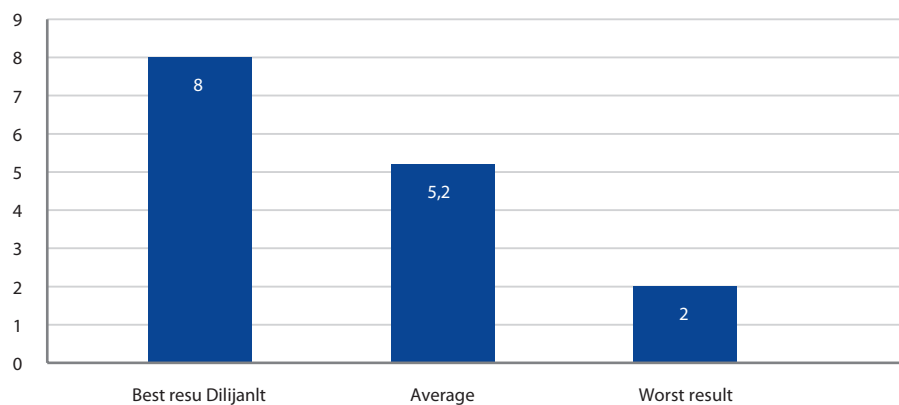
Use of IT scored 8 points, which is the best result in this area. The average result of all pilot municipalities is 6.5 points. The Municipality has a website and some proper information on it. We would suggest to update it regularly and upload draft documents. Using new accounting software and integrating local databases would help to increase the efficiency of IT use.

The score for **capacity development of local staff** shows that the Municipality does not pay enough attention to training (legal, financial, fiscal, management, development of other skills). Trainings for municipal servants, staff of service organisations, elected local officials, and councillors are seldom organised. Budget for training is not included in the local budget in the proper form. As a result, the score is 4.5 points, the average being 3.6, so local staff capacity development is not well-organised in all pilot municipalities. Therefore, key policy measures should be implemented including well-justified identification of local staff capacity development needs mainly based on the current LFB assessment, planning trainings and budgeting costs in the local budget in a proper form.

Not all local administration units at the Municipality have access to fiscal information. Hence, the score on **“Systems should be set up to enhance professionalism in financial and fiscal matters”** is not the maximum possible but with 8 points is the highest result among all the 5 pilots. The average result of all pilot municipalities is 6.2 points. In 2016, the leaders of Dilijan Municipality should continue to ensure the accessibility of fiscal information to all the users to improve the result.

The score on **“Systems should be set up to enhance ethics of staff in financial and fiscal matters”** is also 8 points, the average being rather low (5.2), which ranks Dilijan 1st among the pilots (Chart 3). This score is formed based on the level of harmonisation of local regulations with national rules. They are generally coherent but there is a need to establish a specific code of ethics in financial and fiscal matters, which has not been adopted yet.

Chart 3. Systems should be set up to enhance ethics of staff in financial and fiscal matters

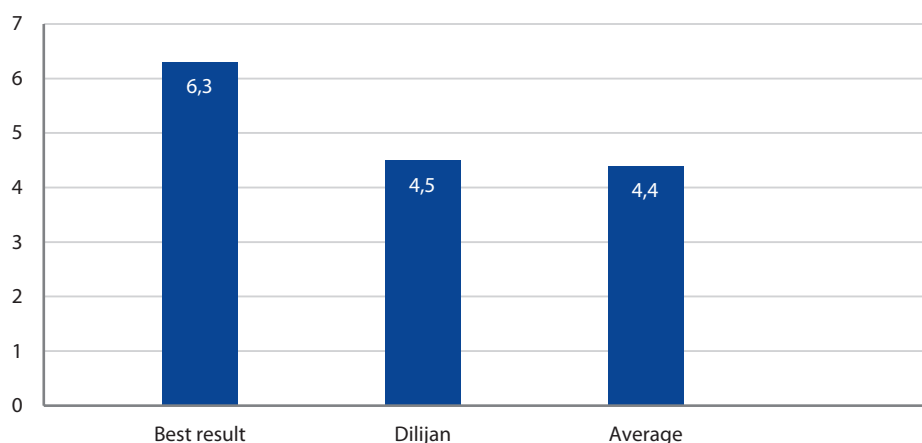


LOCAL TAXATION

The Local Taxation section yielded different scores. **“Local taxes should be based on the principle of fairness (ability to pay)”** is rated with 3.7 points, the average being 4.5 points, while the best result being 6.3. This score is formed taking into account local tax regulations specifying exemptions set by law, differences between nominal and actual tax rates, effective tax rates compared to national averages.

The evaluation result on **“Local taxes should generate a significant share of the local budget”** is 4.5 points, the average being 4.4 points (Chart 4). This means that local tax revenue has a small share in the municipal budget. Currently, most of municipal budgets are shaped by official transfers, especially financial equalisation grants.

Chart 4. Local taxes should generate a significant share of the local budget



Dilijan Municipality received average scores in the tax policy area. Based on the evaluation of the composition of local taxes, the annual changes in local tax base and the number of taxpayers by major types of local taxes, the total score assigned on **“Local taxes should be based on a stable tax base”** is 4.7 points, which is lower than the average – 7.2.

The score calculated based on the ratio of collected taxes to the tax base (by taxpayers’ groups), the total amount of arrears in local tax collection, the evolution of arrears in time, the number of court cases and litigations resolved, is 4.3, which means that the Municipality should take measures to prevent **tax avoidance and tax evasion**. The average result of all 5 pilot municipalities is also 4.3 points. One of the measures to prevent tax avoidance is to inform taxpayers with a written notice about the date and the amount of taxes to be paid.

“The quality of tax regulations should be improved” got 5 points, which is higher than the average 3.9 points. The Municipality’s administration needs to consider the following recommendations to improve tax regulations:

- Local revenue policy goals should be better translated to tax regulations;
- The share of taxes collected as a result of tax audits in the total amount of collected taxes should be decreased with parallel increase of tax collection;
- The share of litigation cases won in the total number of tax cases should increase;
- The amount of arrears accumulated annually should decrease through more efficient tax administration at the municipal level, which needs to be improved based on audit results.

The score on **“Information on the tax base should be updated and has to be founded on legitimate sources”** is high – 8 points (the average being 7.1). This means that Dilijan Municipality maintains proper cooperation with higher authorities (national tax office, business register, cadastre, vehicle registration). There is definitely room for strengthening this cooperation.

In Dilijan Municipality, **reserves are not properly set aside for litigation**, so the Municipality received 6 points. The average is even lower – 3.6 points. The main recommendation here is to file court cases to collect overdue taxes and set aside reserves for litigation.

Dilijan achieved similar results on **“Information and publicity”**: Information and explanations on local taxes and tax regulations should be made public – 7 points (the average being 5.8); Public information on the use of local tax revenue should be comprehensive and understandable – 7.3 points (the average being 6.3).

Therefore, there is room for improvement, particularly in the following sub-areas of public information:

- All the diverse means of information sharing (electronic, posters, direct mailing, telephone) should be fully employed;
- Reporting on the implementation of local budgets should be more transparent and public;

- Explanations on general purpose local tax (land tax, property tax) revenues should be more clear and understandable.

The score on **“Tax registration and timely collection should support smooth cash flow”** is 8.5 points and ranks 2nd best (the average being 7.9 points). This means that the Municipality makes efforts to ensure that the taxpayers’ register is regularly updated, delays and unpaid taxes are monitored by the tax information system, there is a warning mechanism for overdue payments, and internal legal procedures for non-payment are regulated and publicly known.

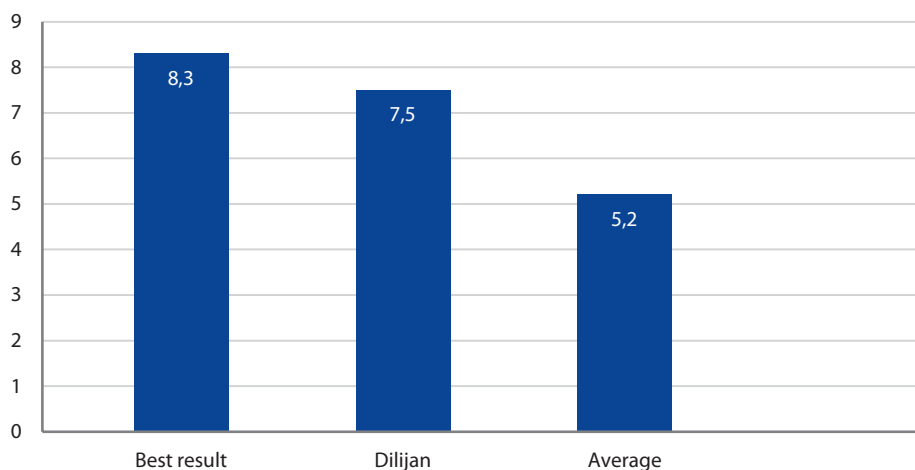
The score of Dilijan Municipality on **“Tax administration should be simple: few formalities, least administrative efforts by taxpayers”** is 7 points, while the average score of all 5 pilot municipalities is lower – 5.4 points. However, there is still much to be done to inform the public on local tax payment, billing, justification of taxes, and diversification of payment forms, as well as to ensure transparency of information on complaints.

In Dilijan Municipality, **payment notices** provide some information on tax levies including taxpayer identification, tax base, exemptions, tax rate, amount due, deadline for payments, forms of payment, consequences of delay or non-payment, which is reflected in the score – 7 points (the average being 9 points).

The situation with the availability and use of various forms of payment for local taxes is the same, so the score on **“Easy payment systems”** is 8 points, the average being 9.4.

The evaluation result on **“Complaint procedures should be clear”** is 7.5 points and ranks higher than the average result of all 5 pilot municipalities – 5.2 points (Chart 5).

Chart 5. Complaint procedures should be clear



In the tax system audit section, **“Comparing collection costs with tax revenues”** got 5 points (the average being 3.8), while **“Tax coverage: identification of taxpayers and collection rate”** – 6 points (the average being 5.5). This means that tax yield is comparable to the total cost of tax administration and the taxpayers’ register is regularly updated. However, the Municipality should make more efforts to achieve better results.

FEES, CHARGES AND MISCELLANEOUS REVENUES

The evaluation result on **“User charges should generally comply with service costs”** is low – 2.7 points, even though it is higher than the average. This suggests that the Municipality has weaknesses in the calculation of service costs (including total current and capital investment costs). Two-component user charges are not matched with fixed and variable costs, while increase in user charges is not calculated by a regulated formula, reflecting major service cost components (e.g. capital, labour, energy).

“Charges should not reduce demand for services excessively” scored 5 points, which is the highest score, the average being 3 points. Local policy preferences are not adequately reflected in average charg-

es, exemptions and subsidies, also pricing methods do not follow local policy goals in an appropriate form.

Dilijan achieved the highest result on “**Access to essential services by disadvantaged groups should be preserved**” – 8.5 points, the average being 5.7 points.

Nevertheless, the policy on subsidies from the local budget should achieve the optimal compromise between following basic guidelines:

- Maximum self-sufficiency of provided services;
- Charges should not reduce demand for services excessively;
- Access to essential services by disadvantaged groups should be preserved.

For example, the Municipality can increase service charges up to the point where demand for services would decrease. For disadvantaged groups, in this case the Municipality can introduce additional family benefits to cover extra expenses resulting from a possible increase of service charges.

The Municipality received 10 points on “**Exceptional revenue should finance capital revenue**” (the average being 9.8). This means that in Dilijan Municipality, windfall revenue is a separate item in the local budget, and own source capital revenue (revenue from the sale of land or property) is used for capital expenditures.

CAPITAL BUDGET FINANCING

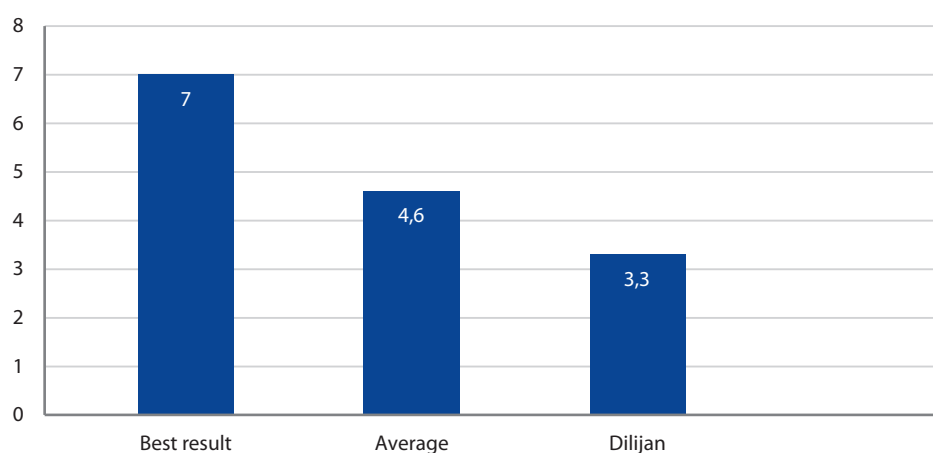
In the Capital Budget Financing section, “**Local capital investments are managed effectively**” received 10 points, while “**Capital expenditures are funded by diverse sources of local revenues**” scored 9.3 points as most of the indicators correspond to the requirements of national legislation.

LOCAL PROPERTY

“**Organisational forms and rules of asset management are transparent**” scored just shy of the maximum 10 points – 9.5 (the average being 8.2), which means that decision-making powers on the sale, use and lease of municipal assets are regulated, and local government control over municipal asset management organisation is quite effective.

The evaluation result on “**Regulations on municipal companies ensure their long term financial stability**” is lower than the average (4.6) – 3.3 points (Chart 6). Service provision contracts with local companies are generally signed on an annual basis. They should be concluded for the medium term.

Chart 6. Regulations on municipal companies ensure their long-term financial stability



Another issue is that municipal compensation is covering mainly operational costs but does not enable the companies to make a reasonable profit, which is important for their development.

Ownership of assets and related maintenance obligations are not stipulated clearly in the contracts. The contracts should be changed to reflect these issues, which would improve the efficiency of local property management.

EVALUATION OF FINANCIAL MANAGEMENT IN DILIJAN MUNICIPALITY

SOUND BUDGETING AND FISCAL PLANNING

Dilijan Municipality scored 6 points on **“Overall financial framework of multi-year budgeting budget”**. The best result is 8 points, while the average is 5 points. This means that on the whole, there is connection between local policies, strategies and budget items, the budget is based on mid-term local policies, and changes in the overall budget cap fit into the macroeconomic framework. However, there is room for improvement in this area.

“Multi-annual budget plans” is rated with 4 points, which is higher than the average 2.8 points. The multi-annual plan plays only a formal role in the Municipality and the budget is not based on it. This is a common problem in all municipalities in Armenia. Therefore, one of the priorities of local finance management reforms in Armenia should be to introduce multi-year budget planning and to incorporate it into the municipalities’ budget process. This reform should be initiated and actively implemented with the support of the Ministry of Finance and MTAD.

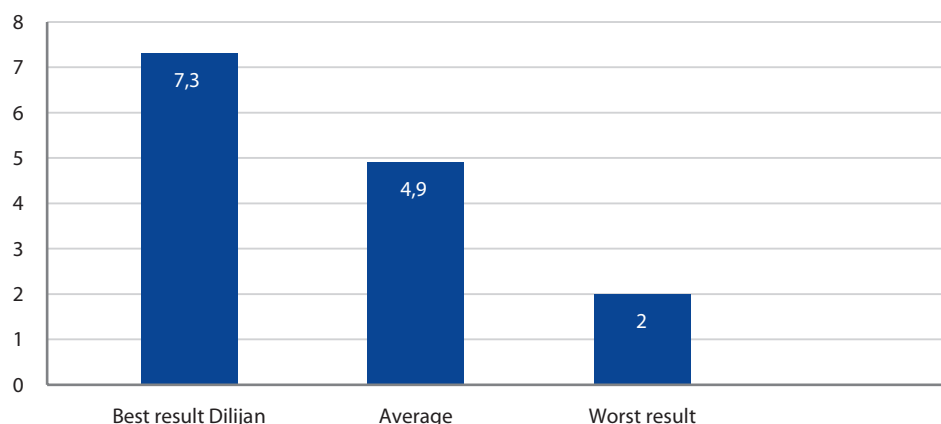
The evaluation result on **“Budget strategy debate”** is 5 points and ranks highest among pilot municipalities, the average being 3 points. So the first step in the budget process should be to discuss and approve current budget objectives and fiscal policy.

Budgeting methods and capacity are partially developed. The score on **“Technical capacity in budget preparation procedure”** is 6 points, the average being 4.4, while the score on **“Analytical sheets make the budget transparent”** is 7.3 points, quite higher than the average 4.9 points (Chart 7).

However, the Municipality still has a lot to do to improve the following indicators:

- Budget preparation is supported by all type of local professional capacity;
- Budget preparation is the most powerful tool to discuss and identify the best solutions for service delivery;
- Comparisons are used to justify appropriate changes in figures and compare former performances against the objectives;
- Broad staff involvement and available professional capacity supports autonomy and openness.

Chart 7. Analytical sheets make the budget transparent



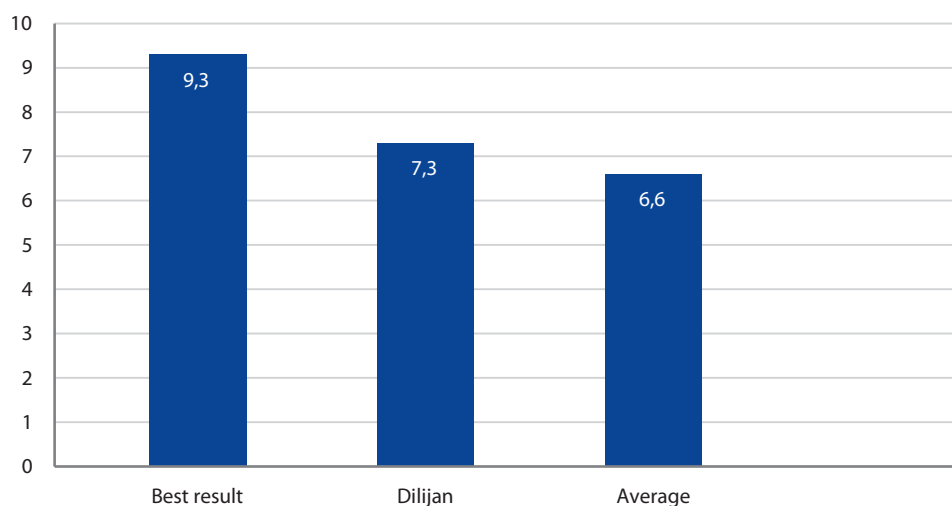
Also, the Municipality still has not paid serious attention to using more dimensions and cross-references to inform decision making, or a structured set of analytical budget in the budget planning process.

Dilijan Municipality achieved relatively high scores on Budget Procedures, the lowest score is 4.5 points on **“Involvement of elected bodies, outsiders’ contribution to the budget documents”**. It is important to note that the level of understanding of budget objectives by elected bodies is of major significance. Appropriate procedures on submitting questions, avoiding conflict of interest, lobbying and anti-corruption should exist. Trainings and other workshops should be organised to improve understanding of the vision of the budget, the consequences and future impact of local councillors’ decision and their influence on the quality of service.

“The time frame of the budget debate by elected bodies” is rated 7 points, so there is sufficient time to review and understand the budget proposal, organise the debate, as well provide adequate information on budget documents.

The evaluation result on **“Openness of budget documents”** is 7.3 points; it is higher than the average 6.6 points, however much lower than the best result – 9.3 (Chart 8). The Municipality should continue to emphasise openness as it helps accountability and citizen participation, so it would be good to have minutes of meetings, publications on internet, leaflets, presenting the main objectives, figures, graphs, etc., as well as public hearings as part of the budget process.

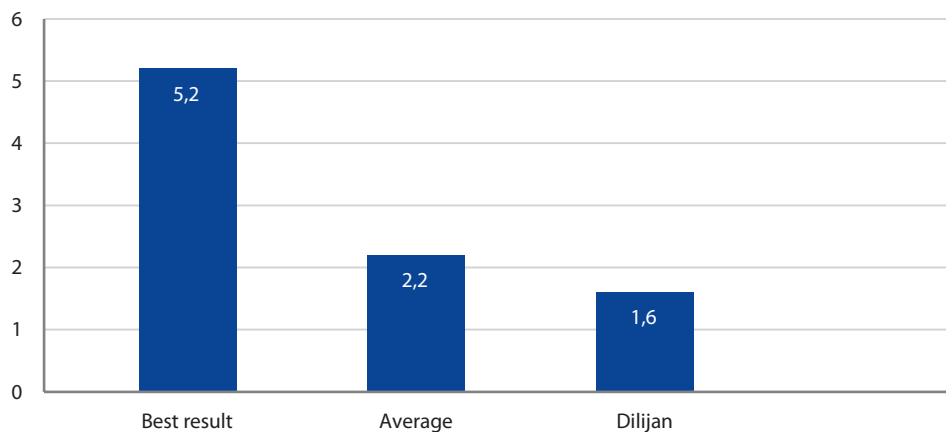
Chart 8. Openness of budget documents



In the Fiscal Policy Objectives area, **“Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions”** got 6.7 points, however, the result on **“Cooperation with other local authorities”** is worse – 1 point. This means that the Municipality should improve the level of cooperation with NGOs and seek cooperation with other local authorities in order to increase the efficiency and effectiveness of local governance.

The evaluation result on **“Adjoining authorities share administrative and professional resources”** is low – 1.6 points (Chart 9), so the Municipality needs to take steps towards inter-municipal cooperation in the provision of basic services, improve service quality, and use electronic procurement for goods and services.

Chart 9. Adjoining authorities share administrative and professional resources



SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

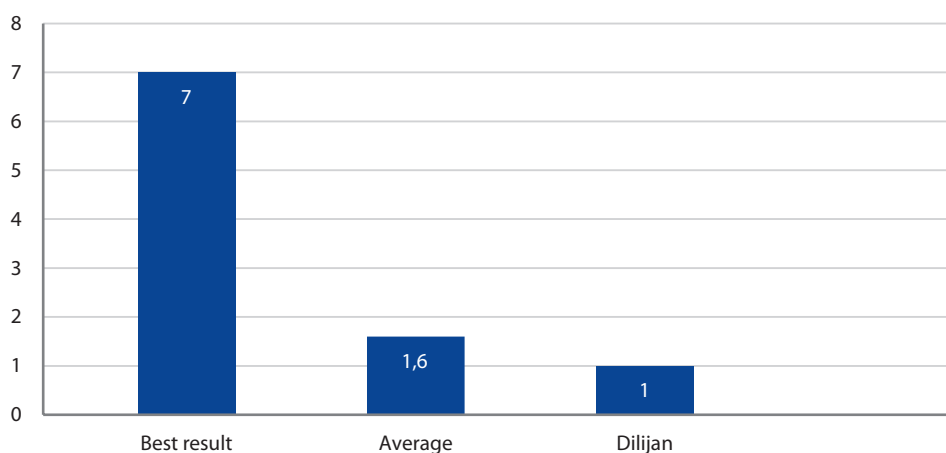
In the **“Special Rules on Budget Adjustment and Implementation”** area, the Municipality should focus on independent opinion on final reports and financial statements to improve its result, which is 1 point (Chart 10). Independent opinion (external audit) strengthens the confidence of elected members in the submitted final reports and the accuracy of financial statements.

The Municipality should focus on formalising the process of **“Regular evaluation of budget implementation”**, which helps to keep track of budget execution and make prompt adjustments, if necessary.

Local framework for supervision, monitoring and reporting should be established to audit budget implementation.

In Abovyan Municipality, **budget adjustments** during the year are not often made; they are rather limited, so the evaluation result in this area is 7.8 points, the average being 5 points. It is important to note that too frequent budget adjustments create uncertainty, they work against transparency because the proposed adjustment can avoid proper budget debate, so improving budget planning and strengthening budget discipline would definitely enhance the credibility of the budget.

Chart 10. Independent opinion on final reports and financial statements



In Dilijan Municipality, **the relations between the local government and its subsidiary organisations** are generally regulated by transparent agreements (the score is 8 points against an average of 8.8 points for pilot municipalities).

It is important to mention also that local **government service contracts cover asset management** and have enough impact on social issues (the score of Dilijan is 9 points, the average of pilot municipalities being 5.4).

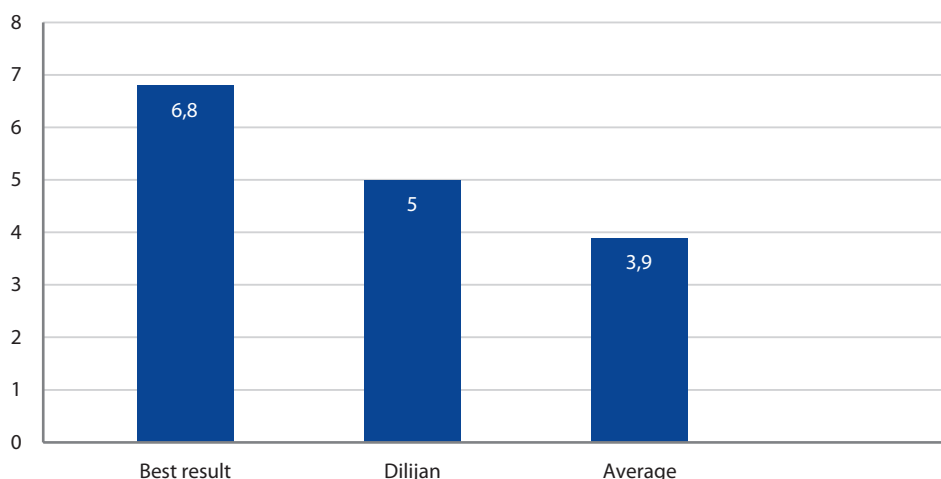
The next score that is far from the best in this section is 5.8 points (**“Local service management should be made efficient”**); that is why the outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, while service efficiency should be a key target indicator for the service organisation and its management.

SPECIAL CONTROL, SUPERVISION OF ACTIVITIES

Dilijan Municipality pays attention to the **framework and role of internal audit** (Chart 11) and has achieved an evaluation result of 5 points in this area, the best result being 6.8 points. Proper audit strategy helps to concentrate resources and improve the efficiency of the budget process. So the Municipality should continue practicing internal audit in the coming year and should strive to improve activities within local authorities to achieve better results. In case of lack of auditing resources, effective cooperation between internal and external auditing is suggested.

The evaluation result on **“Special consideration have to guarantee PPP projects”** is 7 points and is quite higher than the average, which is only 2.2 points. It is important to note that PPPs are a potential mechanism for financing public service infrastructure and saving resources in the current situation. But they need to be considered carefully to prevent potential risks and extra cost in the future. Proper debate establishes rules and guarantees for the potential use of PPP financing.

Chart 11. Framework and role of internal audit



“Procedure of situation in financial difficulties” scored 5 points. Although this result is both higher than the average (3.9 points) and the best in this area, the Municipality should designate a person, responsible for recovery, to whom any warning signs noticed should be reported (organise an open competition to hire an appropriate person, if necessary). Key decisions on the general principles of recovery plans, as well as the rules and responsibilities for solving the problem, should also be adopted.

RECOMMENDATIONS

Summarising the above mentioned scoring results of Dilijan Municipality, we would like to draw the attention of the local leaders to the following vital and priority areas of local finance management:

- Increase transparency and public involvement in the budget process. Participatory budgeting is not only an important part of democratic governance but also makes local budgets more comprehensive and reliable;
- Prevent tax avoidance and tax evasion by simplifying tax administration, making more active use of prior notices to taxpayers, and starting litigation against defaulting taxpayers in order to reduce tax arrears;

- Establish an efficient system of internal audit and supervision of activities. Programme-based budgeting principles cannot be introduced at municipal level without properly functioning internal audit, therefore, special attention is required to develop training programmes in this area;
- Establish external audit. Independent opinion on budget implementation reports is vital to help community leaders and the public assess the level of credibility of budget reports and identify the main bottlenecks of the budget process in general;
- Strengthen the connection between the local mid-term development strategy and the budget by starting budget discussions on key fiscal policy issues coherent with mid-term development plans;
- Foster cooperation with other municipalities, predominantly in the areas of the common infrastructure, and support business projects of mutual economic interest, particularly through PPP projects.

ANNEX

SECTION and AREA	Dilijan	Average
BENCHMARKS OF FINANCIAL RESOURCES		
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES		
1. Local tax policies design		
1.1. Local revenue policies should be approved by elected bodies	5	5.7
1.2. Impact assessment of local revenue policies should be made public	6	6.5
2. Transparency and public involvement		
2.1. Budgetary and financial discussions should be made at open meetings	6	4.8
3. Use of IT		
3.1 Governance efficiency should be improved by IT	8	6.5
4. Capacity development of local staff		
4.1. Training in various forms are needed for the local staff	4.5	3.6
4.2. Systems should be set up to enhance professionalism in financial and fiscal matters	8	6.2
4.3. Systems should be set up to enhance ethics of staff in financial and fiscal matters	8	5.2
II. LOCAL TAXATION		
5. Local tax policy design		
5.1. Local taxes should be based on the principle of fairness (ability to pay)	3.7	4.5
5.2. Local taxes should produce a significant part of the Municipality budget	4.5	4.4
6. Tax policy		
6.1. Local taxes should be based on stable tax base	4.7	7.2
6.2. Tax avoidance and evasion should be prevented	4.3	4.3
6.3. Quality of tax regulations should be improved	5	3.9
6.4. Information on tax base should be updated and has to be founded on legally available sources	8	7.1
6.5. Reserves should be set aside for litigation	6	3.6
7. Information and publicity		
7.1. Information and explanation on local taxes and tax regulations should be made public	7	5.8
7.2. Public information on the use of local tax revenue should be comprehensive and understandable	7.3	6.3
8. Tax administration		
8.1. Tax registration and timely collection should support smooth cash flow	8.5	7.9
8.2. Tax administration should be simple: few formalities, least administrative efforts by taxpayers	7	5.4
8.3. Payment demands should provide information on tax levies	7	9.0
8.4. Easy payment systems	8	9.4
8.5. Complaint procedures should be clear	7.5	5.2
9. Tax system audit		
9.1. Comparing collection costs with tax revenues	5	3.8
9.2. Tax collection: identification of taxpayers and collection rate	6	5.5

SECTION and AREA	Dilijan	Average
III. FEES, CHARGES AND MISCELLANEOUS REVENUES		
10.1. User charges should comply with service costs	2.7	2.3
10.2. Charges should not reduce demand for services excessively	5	3.0
10.3. Access to essential services by disadvantaged groups should be preserved	8.5	5.7
10.4. Exceptional revenue should finance capital revenue	10	9.8
IV. CAPITAL BUDGET FINANCING		
11.1. Local capital investment is managed efficiently	10	9.3
11.2. Capital expenditures are funded by diverse sources of local revenue	9.3	8.1
V. LOCAL PROPERTY		
12.1. Organisational forms and rules of asset management are transparent	9.5	8.2
12.2. Regulations on municipal enterprises ensure their long-term financial stability	3.3	4.6
BENCHMARKS OF FINANCIAL MANAGEMENT		
I. Sound Budgeting and Fiscal Planning		
1. Fiscal strategy design		
1.1. Overall financial framework of multi-year budgeting	6	5.0
1.2. Multi-annual budget plans	4	2.8
1.3. Budget strategy debate	5	3.0
2. Budgeting methods and capacity		
2.1. Technical capacity in budget preparation procedure.	6	4.4
2.2. Analytical sheets make the budget transparent	7.3	4.9
3. Budget procedures		
3.1. Involvement of elected bodies	4.5	3.9
3.2. Separate debate and adoption of complex, major investment projects or other significant programs	6	6.6
3.3. Outsiders' contribution helps accountability	6.7	4.9
3.4. The time frame of budget debate by elected bodies	7	6.2
3.5. Openness of budget documents	7.3	6.6
4. Fiscal policy objectives		
4.1. Cost-saving strategies are adopted and sustained	7.5	3.8
4.2. Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	6.7	1.3
4.3. Cooperation with other local authorities	1	1.9
4.4. Adjoining authorities share administrative and professional resources (tax collection, audit implementation)	1.6	2.2
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION		
5.1. Regular monitoring keeps track of budget implementation	7	6.2
5.2. Local framework for supervision, monitoring and reporting is established to audit budget implementation	8.7	7.1
5.3. Independent opinion on final reports and financial statements	1	1.6
5.4. Budget adjustment during the year is limited.	7.8	5.0
5.5. Relations between the local government and its subsidiary organisations are regulated by transparent agreements	8	8.8
5.6. Local government service contracts cover asset management and social issues	9	5.4
5.7. Local service management should be made efficient	5.8	2.7
III. SPECIAL CONTROL, SUPERVISION OF ACTIVITIES		
6.1. Framework and role of internal audit	5	3.9
6.2. Special consideration has to guarantee PPP projects	7	2.2
6.3. Procedure in situation of financial difficulties	5	3.9
TOTAL	6.4	5.4

TATEV COMMUNITY

INTRODUCTION

Good local government depends on sufficient financial resources, which allow local authorities to offer services that are adjusted to their citizen`s expectations, and on good financial management procedures, ensuring local budgetary flexibility and accountability of financial decisions. Focusing on local government resources, expenditures and financial management, benchmarking helps the national and the local governments to identify the factors of equitable system of intergovernmental fiscal relations, efficient local finances and effective local government financial management.

The benchmarks on financial resources and financial management use two types of assessment methods: surveys and financial indicators. Each benchmark survey item is assessed on a ten-unit-scale.

The LFB project started in Armenia in April of this year. The pilot municipalities are Tumanyan, Tatev, Dilijan, Abovyan and Ashtarak.

The LFB benchmarking toolkit covers 31 topics in 12 broad areas for assessing financial resources and 24 topics in six areas of financial management. In these two fields of local finances local government performance was measured by around 250 indicators.

We have used the scoring methodology, assessing each indicator characterizing the efficiency of the community finance management within the benchmark of 0 to 10 (0 is min. and 10 is max. value of indicator). As a result we have identified the strength and weaknesses of the community finance management. Based on it we have offered some recommendations concerning the priority areas of the government and donor assistance to the Tatev community.

In the case of Tatev amalgamated community the scoring does not fully reflect the real situation of the other 7 former communities (in 2015), which are presently incorporated in the Tatev multi-settlement community. At the same time it was very hard to assess the Tatev budget for 2015 since there were 8 different communities with their own budgets and different budget management. Therefore the simple adding of these communities budget data won't give us a real picture of the Tatev community budget. We think that scoring results of 2016 will be more realistic.

TATEV MUNICIPALITY

Tatev is a town in the Syunik Province of Armenia at a height of 1,610 metres above sea level. It is one of the oldest settlements in Armenia. One of the most attractive places in Syunik region is Armenian architecture monument Tatev monastery complex (IX century) where in 1390-1435 acted the famous Tatev university. In 2010 the longest non-stop ropeway of the world „Tatever“ (Wings of Tatev) was put into operation (maximum height 380m, length 5.7km) which passes through Vorotan river canyon, stretches over mountains and reaches from Halidzor village to Tatev monastery complex.

Tatev was magnified in 2016 by the RA law “On making amendments and additions” to the RA Law “On administrative-territorial division of the Republic of Armenia” (adopted on November 24, 2015). As a result eight villages - Tatev, Halidzor, Tandzatap, Svarants, Khot, Shinuhayr, Harzhis, Kashuni have formed Tatev community. The community center is village Shinuhayr.

Table 1. Indicators of permanent population by 01.01.2012²

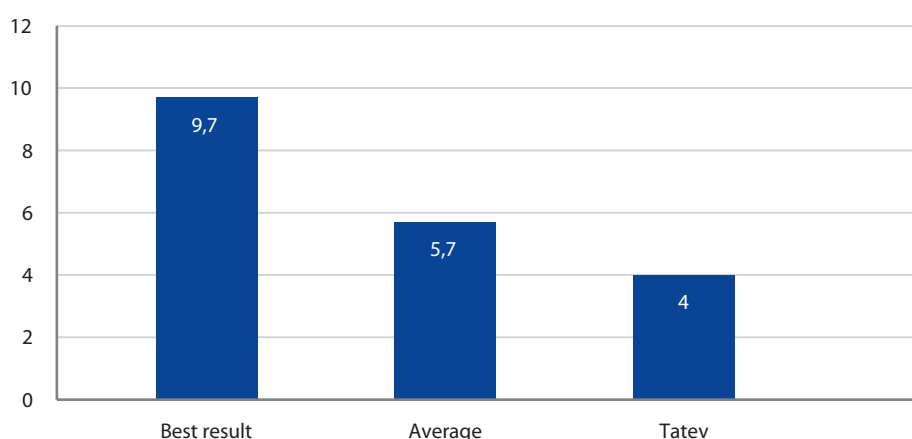
N	Name	Permanent population
1	Tatev	922
2	Halidzor	593
3	Tandzatap	97
4	Svarants	266
5	Khot	925
6	Shinuhayr	2721
7	Harzhis	936
8	Kashuni	31

EVALUATION OF FINANCIAL RESOURCES OF TATEV COMMUNITY

GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

In Tatev community the score of “**Local revenue policies should be approved by elected bodies**” is 4 points. The average result of all 5 piloting participants is 5.7 points, and Tatev community has one of the worst results for this area (Chart 1). This means that the Council should take proper steps to make decisions on delegation of powers to set exemptions, tax reliefs, prices of services, authorization of allocating subsidies for user charges. Currently Tatev community Council is quit passive in performing these functions.

Chart 1. Local revenue policies should be approved by elected bodies



The community generally ensures the publicity of the **Impact assessment of local revenue policy**. In the result of assessment of public access to local budget documents, public involvement in local budget design, diversity of methods for disseminating information on local budgets the community earned 5 points from possible 10. The average result of all 5 piloted communities is 6.5 points, but Tatev community is the last one. We think there are some policy actions to do to improve this also in the other settlements, which are now a part of Tatev community.

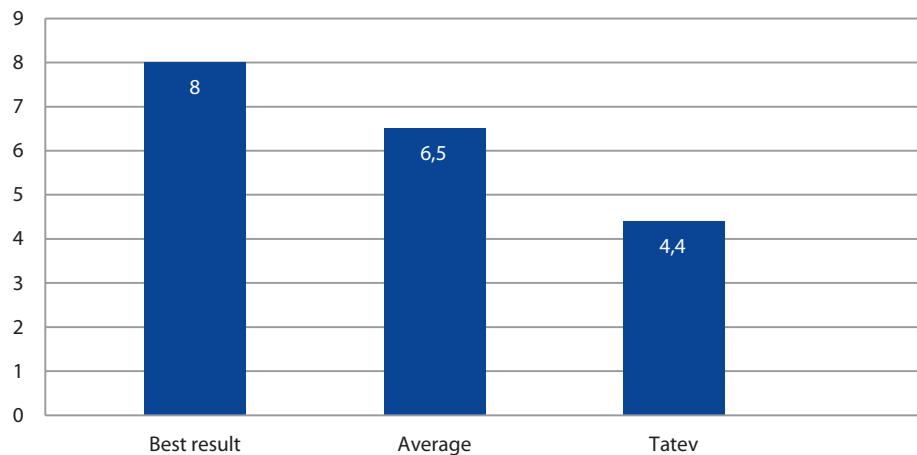
Like the previous one, the community got 4 points in assessment of the area of **transparency and public involvement**. The average result of all 5 piloted participants is 4.8 points, the highest result for this area is 6 points. This means that participation and intervention at public meetings, media reporting on local budget are ensured with difficulty, there are few channels of communication with the public in the community.

Use of IT got relatively not very low score-4.4, but it is the worst result among all the pilots. The average result of all 5 piloting participants is 6.5 points, the best result is 8 points (Chart 2). The main causes of this low score are relatively low level of using IT technologies in other former communities in 2015, which are a

² <http://www.armstat.am>

part of Tatev community since 2016. In this area there is a plenty of work to do. We can suggest using new accounting software, integrating local databases, having access to internet, creating a website and putting proper information and draft documents on it.

Chart 2. Use of IT



The score of **capacity development of local staff** shows that the community does not pay enough attention to the issues of the training courses (legal, financial, fiscal, management, other skill development). The trainings for municipal servants, staffs of the service organizations, elected local officials and councilors are rarely organized. Budget for training is not included in local budget in the appropriate form. As a result, the score is only 2.3 points, the average is 3.6, so the capacity development of local staff isn't well organized in all pilot communities, but Tatev got the worst result. Therefore the key policy measures should be implemented including the well justified identification of the local staff capacity development needs mainly based on the current LFB assessment, planning the training and its budget presented in the local budget in proper form.

In the community not all units of local administration have **access to fiscal information**. So the score of **"Systems should be set up to enhance professionalism in financial and fiscal matters"** is 4 points. The average result of all 5 piloting participants is 6.2 points, Tatev community is the 5th in a rank, the best result have Dilijan and Ashtarak-8 points. During the year 2016 the leaders of Tatev community should ensure the accessibility of fiscal information to all the users.

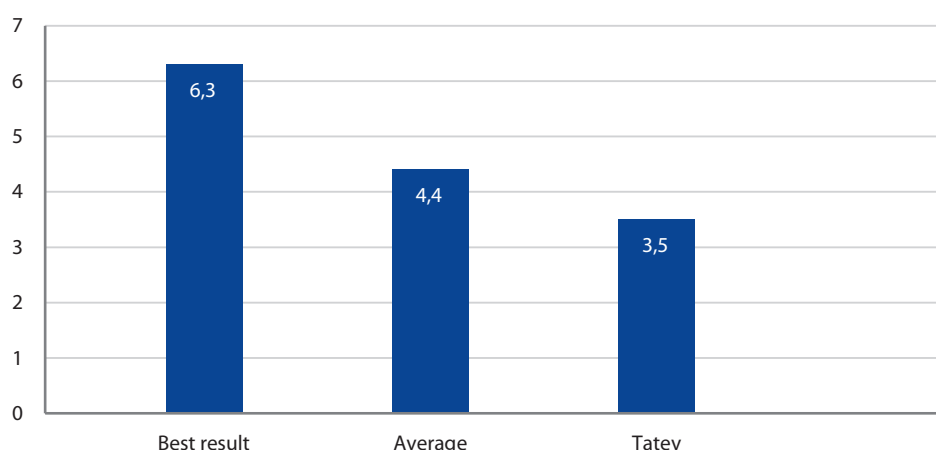
The score of **"Systems should be set up to enhance ethics of staff in financial and fiscal matters "** is even lower-2 points, while the average is 5.2, so Tatev community is the last one among the others. This score is formed on the basis of how harmonious local regulations are with national rules. So one of the priority areas of the local finance management reforms in Tatev community is to harmonise the appropriate local regulations with national rules and more importantly to start actively implement them.

LOCAL TAXATION

Local taxation sector got higher scores. **"Local taxes should be based on the principle of fairness (ability to pay)"** is rated 4.7 points, which is the 2nd result for this area, the average is 4.5 points. This score is formed taking into account local tax regulations interpret exemptions set by law, differences between nominal and actual tax rates, effective tax rates compared to national averages.

Tatev community got 3.5 points for **"Local taxes should produce a significant part of the community budget"**, the average is 4.4 points (Chart 3). This is because in the other communities the local taxes have little bit more portion in the community budget revenue than in Tatev. Therefore the urgent policy action in this area is to gradually increase the tax base.

Chart 3. Local taxes should generate a significant share of the local budget



By evaluating composition of local taxes, annual changes in local tax base and the number of tax payers by major types of local taxes the total rate for **“Local taxes should be based on stable tax base”** is 7.3 points, nearly the same as the average-7.2.

The score calculated based on the ratio of collected tax to the tax base (by taxpayers groups), total amount of delinquencies in local tax collection, composition of arrears by time, number of court cases and litigations stabilized is 3.8, which means that the community should take measures to **prevent tax avoidance and evasion**. The average result of all 5 piloted participants is 4.3 points, the highest result has Abovyan-6 points. One of the preventive measures for the tax avoidance is to inform the taxpayers by the written notice about the date and the amount of taxes to be paid.

The score of **“Quality of tax regulations should be improved”** is low. It’s 2.8 points, which is the 4th in a rank, the average is 3.9 points. The main causes of the low level of scoring in this area are:

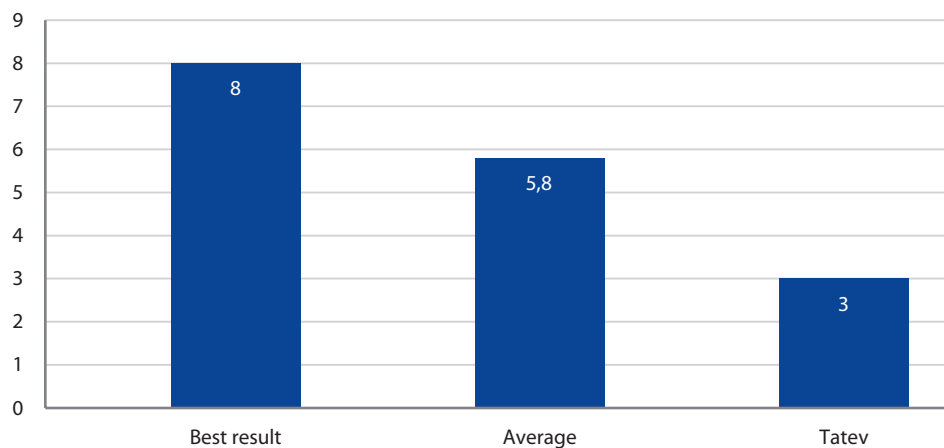
1. The share of taxes collected as a result of the tax audit in total amount of collected taxes is very low
2. The internal audit of the tax administration is practically absent.

The scoring result of **“Information on tax base should be updated and has to be founded on legally available”** is relatively high -6.3 points (the average- 7.1). Which means that the Tatev community cooperates with higher authorities (national tax office, business registry, cadastre, vehicle registration) in an appropriate form. Definitely there is a room to strengthen this cooperation.

In Tatev community reserves aren’t set aside for **litigation**, so the community got 0, while the result of Abovyan is the highest 10 points, the average also is low- 3.6 points. The main recommendation here is to start court cases for the collections of overdue taxes and set aside reserves for litigation.

Tatev community gained middle scores for **“Information and publicity”**: Information and explanation on local taxes and tax regulations should be made public-3 points (the average is 5.8, and the best result is 8 points, see Chart 4), Public information on utilization of local tax revenues should be comprehensive and understandable -5.3 points (the average -6.3).

Chart 4. Information and explanations on local taxes and tax regulations should be made public



Therefore there is a room for the improvement particularly in the following subareas of the public information:

- All the diverse means of information sharing (electronic, posters, direct mailing, telephone) should be fully implemented,
- Reporting on the implementation of local budgets should be more transparent and public,
- The explanation of general purpose local tax (land tax, property tax) revenues will be more clear and understandable.

The score of **“Tax registration and timely collection should support smooth cash flow”** is not very low-6.8, but it is the last one(the average -7.9). This means that the community need to make greater efforts towards regular updating of taxpayer registry, delays and unpaid taxes should be followed by the tax information system, there should be a warning practice on non-payments, and so internal legal procedures for non-payment should be regulated and publicly known.

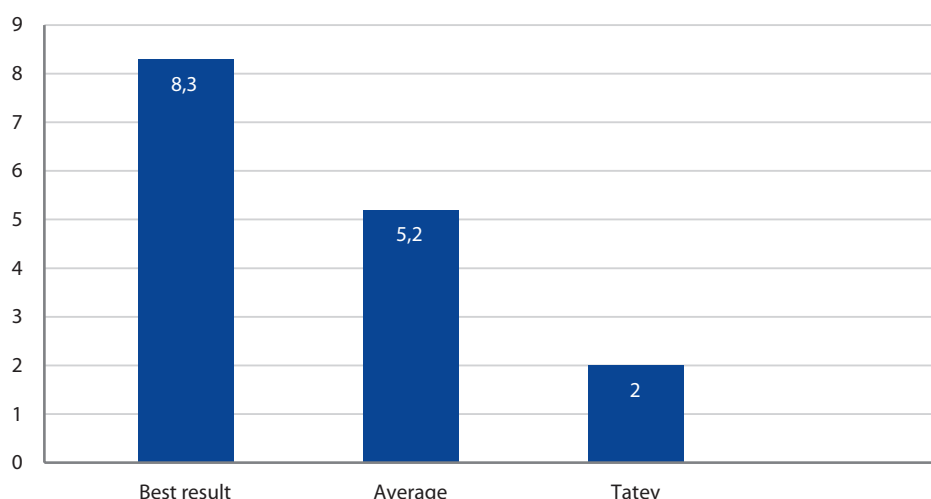
While the average score of all 5 participants is 5.4 points, the score of Tatev community is higher- 5.8 points for **“Tax administration should be simple: few formalities, least administrative efforts by tax payers”**. But there is still much to do in informing public on local tax payment, billing, justification of taxes, diversification of payment forms, ensuring transparency of information on complaints.

In Tatev community **“payment demands provide some information on tax levies”** such as identification of taxpayer, tax base, exemptions, tax rate, amount due, deadline for payments, forms of payment, consequences of delay or non-payment, which is proved by the high score-8 points (the average -9).

The situation with availability and use of various forms for paying local taxes is better, so **“Easy payment systems”** scoring result is the maximum. Tatev, Abovyan and Ashtarak got 10 points, and the average is 9.4.

In contrast to the previous two results, the evaluation result of **“Complaint procedures should be clear”** is very low, as this sub-sector processes aren't regulated yet. The average result of all 5 piloting participants is 5.2 points, the highest result has Ashtarak-8.3 points, Tatev has 2 points, but it is not the worst result (Chart 5).

Chart 5. Complaint procedures should be clear



In tax system audit section **“Comparing collection costs with tax revenues”** got 2 (the average-3.8) because the tax revenue per one unit of the tax administration cost are still quite low. and **“Tax coverage: identification of tax payers and collection rate”** 4.7 points (the average-5.5) as any significant research or analysis hasn't been done in this direction.

FEES, CHARGES AND MISCELLANEOUS REVENUES

The evaluation result of **“User charges should generally comply service costs”** is 2 points, which reflects the fact that the community is still very weak in calculation of service costs (including total current and capital investment costs), two component user charges aren't matched with fixed and variable costs, increase in user charges aren't calculated by a regulated formula, reflecting major factors of service costs (e.g. capital, labor, energy).

The evaluation result of **“Charges should not reduce demand for services excessively”** is 4 points, but it's the 2nd, the average is 3. Local policy preferences are weakly reflected in average charges, exemptions and subsidies, also pricing methods don't follow local policy goals in appropriate form.

The scoring result of **“Access to essential services by disadvantaged groups should be preserved”** is quite high- 8 points, while the average is 5.7 points, the highest result got Dilijan- 8.5.

So the subsidizing policy from the local budget should achieve the optimal compromise between following basic guidelines :

1. Maximum self - sufficiency of the provided services,
2. Charges should not reduce demand for services excessively,
3. Access to essential services by disadvantaged groups should be preserved.

For example, the community can maximize the service charges up to the point where the demand for services could be reduced. For the disadvantaged groups in this case community can introduce additional family benefits to cover their supplementary expenses related with the possible increase of the service charges.

Tatev community got the highest 10 points in the area of **“Exceptional revenues should finance capital revenues”** (the average-9.8). This means that windfall revenues are separated in local budget of Tatev community, and own source capital revenues (revenues from sale of land, property) are used only for capital expenditures.

CAPITAL BUDGET FINANCING

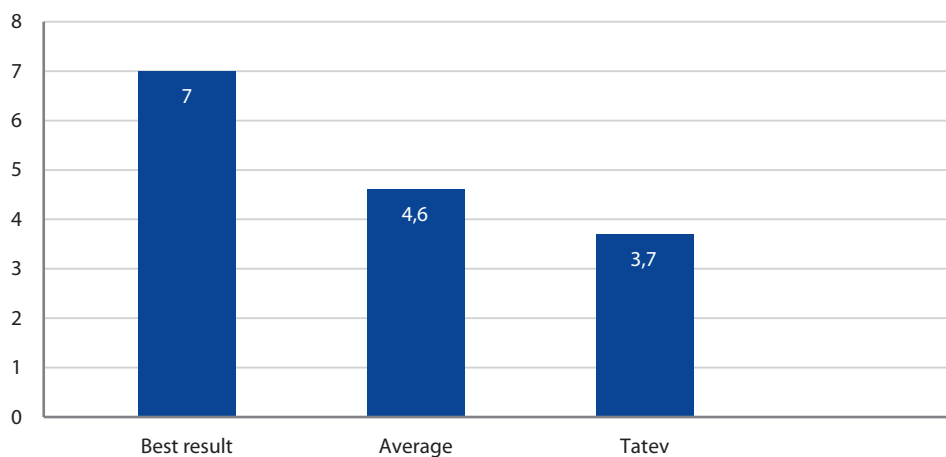
In Budget financing section **“Local capital investments are managed effectively”** gained 9.3 points as most of the indicators correspond to the requirements of national legislation and **“Capital expenditures are funded by diverse sources of local revenues”** got 6.7 points which means that there is a lack of local revenue sources intended for capital projects.

LOCAL PROPERTY

“Organizational forms and rules of asset management are transparent” got 7.5 points (the average-8.2), which means that decision making powers on sale, use and charging of municipal assets are mainly regulated, and local government control over the municipal asset management organization is quite effective.

The evaluation result of **“Regulations on municipal companies ensure their long term financial stability”** is below the average (4.6)- 3.7 points (Chart 6). Firstly, because the contracts with local companies on provision of services basically are signed on an annual basis. They should be signed for the medium term perspective.

Chart 6. Regulations on municipal companies ensure their long-term financial stability



The other topic is that municipal compensation mainly covers the operational cost but does not enable the companies to have a reasonable profit which is important for their development. Ownership of assets and related maintenance obligations are not set clearly by the contracts. The contracts should be changed to reflect these issues which will allow to increase the efficiency of the local property management.

EVALUATION OF FINANCIAL MANAGEMENT OF TATEV COMMUNITY

SOUND BUDGETING AND FISCAL PLANNING

The evaluation result of **“Overall financial framework of multi-year”** in Tatev community is only 3 points (the best result got Ashtarak-8 points, and the average is 5). This means that there aren't clear connections between local policies, strategies and budget items, budget isn't based on middle term local policies, the changes of overall budget cap don't fit into the macroeconomic framework.

“Multi-annual budget plans” is rated 2 points (the average is 2.8). In the community multi-annual plan plays only a formal role and the budget isn't based on it. This is a common problem in all communities in Armenia. Therefore one of the priorities of the community finance management reforms in Armenia will be the introduction of multi-year budget planning and its inclusion into the community's budget process. This reform should be initiated and actively implemented by the support of the Ministry of Finance and MTAD.

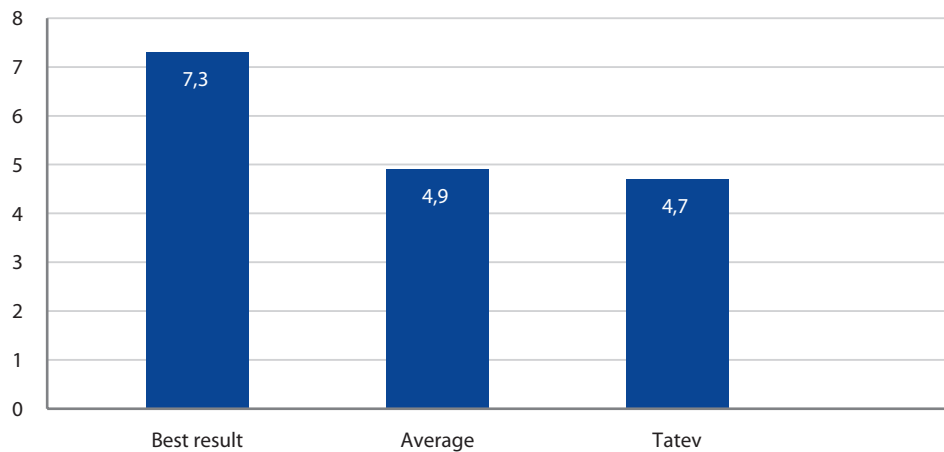
The evaluation result of "**Budget strategy debate**" is 3 points (the average also is 3 points, the highest result is 5-Dilijan). So in the budget process the first step should be debate and approval of the actual budget objectives and fiscal policy.

Budgeting methods and capacity are not developed as well. The score of "**Technical capacity in budget preparation procedure**" is 3.2 (the average is 4.4) and "**Analytical sheets make the budget transparent**" is 4.7 points, while the highest result is 7.3(Dilijan) and the average is 4.9 (Chart 7).

In other words, the community still has a lot to do to improve the following indicators:

- Budget preparation is supported by all type of local professional capacity,
- The budget preparation is the most powerful tool to discuss and select the best solutions of service delivery,
- Comparisons are used to justify the appropriate changes in figures, comparing the former performances, according to the objectives,
- Broad involvement of staff and available professional capacity supports autonomy and openness.

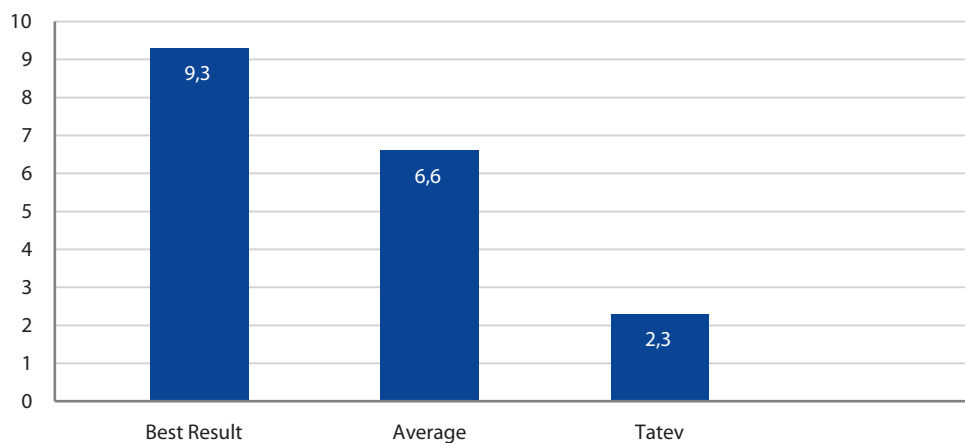
Chart 7. Analytical sheets make the budget transparent



Also the community still hasn't paid serious attention to using more dimensions and cross-references to serve information for decision making, structured set of analytical budget in the budget planning process.

The community got middle scores for Budgeting procedures. The **involvement of the elected bodies, outsiders contribution to the budget documents** is very fragile. Simultaneously there is not sufficient time to review and understand the budget proposal, to organize the debate as well as information on budget documents. So "**The timeframe of budget debate by elected bodies**" got only 2 and "**Openness of budget documents**" 2.3 points (Chart 8). It is important to note that openness helps accountability and citizen participation, so it will be good to have minutes of meetings, publications on internet, leaflets, which present the main objectives, figures, graphs and public hearings, as part of budget debate.

Chart 8. Openness of budget documents

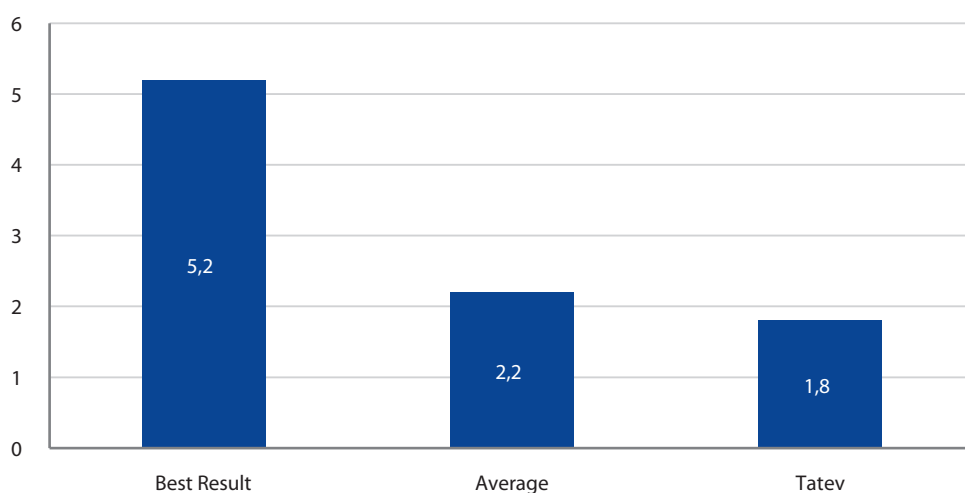


There are not adopted and sustained **“Cost saving strategies”**. Cost saving is not a clear policy target but it is considered more implicitly than explicitly. Therefore it is worth to adopt cost saving strategy for the implementation of community programs for the mid-term perspective.

In Fiscal policy objectives area **“Support to non-governmental organizations providing community services to vulnerable groups should be protected during restrictions”** got 0 and **“Cooperation with other local authorities”**– 2.7 points. So the community should first of all raise the level of cooperation with NGOs and start to cooperate with other local authorities in order to improve the efficiency and effectiveness of the community management.

The evaluation result of **“Adjoining authorities share administrative and professional resources”** is very low – only 1.8 points (Chart 9), so the community needs to take steps forward to inter-municipal cooperation, to cooperate for providing basic services and improving service quality, to use electronic procurement for buying goods and services.

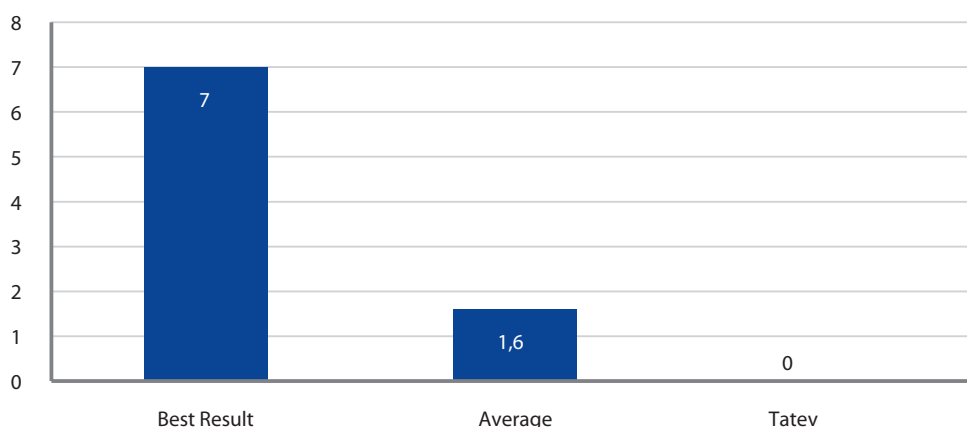
Chart 9. Adjoining authorities share administrative and professional resources



SPECIAL RULES OF BUDGET ADJUSTMENTS AND IMPLEMENTATION

In **“Special rules of budget adjustments and implementation”** area, the community should focus on independent opinion on final reports and financial statements to improve the result, which is 0.

Chart 10. Independent opinion on final reports and financial statements



Its important to finalize the process of the regular audit and evaluation of the budget implementation by establishing the **local framework of supervision, monitoring and reporting** which is not fully formalized yet.

Also there are problems with **local service management efficiency** (the appropriate area got 1.8 points), that`s why outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, as well as service efficiency should be a key target indicator for the service organization and its management.

In Tatev community **budget adjustments** during the year are not made very frequently (4.5 points, the average is 5), but there is still work to do because improving budget planning and rising budget discipline will definitely increase the credibility of the budget.

“Relations between the local government and its subsidiary organisations are regulated by transparent agreements” subarea have got relatively high score -8.3 which means that the relations between the local government and its subsidiary organizations are quite transparent.

Local government service contracts cover asset management and social issues subarea have got only 3 (average – 5.4) which means that Tatev community has a lot to do to include first of all the asset management issues in the subsequent contracts.

The municipality should improve the “Effectiveness of local service management” since the respective score is 1.8. So, it is necessary to assess the results of provided municipal services, per capita costs of the service regularly. Effectiveness should be the main indicator for service providing company’s activities and management.

SPECIAL CONTROL, SUPERVISION ON ACTIVITIES

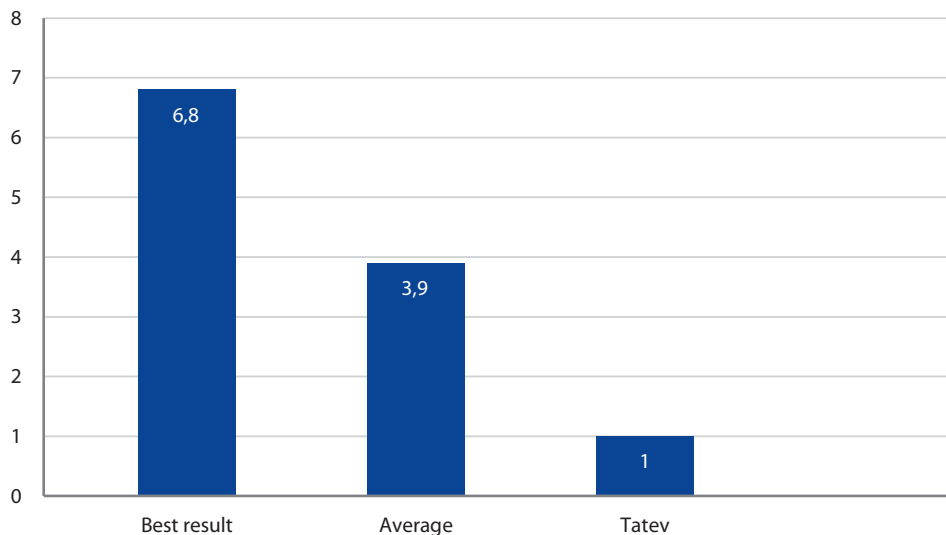
The community also has problems with special control, supervision on activities. The community doesn`t pay significant attention to framework and role of both internal and external audit (Chart 8), the evaluation result of **Framework and role of internal audit** is 1 point meanwhile the best result is 6.8 points. Proper audit strategy helps to rise efficiency of budget process. So the establishment of at least the internal audit function is essential for the community for the coming year.

Tatev community got 3 points for “**Special consideration have to guarantee PPP projects**”, meanwhile the highest result is 7 points, and the average is only 2.2. It is important to note that PPP construction is a potential way to finance public service infrastructure, to save resources of current situation. But it needs careful consideration to prevent unconditional risks and extra cost in the future. Proper debate establishes the potential usage of PPP financing and its guarantee.

The next low score (3 points) reflects the fact that **procedure of situation in financial difficulties** should be set up. The community should specify the position, whose responsibility the recovering or whom to

report the noticed signs (open a statement to hire an appropriate worker if necessary), general principles of recovery plans, rules and responsibilities to devise the situation of problem solving as well as key decisions should be made.

Chart 11. Framework and role of internal audit



RECOMMENDATIONS

Summarizing above mentioned scoring results of the Tatev community we would like to draw the attention of the community leaders to the following vital and priority areas of community finance management:

1. Increase transparency and involvement of the public in the budget process. Participatory budgeting is not only an important part of the democratic governance but is also making local budgets more credible and comprehensive;
2. Introduce the up-to-date methodology of the assessment of capacity building needs for the local staff and approve mid-term training program first of all for the financial and fiscal staff;
3. Prevent tax avoidance and evasion by simplifying tax administration, activating prior notices to the taxpayers and starting court litigations against not disciplined taxpayers in order to reduce tax arrears;
4. Information and explanation on local taxes and tax regulations should be made more open and accessible;
5. Establish an efficient system of internal audit and supervision on activities. Since its not possible to introduce the program budgeting principles at the community level without properly working intrnal audit special attention is required to the training programsin this area;
6. Establish the external audit function which is fully absent in Tatev community. The independant opinion on the budget implementation reports is vital to demonstrate the community leaders and the public the level of credibility of the budget reports and the main bottlenecks of the budget process in general;
7. Strengthen the connections between community mid-term development strategy and the budget by starting budget discussions on the key issues of fiscal policy coherent with mid-term development plans;
8. Foster the cooperation with the other communities predominantly in the areas of the common infrastructure and support business projects having mutual economic interest particularly through PPP projects.

ANNEX

SECTION and AREA	Tatev	Average
BENCHMARKS OF FINANCIAL RESOURCES		
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES		
1. Local tax policies design		
1.1. Local revenue policies should be approved by elected bodies	4	5.7
1.2. Impact assessment of local revenue policies should be made public	5	6.5
2. Transparency and involvement of the public		
2.1. Budgetary and financial discussions should be made at open meetings	4	4.8
3. Use of IT		
3.1. Managerial efficiency should be improved by IT in :	4.4	6.5
4. Capacity development of local staff		
4.1. Training in various forms are needed for the local staff	2.3	3.6
4.2. Systems should be set up to enhance professionalism in financial and fiscal matters	4	6.2
4.3. Systems should be set up to enhance ethics of staff in financial and fiscal matters	2	5.2
II. LOCAL TAXATION		
5. Local tax policy design		
5.1. Local taxes should be based on the principle of fairness (ability to pay)	4.7	4.5
5.2. Local taxes should produce a significant part of the community budget	3.5	4.4
6. Tax policy		
6.1. Local taxes should be based on stable tax base	7.3	7.2
6.2. Tax avoidance and evasion should be prevented	3.8	4.3
6.3. Quality of tax regulations should be improved	2.8	3.9
6.4. Information on tax base should be updated and has to be founded on legally available sources	6.3	7.1
6.5. Reserves should be set aside for litigation	0	3.6
7. Information and publicity		
7.1. Information and explanation on local taxes and tax regulations should be made public	3	5.8
7.2. Public information on utilisation of local tax revenues should be comprehensive, understandable	5.3	6.3
8. Tax administration		
8.1. Tax registration and timely collection should support smooth cash flow	6.8	7.9
8.2. Tax administration should be simple: few formalities, least administrative efforts by tax payers	5.8	5.4
8.3. Payment demands should provide information on tax levies	8	9.0
8.4. Easy payment systems	10	9.4
8.5. Complaint procedures should be clear	2	5.2
9. Tax system audit		
9.1. Comparing collection costs with tax revenues	2	3.8
9.2. Tax coverage: identification of tax payers and collection rate	4.7	5.5
III. FEES, CHARGES AND MISCELLANEOUS REVENUES		
10.1. User charges should comply service costs	2	2.3
10.2. Charges should not reduce demand for services excessively	4	3.0
10.3. Access to essential services by disadvantaged groups should be preserved	8	5.7
10.4. Exceptional revenues should finance capital revenues	10	9.8
IV. CAPITAL BUDGET FINANCING		
11.1. Local capital investments are managed effectively	9.3	9.3
11.2. Capital expenditures are funded by diverse sources of local revenues	6.7	8.1
V. LOCAL PROPERTY		
12.1. Organisational forms and rules of asset management are transparent	7.5	8.2
12.2. Regulations on municipal companies ensure their long term financial stability	3.7	4.6
BENCHMARKS OF FINANCIAL MANAGEMENT		
I. SOUND BUDGETING AND FISCAL PLANNING		
1. Fiscal strategy design		
1.1. Overall financial framework of multi-year budget	3	5.0

1.2.Multi-annual budget plans	2	2.8
1.3.Budget strategy debate	3	3.0
2. Budgeting methods and capacity		
2.1.Technical capacity in budget preparation procedure.	3.2	4.4
2.2.Analytical sheets make the budget transparent	4.7	4.9
3. Budgeting procedures		
3.1.Involvement of elected bodies	4	3.9
3.2.Separate debate and adoption of complex, major investment projects or other significant programs	5	6.6
3.3.Outsiders' contribution helps accountability	4	4.9
3.4.The timeframe of budget debate by elected bodies	2	6.2
3.5.Openness of budget documents	2.3	6.6
4. Fiscal policy objectives		
4.1.Cost saving strategies are adopted and sustained	3.5	3.8
4.2.Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	0	1.3
4.3.Cooperation with other local authorities	2.7	1.9
4.4.Adjoining authorities share administrative and professional resources (taxcollection, auditimplementation)	1.8	2.2
II. SPECIAL RULES OF BUDGET ADJUSTMENTS AND IMPLEMENTATION		
5.1.Regular evaluation keeps track of budget implementation	5.5	6.2
5.2.Local framework of supervision, monitoring and reporting system set up to audit budget implementation	7	7.1
5.3.Independent opinion on final reports and financial statements.	0	1.6
5.4.Budget adjustment during the year is limited.	4.5	5.0
5.5.Relations between the local government and its subsidiary organisations are regulated by transparent agreements	8.3	8.8
5.6.Local government service contracts cover asset management and social issues	3	5.4
5.7. Local service management should be made efficient	1.8	2.7
III. SPECIAL CONTROL, SUPERVISION ON ACTIVITIES		
6.1.Framework and role of internal audit	1	3.9
6.2.Special consideration have to guarantee PPP projects	3	2.2
6.3.Procedure of situation in financial difficulties	3	3.9
TOTAL	4.4	5.4

TUMANYAN MUNICIPALITY

INTRODUCTION

Good local government depends on sufficient financial resources, which allow local authorities to offer services that are adjusted to their citizens' expectations, and on good financial management procedures, ensuring local budget flexibility and accountability of financial decisions. Focusing on local government resources, expenditures and financial management, benchmarking helps national and local governments to identify the factors for an equitable system of intergovernmental fiscal relations, efficient local finances, and effective local government financial management.

The benchmarks on financial resources and financial management use two types of assessment methods: surveys and financial indicators. Each benchmark survey item is assessed on a ten-unit scale.

The LFB project started in Armenia in April of this year. The pilot municipalities are Tumanyan, Tatev, Dilijan, Abovyan and Ashtarak.

The LFB benchmarking toolkit covers 31 topics in 12 broad areas related to financial resources and 24 topics in six areas related to financial management. In these two fields of local finances, local government performance was measured by around 250 indicators.

We have used the scoring methodology to assess each indicator measuring the efficiency of municipal finance management within the benchmark of 0 to 10 (0 being the minimum and 10 being the maximum value of indicator). As a result, we have identified the strengths and weaknesses of municipal finance management. Based on this, we have offered some recommendations concerning the priority areas of government and donor assistance to Tumanyan Municipality.

In the case of Tumanyan Municipality, the score does not fully reflect the actual situation in the other 6 former municipalities (in 2015), which are presently incorporated in the Tumanyan multi-settlement municipality. In addition, it was very hard to assess the Tumanyan Municipality budget for 2015, since at that time there were 7 different municipalities with separate budgets and different approach to budget management. Therefore, the simple consolidation of budget data for these municipalities would not give us a real picture of the Tumanyan Municipality budget. We think that scoring results for 2016 would be more realistic.

TUMANYAN MUNICIPALITY

Tumanyan is a town in the Lori Province of Armenia, located 149 km north of the capital Yerevan, and 38 km north of the provincial centre Vanadzor. According to the 2011 census, the population of Tumanyan is 1,710, declining from 2,864 reported in 1964. Tumanyan is situated on a plateau on the right bank of Debed river at a height of 810 metres above sea level. Tumanyan has a cultural palace located at the central square. It has also a public library, an ethnographic museum and an art academy.

Tumanyan was incorporated in 2016 with the RA Law amending and supplementing the RA Law on the Administrative and Territorial Division of the Republic of Armenia (adopted on November 24, 2015). As a result, Tumanyan city and Atan, Ahnidzor, Lorut, Martz, Shamut, Karinj villages have formed the Tumanyan Municipality. The municipal center is Tumanyan city.

Table 1. Administrative area indicators, current and permanent population of Tumanyan Municipality by 01.01.20163

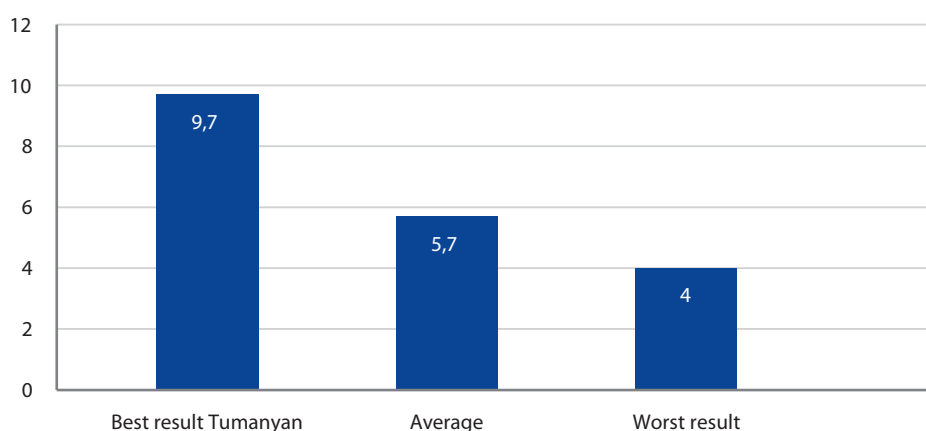
N	Name	Administrative area (hectare)	Current population	Permanent population
1.	Tumanyan	1,096.68	1,712	1,866
2.	Atan	2,609.0	265	202
3.	Ahnidzor	6,036.76	217	182
4.	Lorut	7,648.38	1,022	1,012
5.	Martz	1,796.07	185	230
6.	Shamut	3,601.08	580	634
7.	Karinj	7,117.34	554	495
	Total	29,905.31	4,535	4,621

EVALUATION OF FINANCIAL RESOURCES OF TUMANYAN MUNICIPALITY

GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

9.7 rating reflects the fact that the **local revenue policy** of Tumanyan Municipality has been approved by elected bodies. This means that the Local Council adopts relevant decisions to delegate powers for determining exemptions, tax reliefs, prices of services, authorisation of allocated subsidies for user charges. The average result of all 5 pilot municipalities is 5.7 points, while Tumanyan Municipality has the best result in this area (Chart 1).

Chart 1. Local revenue policies should be approved by elected bodies



The Municipality generally ensures that the **impact assessment of local revenue policy** is publicised. With regard to public access to local budget documents, public involvement in local budget design, diversity of methods for disseminating information on local budgets, the Municipality earned 6.7 points from 10 possible. The average result of all 5 pilot municipalities is 6.5 points. Tumanyan Municipality achieved a good result but ranks only 3rd.

Unlike the previous area, the Municipality has serious problems in the area of **transparency and public involvement**. Budgetary and financial discussions, which take place at public meetings, were rated with 2.8 points. This means that participation and intervention at public meetings and media reporting on local budget are not properly ensured, and few channels of communication with the public have been established in the Municipality. The average result of all 5 pilot municipalities is 4.8 points. Tumanyan Municipality received the lowest score in this area.

3 <http://www.tumanyancity.am>

Use of IT scored relatively low – 5.9 points. The average result of all 5 pilot municipalities is 6.5 points. Tumanyan Municipality ranked 4th. The main reason for this low score is the relatively limited use of IT in other communities, which have been incorporated in Tumanyan Municipality since 2016. Much work needs to be done in this area.

The score for **capacity development of local staff** shows that the Municipality does not pay enough attention to training (legal, financial, fiscal, management, development of other skills). Trainings for municipal servants, staff of service organisations, elected local officials, and councillors are seldom organised. Budget for training is not included in the local budget in the proper form. Hence, the score is only 3.8 points, but it is higher than the average 3.6 points. So the capacity development of local staff is not well organised in all pilot municipalities. Therefore, key policy measures should be implemented including well-justified identification of local staff capacity development needs mainly based on the current LFB assessment, planning trainings and budgeting costs in the local budget in a proper form.

Not all local administration units at the Municipality have access to fiscal information. So the score of **“Systems should be set up to enhance professionalism in financial and fiscal matters”** is 5 points. The average result of all 5 pilot municipalities is 6.2 points. Tumanyan Municipality ranks 4th, the best result having been achieved by Dilijan and Ashtarak – 8 points. In 2016, the leaders of Tumanyan Municipality should ensure the transparency and accessibility of fiscal information to all users.

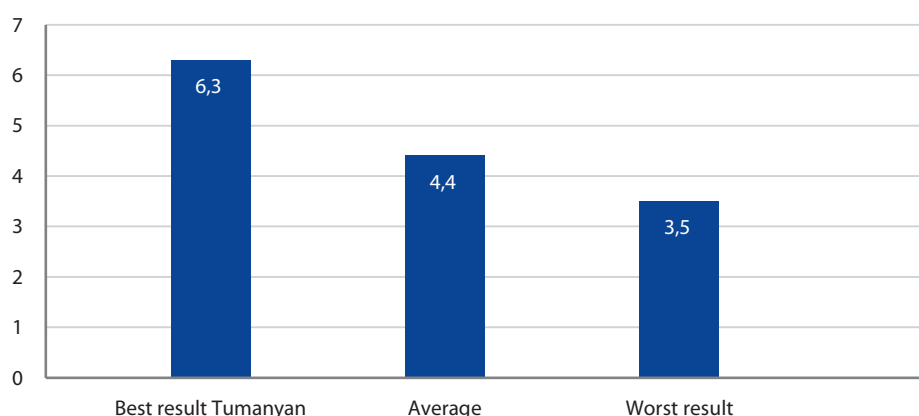
The score on **“Systems should be set up to enhance ethics of staff in financial and fiscal matters”** is relatively high – 7 points, while the average is 5.2 points. So Tumanyan Municipality ranks 2nd after Dilijan. This score is formed based on the level of harmonisation of local regulations with national rules.

LOCAL TAXATION

The Local Taxation sector yielded relatively high scores. **“Local taxes should be based on the principle of fairness (ability to pay)”** is rated 6.3 points, which is the highest result in this area, the average being 4.5 points. This score is formed taking into account local tax regulations specifying exemptions set by law, differences between nominal and actual tax rates, effective tax rates compared to national averages.

In Tumanyan Municipality, local taxes do not form a significant part of the budget, hence, the sector is also rated 6.3 points. Still this is the best score, the average being 4.4 points (Chart 2). This is because in the other communities local taxes have an even lower share in local budget revenue, than in Tumanyan.

Chart 2. Local taxes should generate a significant share of the local budget



Based on the evaluation of the composition of local taxes, the annual changes in local tax base and the number of taxpayers by major types of local taxes, the total score assigned on **“Local taxes should be based on a stable tax base”** is 7.3 points, very close to the average – 7.2.

The score calculated based on the ratio of collected taxes to the tax base (by taxpayers’ groups), the total amount of arrears in local tax collection, the evolution of arrears in time, the number of court cases and litigations resolved, is 3.8, which means that the Municipality should take measures to prevent **tax avoidance**

and tax evasion. The average result of all 5 pilot municipalities is 4.3 points, while Abovyan has achieved the highest result – 6 points. One of the measures to prevent tax avoidance is to inform taxpayers with a written notice about the date and the amount of taxes to be paid.

The score on **“Quality of tax regulations should be improved”** is very low. It is only 1.3 points, which is the worst result, the average being 3.9 points. Therefore, the Municipality’s administration needs to consider the following recommendations to improve tax regulations:

- Local revenue policy goals should be better translated to tax regulations;
- The share of taxes collected as a result of tax audits in the total amount of collected taxes should be decreased with parallel increase of tax collection;
- The share of litigation cases won in the total number of tax cases should increase;
- The amount of arrears accumulated annually should decrease through more efficient tax administration at the municipal level, which needs to be improved based on audit results.

The score on **“Information on the tax base should be updated and has to be founded on legitimate sources”** is close to the average – 6.7 points (the average being 7.1). This means that Tumanyan Municipality maintains proper cooperation with higher authorities (national tax office, business register, cadastre, vehicle registration). There is definitely room for strengthening this cooperation.

In Tumanyan Municipality, reserves are not set aside for **litigation**, so the Municipality received 0 points, while Abovyan achieved the highest score of 10 points. The average is also low – 3.6 points. The main recommendation here is to file court cases to collect overdue taxes and set aside reserves for litigation.

Tumanyan Municipality received average scores on **“Information and publicity”**: Information and explanations on local taxes and tax regulations should be made public – 5 points (the average being 5.8); Public information on the use of local tax revenue should be comprehensive and understandable – 5.7 points (the average being 6.3). Therefore, there is room for improvement, particularly in the following sub-areas of public information:

- All the diverse means of information sharing (electronic, posters, direct mailing, telephone) should be fully employed;
- Reporting on the implementation of local budgets should be more transparent and public;
- Explanations on general purpose local tax (land tax, property tax) revenues should be more clear and understandable.

The score on **“Tax registration and timely collection should support smooth cash flow”** is quite high – 7.3 points (the average being 7.9). This means that the taxpayers’ register is regularly updated, delays and unpaid taxes are monitored by the tax information system, there is a warning mechanism for overdue payments, and internal legal procedures for non-payment are regulated and publicly known.

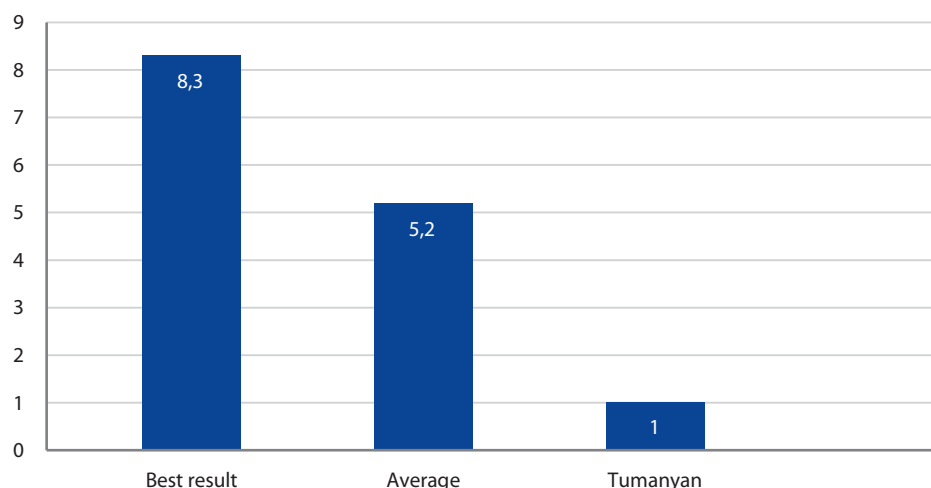
While the average score on **“Tax administration should be simple: few formalities, least administrative efforts by taxpayers”** of all 5 pilot municipalities is 5.4 points, the score of Tumanyan Municipality is quite low – 3.6 points. So there is still much to be done to inform the public on local tax payment, billing, justification of taxes, and diversification of payment forms, as well as to ensure transparency of information on complaints.

In Tumanyan Municipality, **payment notices provide information on tax levies** including taxpayer identification, tax base, exemptions, tax rate, amount due, deadline for payments, forms of payment, consequences of delay or non-payment, which justifies the highest score of 10 points (the average being 9 points).

The situation with the availability and use of various forms of payment for local taxes is the nearly same, so the score on **“Easy payment systems”** is 9 points, the average being 9.4. Tatev, Abovyan and Ashtarak received 10 points in this area, so Tumanyan Municipality ranks 4th.

In contrast to the previous two results, the evaluation result on **“Complaint procedures should be clear”** is only 1 point, as such procedures have not been regulated yet. The average result of all 5 pilot municipalities is 5.2 points, the highest result was achieved in Ashtarak – 8.3 points, while Tumanyan Municipality received the worst result (Chart 3).

Chart 3. Complaint procedures should be clear



In the tax system audit section, **“Comparing collection costs with tax revenues”** scored 2 points (the average being 3.8), while **“Tax coverage: identification of tax payers and collection rate”** received 2.7 points (the average being 5.5) as no significant research or analysis has been done on these matters.

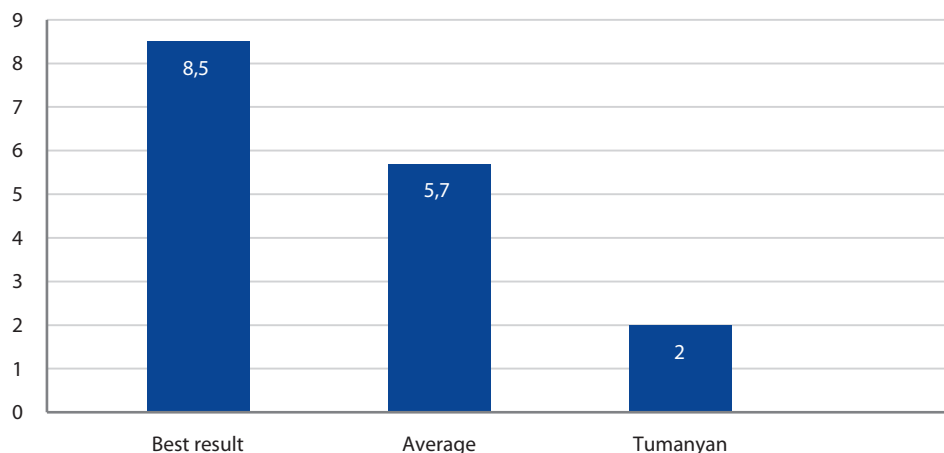
FEES, CHARGES AND MISCELLANEOUS REVENUES

The evaluation result on **“User charges should generally comply with service costs”** is 2.3 points, which reflects the fact that the Municipality still has considerable weaknesses in the calculation of service costs (including total current and capital investment costs). Two-component user charges are not matched with fixed and variable costs, while increase in user charges is not calculated by a regulated formula, reflecting major service cost components (e.g. capital, labour, energy).

The evaluation result on **“Charges should not reduce demand for services excessively”** is 2 points but it is not the lowest, the average being 3 points. Local policy preferences are not adequately reflected in average charges, exemptions and subsidies, also pricing methods do not follow local policy goals in an appropriate form.

The same score was obtained on **“Access to essential services by disadvantaged groups should be preserved”**. The average score is 5.7 points, while the best result was achieved by Dilijan – 8.5 points (Chart 4).

Chart 4. Access to essential services by disadvantaged groups should be preserved



The score is calculated based on the following indicators:

- Policy on subsidies reflects social policy goals;
- Subsidies are financed from the local budget.

So the policy on subsidies from the local budget should achieve the optimal compromise between following important principles:

- Maximum self-sufficiency of provided services;
- Charges should not reduce demand for services excessively;
- Access to essential services by disadvantaged groups should be preserved.

For example, the Municipality can increase service charges up to the point where demand for services would decrease. For disadvantaged groups, in this case the Municipality can introduce additional family benefits to cover extra expenses resulting from a possible increase of service charges.

In contrast to the previous poor results, the result on **“Exceptional revenues should finance capital revenues”** is 10 points (the average being 9.8). This means that in Tumanyan Municipality, windfall revenue is a separate item in the local budget, and own source capital revenue (revenue from the sale of land or property) is used only for capital expenditures.

CAPITAL BUDGET FINANCING

Two areas in the Capital Budget Financing section, **“Local capital investments are managed effectively”** and **“Capital expenditures are funded by diverse sources of local revenues”**, received the same score – 8.3 points as most of the indicators correspond to the requirements of national legislation.

LOCAL PROPERTY

“Organisational forms and rules of asset management are transparent” got 9 points (higher than the average – 8.2), which means that decision-making powers on the sale, use and lease of municipal assets are clearly regulated, and local government control over municipal asset management organisation is effective.

The evaluation result on **“Regulations on municipal companies ensure their long term financial stability”** is below the average (4.6) – 4.3 points. This is mainly due to the fact that service provision contracts with local companies are generally signed on an annual basis. They should be concluded for the medium term.

Another issue is that municipal compensation is covering mainly operational costs but does not enable the companies to make a reasonable profit, which is important for their development. Ownership of assets and related maintenance obligations are not stipulated clearly in the contracts. The contracts should be changed to reflect these issues, which would improve the efficiency of local property management.

EVALUATION OF FINANCIAL MANAGEMENT IN TUMANYAN MUNICIPALITY

SOUND BUDGETING AND FISCAL PLANNING

In Tumanyan Municipality, the evaluation result on **“Overall financial framework of multi-year budgeting”** is only 3.3 points (the best result – 8 points – belongs to Ashtarak, while the average is 5 points). This means that there is no clear connection between local policies, strategies and budget items, the budget is not based on mid-term local policies, and changes in the overall budget cap do not fit into the macroeconomic framework.

“Multi-annual budget plans” is rated with 2 points (the average being 2.8). The multi-annual plan plays only a formal role in the Municipality and the budget is not based on it. This is a common problem in all municipalities in Armenia. Therefore, one of the priorities of local finance management reforms in Armenia should be to introduce multi-year budget planning and to incorporate it into the municipalities’ budget process. This reform should be initiated and actively implemented with the support of the Ministry of Finance and MTAD.

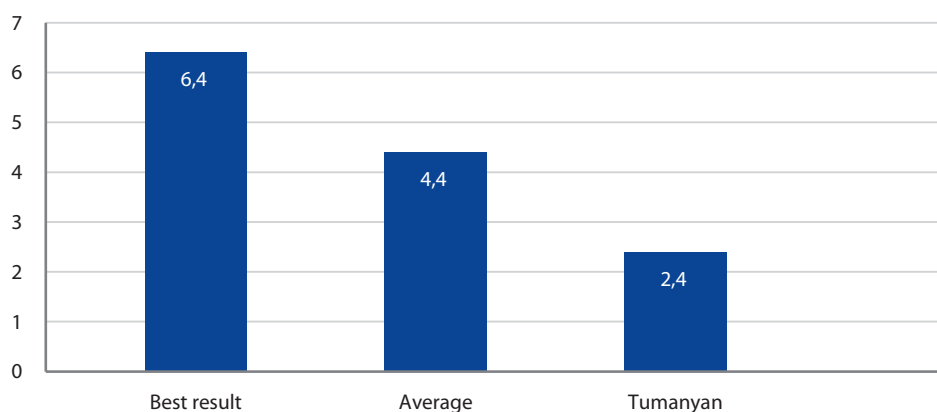
The evaluation result on **“Budget strategy debate”** is only 1 point (the average being 3 points, the highest – 5 points, Dilijan). So the first step in the budget process should be to discuss and approve current budget objectives and fiscal policy.

Budgeting methods and capacity are not developed either. The score on **“Technical capacity in budget preparation procedure”** is 2.4 points, the average being 4.4 (see Chart 5), while the score on **“Analytical sheets make the budget transparent”** is only 2 points, the highest result being 7.3 (Dilijan), while the average – 4.9 points.

In other words, the Municipality still has a lot to do to improve the following indicators:

- Budget preparation is supported by all type of local professional capacity;
- Budget preparation is the most powerful tool to discuss and identify the best solutions for service delivery;
- Comparisons are used to justify appropriate changes in figures and compare former performances against the objectives;
- Broad staff involvement and available professional capacity supports autonomy and openness.

Chart 5. Technical capacity in budget preparation procedure



Also, the Municipality still has not paid serious attention to using more dimensions and cross-references to inform decision making, or a structured set of analytical budget in the budget planning process.

The Municipality received average scores on budget procedures. **The involvement of the elected bodies, outsiders contribution to the budget documents** is very limited. In other words, the participatory budgeting process is quite weak both in Tumanyan and in other pilot municipalities. Active participation of community members, elected bodies and other local finance specialists makes the budget more credible and comprehensive.

“The time frame of the budget debate by elected bodies” is rated 6 points, which means that generally there is sufficient time to review and understand the budget proposal, organise the debate, as well provide adequate information on budget documents.

The openness and transparency of budget documents in Tumanyan Municipality is lower than the average for the pilot municipalities. The accessibility of local budget documents should be improved by using more actively mass media and the other relevant instruments to increase the publicity of the local budget.

In the Fiscal Policy Objectives area, both **“Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions”** and **“Cooperation with other local authorities”** got 0 points. The Municipality should first of all improve the level of cooperation with NGOs and seek cooperation with other local authorities in order to increase the efficiency and effectiveness of local governance.

In effect, no **“Cost-saving strategies”** have been adopted or sustained. Cost saving is not a clear policy target but it is considered rather implicitly than explicitly. Therefore, it is worth adopting a cost-saving strategy for the implementation of community programs in a mid-term perspective.

The evaluation result on **“Adjoining authorities share administrative and professional resources”** is low – only 1.8, points, so the Municipality needs to take steps towards inter-municipal cooperation in the provision of basic services, improve service quality, and use electronic procurement for goods and services.

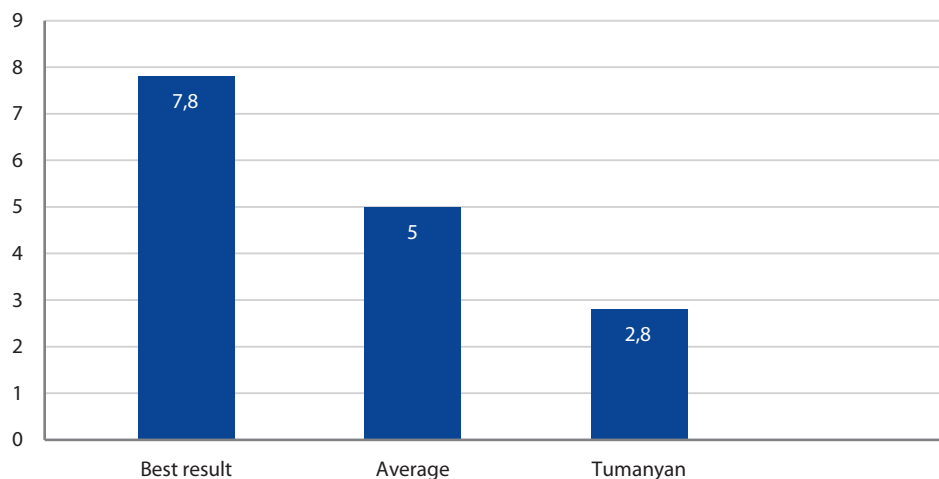
SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

In the **“Special Rules on Budget Adjustment and Implementation”** area, the Municipality should focus on independent opinion on final reports and financial statements to improve its result, which is 0 points.

It is also important to finalise the process of introducing regular audit and evaluation of budget execution by formalising the local framework of supervision, monitoring and reporting which has not been fully established yet.

Another main problem of local finance management are the frequent budget adjustments within a year. The score of Tumanyan Municipality is not the worst but it is one of the lowest (Chart 6). Therefore, improving budget planning and strengthening budget discipline will definitely increase the credibility of the budget.

Chart 6. Budget adjustment during the year is limited



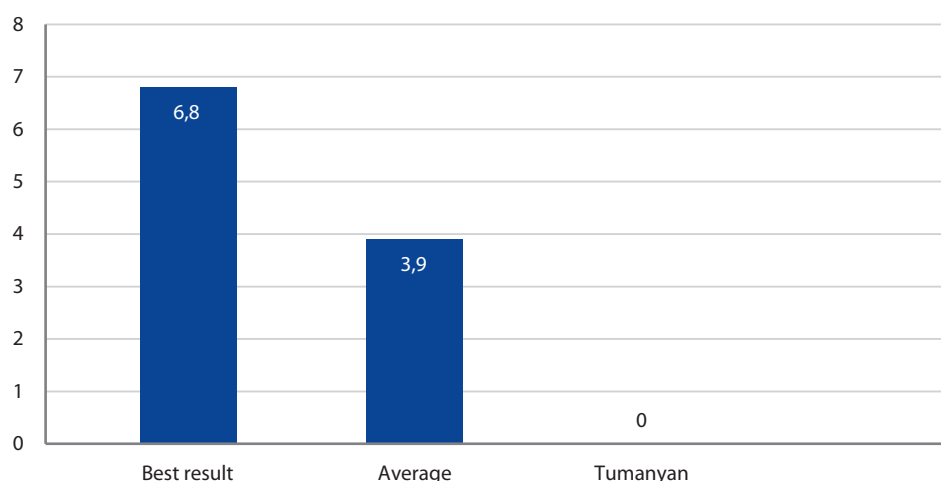
Also there are problems with **local service management efficiency** (the related area scored 2.3 points); that is why the outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, while service efficiency should be a key target indicator for the service organisation and its management.

In Tumanyan Municipality, the relations between the local government and its subsidiary organisations are regulated by transparent agreements (the score is 9.5 points against an average of 8.8 points for pilot municipalities). However, it is important to mention that local government service contracts do not cover asset management and do not have enough impact on social issues.

SPECIAL CONTROL, SUPERVISION OF ACTIVITIES

Tumanyan Municipality has some problems with special control and supervision of activities. The Municipality does not pay significant attention to the **framework and role of both internal and external audit** (Chart 7), although proper audit strategy helps to improve the efficiency of the budget process. Hence, the establishment of at least the internal audit function is essential for the Municipality for the coming year.

Chart 7. Framework and role of internal audit



Tumanyan Municipality received 0 points on “**Special consideration have to guarantee PPP projects**”, while the highest result is 7 points, and the average is only 2.2. It is important to note that PPPs are a potential mechanism for financing public service infrastructure and saving resources in the current situation. But they need to be considered carefully to prevent potential risks and extra cost in the future. Proper debate establishes rules and guarantees for the potential use of PPP financing.

3.5 points reflect the fact that a **procedure in a situation of financial difficulties** is not in place and should be set up. The Municipality should designate a person, responsible for recovery, to whom any warning signs noticed should be reported (organise an open competition to hire an appropriate person, if necessary). Key decisions on the general principles of recovery plans, as well as the rules and responsibilities for solving the problem, should also be adopted.

RECOMMENDATIONS

Summarising the above mentioned scoring results of Tumanyan Municipality, we would like to draw the attention of the local leaders to the following vital and priority areas of local finance management:

- Increase transparency and public involvement in the budget process; Participatory budgeting is not only an important part of democratic governance but also makes local budgets more comprehensive and reliable;
- Introduce up-to-date methodology for assessing local staff capacity building needs and approve a mid-term training programme initially for the financial and fiscal staff;
- Prevent tax avoidance and tax evasion by simplifying tax administration, making more active use of prior notices to taxpayers, and starting litigation against defaulting taxpayers in order to reduce tax arrears;
- Establish an efficient system of internal audit and supervision of activities; Programme-based budgeting principles cannot be introduced at municipal level without properly functioning internal audit, therefore, special attention is required to develop training programmes in this area;
- Establish the external audit function, which is non-existent in Tumanyan Municipality; Independent opinion on budget implementation reports is vital to help community leaders and the public assess the level of credibility of budget reports and identify the main bottlenecks of the budget process in general;
- Strengthen the connection between the local mid-term development strategy and the budget by starting budget discussions on key fiscal policy issues coherent with mid-term development plans;
- Foster cooperation with other municipalities, predominantly in the areas of the common infrastructure, and support business projects of mutual economic interest, particularly through PPP projects.

ANNEX

SECTION and AREA	Tumanyan	Average
BENCHMARKS OF FINANCIAL RESOURCES		
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES		
1. Local tax policies design		
1.1. Local revenue policies should be approved by elected bodies	9.7	5.7
1.2. Impact assessment of local revenue policies should be made public	6.7	6.5
2. Transparency and public involvement		
2.1. Budgetary and financial issues should be discussed at open meetings	2.8	4.8
3. Use of IT		
3.1 Governance efficiency should be improved by IT	5.9	6.5
4. Capacity development of local staff		
4.1. Training in various forms is needed for the local staff	3.8	3.6
4.2. Systems should be set up to enhance professionalism on financial and fiscal matters	5	6.2
4.3. Systems should be set up to enhance staff ethics on financial and fiscal matters	7	5.2
II. LOCAL TAXATION		
5. Local tax policy design		
5.1. Local taxes should be based on the principle of fairness (ability to pay)	6.3	4.5
5.2. Local taxes should generate a significant share of the local budget	6.3	4.4
6. Tax policy		
6.1. Local taxes should be based on a stable tax base	7.3	7.2
6.2. Tax avoidance and tax evasion should be prevented	3.8	4.3
6.3. The quality of tax regulations should be improved	1.3	3.9
6.4. Information on the tax base should be updated and has to be founded on legitimate sources	6.7	7.1
6.5. Reserves should be set aside for litigation	0	3.6
7. Information and publicity		
7.1. Information and explanations on local taxes and tax regulations should be made public	5	5.8
7.2. Public information on the use of local tax revenue should be comprehensive and understandable	5.7	6.3
8. Tax administration		
8.1. Tax registration and timely collection should support smooth cash flow	7.3	7.9
8.2. Tax administration should be simple: few formalities, least administrative efforts by taxpayers	3.6	5.4
8.3. Payment notices should provide information on tax levies	10	9.0
8.4. Easy payment systems	9	9.4
8.5. Complaint procedures should be clear	1	5.2
9. Tax system audit		
9.1. Comparing collection costs with tax revenues	2	3.8
9.2. Tax collection: identification of taxpayers and collection rate	2.7	5.5
III. FEES, CHARGES AND MISCELLANEOUS REVENUES		
10.1. User charges should comply with service costs	2.3	2.3
10.2. Charges should not reduce demand for services excessively	2	3.0
10.3. Access to essential services by disadvantaged groups should be preserved	2	5.7
10.4. Exceptional revenue should finance capital revenue	10	9.8
IV. CAPITAL BUDGET FINANCING		
11.1. Local capital investment is managed efficiently	8.3	9.3
11.2. Capital expenditures are funded by diverse sources of local revenue	8.3	8.1
V. LOCAL PROPERTY		
12.1. Organisational forms and rules of asset management are transparent	9	8.2
12.2. Regulations on municipal enterprises ensure their long-term financial stability	4.3	4.6
BENCHMARKS OF FINANCIAL MANAGEMENT		
I. SOUND BUDGETING AND FISCAL PLANNING		

SECTION and AREA	Tumanyan	Average
1. Fiscal strategy design		
1.1. Overall financial framework for multi-year budgeting	3.3	5.0
1.2. Multi-annual budget plans	2	2.8
1.3. Budget strategy debate	1	3.0
2. Budgeting methods and capacity		
2.1. Technical capacity in budget preparation procedure.	2.4	4.4
2.2. Analytical sheets make the budget transparent	2	4.9
3. Budget procedures		
3.1. Involvement of elected bodies	4.5	3.9
3.2. Separate debate and approval of complex, major investment projects or other significant programmes	7	6.6
3.3. Outsiders' contribution helps accountability	3.7	4.9
3.4. The time frame of budget debate by elected bodies	6	6.2
3.5. Openness of budget documents	6	6.6
4. Fiscal policy objectives		
4.1. Cost-saving strategies are adopted and sustained	1.5	3.8
4.2. Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	0	1.3
4.3. Cooperation with other local authorities	0	1.9
4.4. Adjoining authorities share administrative and professional resources (tax collection, audit implementation)	1.8	2.2
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION		
5.1. Regular monitoring keeps track of budget implementation	6.5	6.2
5.2. Local framework for supervision, monitoring and reporting is established to audit budget implementation	7.7	7.1
5.3. Independent opinion on final reports and financial statements	0	1.6
5.4. Budget adjustment during the year is limited.	2.8	5.0
5.5. Relations between the local government and its subsidiary organisations are regulated by transparent agreements	9.5	8.8
5.6. Local government service contracts cover asset management and social issues	3.3	5.4
5.7. Local service management should be made efficient	2.3	2.7
III. SPECIAL CONTROL, SUPERVISION OF ACTIVITIES		
6.1. Framework and role of internal audit	0	3.9
6.2. Special consideration has to guarantee PPP projects	0	2.2
6.3. Procedure in situation of financial difficulties	3.5	3.9
TOTAL	4.6	5.4

Lessons learned and recommendations

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Piloting Local Finance Benchmarking toolkit pilot in Armenia

FINAL REPORT

1. LFB ADAPTATION

Local finance benchmarking standard toolkit covers 13 areas and 47 sub-areas in the section on financial resources and 6 areas and 34 sub-areas in the section on financial management.

As a result of the LFB revision, the adopted toolkit covers 12 areas and 31 sub-areas in the section on financial resources and 6 areas and 24 sub-areas in the section on financial management.

The following changes have been made during the LFB toolkit adaptation process:

1. Four sub-areas and indicators related to the share of local budget revenue and to tax rates, were removed from the area on local tax policy design because currently, local governments are not responsible for the design and approval of local taxes.
2. One area: timing of fiscal decisions was removed since decisions on revenue and expenditure are made concurrently under the existing budget legislation. This is the rule and there is no room for improvement.
3. Three sub-areas related to borrowing on behalf of local governments were removed from the capital budget financing area because there is no practice of borrowing from the different sources to finance local budget deficits.
4. The “Local governments keep control of strategic property” sub-area was removed from the Local property area because service organisations managing natural monopolies are not controlled anymore by the local governments.
5. The “Explanations of performance” sub-area was removed since it mainly relates to the programme-based budgeting methodology, which has not been established yet at the municipal level.
6. The “Financial reserves for risk management” sub-area was also removed from the “Budgeting methods and capacity” area because it has not been implemented yet at the local level since setting up the framework for a sound financial system and risk management needs huge capacity building and will take many years.
7. Independent opinion on budget proposal was removed because none of the municipalities practices this in their budget process.

2. LESSONS LEARNED

Local governments presented their problems very frankly and transparently and participated very actively in the entire scoring process with their quite unbiased position.

There is an obvious understanding among municipal authorities about the importance of the LFB as an efficient instrument to improve local finance management.

Municipal authorities have clearly demonstrated their interest and ownership approach to the LFB toolkit as a significant tool to improve local finance management.

The actual **workload** of each of the three local experts throughout the entire project implementation process was:

1. Review of materials and literature – 4 days;
2. Initial discussions on planning project implementation and working meetings in MTAD and LFB adaptation – 4 days;
3. Scoring of each pilot municipality – one day;
4. Analysing scoring results, working meetings, discussions and writing reports on each pilot municipality – four days;
5. Discussing draft reports, translation and editing – three days for each pilot report;
6. Preparing the closing seminar, designing PowerPoint presentations – 2 days;
7. Preparing final reports – 2 days.

This workload also includes active discussions and correspondence with the team leader and the management of the project.

So the average actual time spent by each of the local experts on the entire project involving five pilot municipalities was around 52 days.

As a result of the implementation of the LFB toolkit in the five pilot municipalities, the following common problems were identified:

1. Special Control, Supervision of Activities

Most of the municipalities do not pay significant attention to the importance of audit. However, proper audit strategy helps to concentrate resources. Only in recent years, internal audit has been highlighted in connection with the introduction of programme-based budgeting principles and mechanisms in 2018. It will be useful to pay attention not only to internal but also to external audit, as well as to have appropriate staff and cooperate with audit firms.

2. Independent opinion on final reports

There is a lack of legislative regulations concerning external audit. The major law regulating the system of local government, does not require independent auditing, however it is imposed by budget legislation. As a result, municipalities interpret the law and implement its requirements based on expediency and financial opportunities.

3. Multi-annual budget plans

Municipalities do not have multi-annual budget plans, as they are not covered by the legislation. There are only four-year programmes on local social and economic development, which cannot substitute for multi-annual budget plans. Multi-annual budget plans are a prerequisite for a balanced annual budget, therefore, it would be advisable to adopt appropriate legislative provisions and implement them in practice.

4. Cooperation with other local authorities

Municipalities should raise the level of cooperation to improve efficiency and effectiveness (both vertically and horizontally), and find solutions to some common problems.

5. Reserves should be set aside for litigation

Such practice is virtually non-existent in most municipalities but it is highly recommended to set up reserves for the future.

6. Share of local tax revenue in total revenues

The share of local tax revenue in total revenues is quite low.

Even if taxes are collected in full, local taxes do not form a significant part of the local budget. Tax revenues are not sufficient to implement even some of the powers provided by law. Currently, the main part of municipal budgets is still shaped by transfers provided by the state, mainly financial equalisation grants.

Changes in these areas require systemic improvements, that is legislative and regulatory reforms.

3. RECOMMENDATIONS

Based on the LFB toolkit implementation, the following recommendations to improve local finance management are proposed to local governments:

1. Increase transparency and public involvement in the budget process by organising public discussions of the draft budget, particularly when large capital investment projects are involved, and engaging professional experts in the different areas of municipal management; Participatory budgeting is not only an important part of democratic governance but also makes local budgets more comprehensive and reliable;
2. Introduce up-to-date methodology for assessing local staff capacity building needs (also based on the LFB scoring results) and approve a mid-term training programme initially for the financial and fiscal staff;
3. Ensure transparency and accessibility of fiscal information to all users;
4. Take measures to prevent tax evasion including by sending written notices to taxpayers on tax obligations and payment deadlines, and starting litigation against defaulting taxpayers;
5. Strengthen the connection between the local mid-term development strategy and the budget by starting budget discussions on key fiscal policy issues coherent with mid-term development plans;
6. Improve the level of cooperation with NGOs and other local authorities in order to increase the efficiency and effectiveness of local governance;
7. Take steps towards inter-municipal cooperation in the provision of basic services, improve service quality, and use electronic procurement for goods and services;
8. Focus on local service management efficiency; the outputs of municipal service provision should be regularly assessed, unit costs of services should be evaluated, while service efficiency should be a key target indicator for the service organisation and its management;
9. Pay attention to the framework and role of both internal and external audit; Proper audit strategy helps to concentrate resources and improve the efficiency of the budget process. In case of lack of auditing resources, effective cooperation between internal and external auditing is suggested. There is a need to organise special training courses for internal audit staff.

4. PROPOSALS FOR THE CONTINUATION OF THE LFB PROJECT

We hope that pilot municipalities would use the LFB toolkit for their capacity development plans and to increase the efficiency of local finance management in the future.

However, to ensure that in the next 1-2 years all local governments will start to use this instrument, relevant authorities or MTAD should make this exercise mandatory for the municipalities. This can be done in 2017, after at least 15 pilot municipalities have been scored. In 2017, some preparatory work also needs to be done to organise other municipalities that will launch the LFB scoring system in 2018.

It is necessary to train at least 10 key LFB experts in 2017 – one for each region (marz), to assist municipalities in implementing the LFB scoring system, summarising results, and adjusting local finance management accordingly. The other group of experts should work in Yerevan to collaborate with MTAD and regional authorities in preparing the introduction of the LFB in Armenia (including making visits to municipalities, organising workshops and seminars in the regions, etc.).

Communities Financial Officers Association of Armenia (CFOA) can be a key partner in the introduction of the LFB toolkit in the Republic of Armenia.

CFOA or/and MTAD can contract an independent expert to do the scoring.

In any case, the main beneficiaries should be the municipalities since the LFB toolkit is specially designed to measure the efficiency of local finance management and to improve it.

5. MUNICIPAL LFD&I SYSTEM

5.1. LFD&I collection and processing in Armenia: current situation

Financial data collection

Financial data from municipalities is officially collected and published by MTAD and MOF.

Although all local budgets are designed and presented in the treasury system in one general format and are accessible to various external users, there are still some difficulties and obstacles in obtaining and analysing these data. Each year, MOF keeps the approved format of the budget but publishes only aggregated indicators and no segregated data for each municipality. MTAD publishes data on municipalities but only in PDF format and without updating it every year. All this makes working with data difficult.

Financial data processing

In Armenia, financial data from municipalities is not being processed in an integrated and standardised manner yet. For many years, different indicators have been analysed by various specialists for diverse purposes. Because of this, it is impossible to:

- a) compare the same indicator across several years and analyse its dynamics;
- b) compare the same indicator across municipalities.

There is also no unified approach and criteria on how to assess different financial indicators or, in other words, which level of a given indicator can be considered “good” or “bad”. In this area, there are only various expert assessments.

5.2. Municipal LFD&I collection and processing in Armenia: recommendations for the future

A system of financial indicators needs to be approved.

It would be worthwhile to compile and use regularly in the future a reasonable number of financial indicators, which would allow for comparison and analysis across municipalities, years, etc. The set of indicators should be compiled taking into consideration opinion of MTAD, experts and local governments.

Financial indicators and assessment methods need to be explained clearly.

It is essential to provide a clear explanation on how each indicator should be screened and measured.

It would be worthwhile to develop a template or a methodology for assessing a given financial indicator. This methodology should be well-justified reflecting possible changes and allowing for comparison across different years.

There is a need to appoint a responsible specialist or unit to analyse and update financial indicators. CFOA can perform these functions successfully, given its analytical, information and technical capacity.

It also essential to establish an automated system for the assessment and analysis of financial indicators. Such a comprehensive system would significantly improve the efficiency of assessment and analysis of financial indicators.

There is a need to ensure transparency and publicity of municipal financial data and indicators for all the users and for the beneficiaries, in particular.

Final report on Local Finance Benchmarking in Armenia

ADAPTATION OF THE STANDARD LFB TOOLKIT

The local finance benchmarking project was strongly supported both by the national government and the local government representatives at the launching workshop held on 14 April, 2016. Despite the fact that the former Council of Europe national expert was not able to join the project, she helped a lot to get endorsement from the Ministry of Territorial Administration and Development. The two associations representing local governments and community finance officers also supported the LFB project activities. Several local governments volunteered for piloting from the group of recently merged, multi-settlement communities and cities. The workshop participants formulated some recommendations on the issues to be included in the adjusted toolkit (asset management, inter-municipal cooperation, long-term financial planning, internal audit, etc.)

The actual adaptation of the standard toolkit was rather conservative, keeping 70% of the items of the original questionnaire. Among the 33 indicators on *local financial resources*, the items on general principles, which are mostly related to local tax policy design and transparency, were dropped. They are discussed in other sections, and also local tax autonomy is limited in Armenia. The questions on local taxation were refined and simplified, focusing on tax principles and administration. Some items on capital budget financing were removed, because borrowing is not an established practice in municipalities. Items on local property management focused on organisational forms and municipal company regulations, because local governments' control over public property is limited.

In *financial management*, 24 items were used, which is 70% of the standard toolkit indicators. Budgeting and fiscal planning focused more on strategy design, procedures and policy objectives, and less on budgeting methods, such as program budgeting. In budget implementation, budget tracking, adjustment and contracts were included, but more sophisticated issues, such as risk management, were seen as irrelevant. Among the indicators on control and supervision, only a few items related to internal audit and PPP schemes, links to commercial entities, use of external consultants were dropped.

Table 1 summarises those areas, where the adaptation rate was the lowest. This means there is *limited local practice* in those areas of local financial resources and financial management. So they are also the *potential areas of capacity development and regulatory changes*.

Table 1. Lowest adaptation rate by areas

	Avg. score	Indicators		
		adapted toolkit	standard toolkit	ratio of adaptation
V. Local Property	6.4	2	4	50.0%
1. Local tax policies design	6.1	2	4	50.0%
6. Local tax policy design	6.1	3	6	50.0%
2. Transparency and public involvement	4.8	1	2	50.0%
III. Special Control, Supervision of Activities	3.3	3	6	50.0%
IV. Capital Budget Financing	8.7	2	5	40.0%
2. Budgeting methods and capacity	4.7	2	6	33.3%

The scoring methodology was based on the specific indicators behind each survey item. However, it was not clearly defined how the scores were actually calculated, so it can be assumed that they are based on the best expert's judgement.

PILOTING THE TOOLKIT

The LFB survey was implemented in three newly created multi-settlement municipalities: Dilijan (population: 25,000), Tumanyan (4,600), Tatev (6,500), and in two cities: Ashtarak (19,000), Abovyan (44,000). The actual survey implementation took place in the summer holiday period and before the local elections in September.

The fieldwork was hampered also by the fact that the new multi-settlement municipalities have no established financial management practices. So in these communities presently covering seven-eight former entities, the LFB survey focused on the largest, central town. The new regulations on incorporated municipalities were not fully operational, so information from the former heads of smaller municipalities was collected. They usually have some positions in the new municipalities, as deputy mayors or finance directors. The average of indicators was calculated, which might be different from the scores of the future large, multi-settlement municipalities.

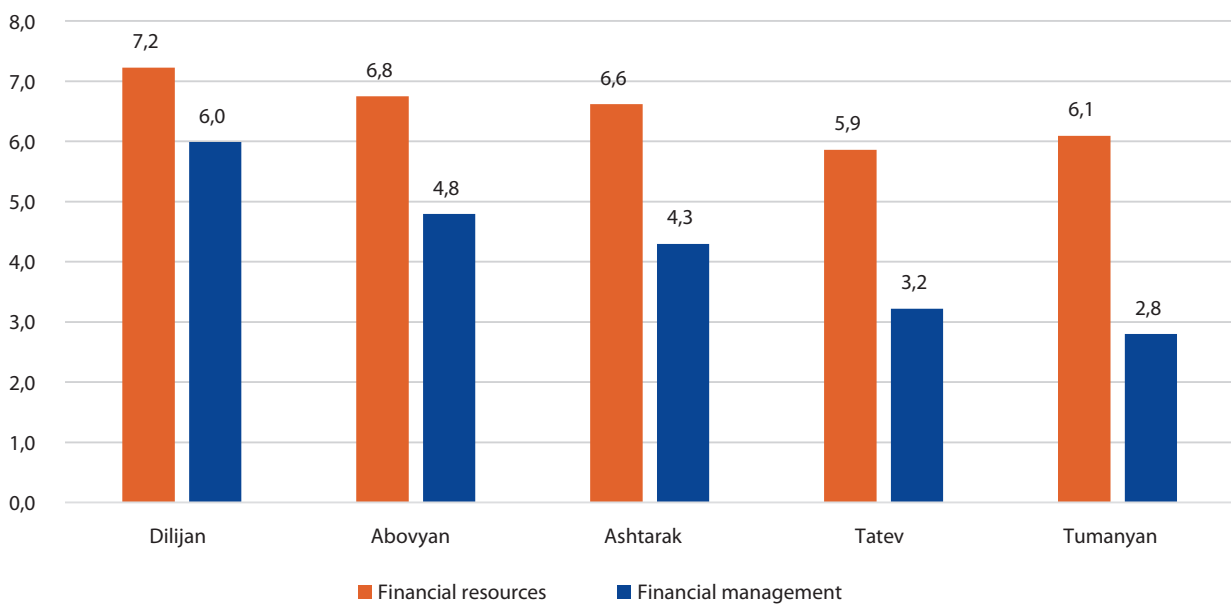
Piloting results by LFB areas are summarised in Table 2. The areas cover rather different indicators. Usually, the areas with high average are based only on a few indicators. The first one, timing of fiscal decisions, was later removed because there were no differences in local practices; all municipalities had to follow the centrally-set budgeting timetable. The areas with the lowest scores (below 5) suggest limited autonomy in local financial management and lack of capacity in various areas of municipal management. This clearly indicates the areas for improvement.

Table 2. Average scores by LFB areas

LFB areas	scores
Timing of fiscal decisions	9.3
Capital budget financing	8.7
Tax administration	7.4
Use of IT	6.5
Local Property	6.4
Local tax policies design	6.1
Information and publicity	6.1
Local tax policy design	6.1
Budget procedures	5.7
Special Rules on Budget Adjustment and Implementation	5.3
Tax policy	5.2
Fees, Charges and Miscellaneous Revenues	5.2
Capacity development of local staff	5.0
Transparency and public involvement	4.8
Tax system audit	4.7
Budgeting methods and capacity	4.7
Fiscal strategy design	3.6
Special Control, Supervision of Activities	3.3
Fiscal policy objectives	2.3

Differences were visible among municipalities, as well. Usually, the indicators on financial resources scored higher (6.3) compared to performance on financial management, which was lower (4.2). Differences among municipalities were not significant, the average scores ranged between 4.4 and 6.6. Chart 1 ranks pilots by score, where two of the new, multi-settlement municipalities lag behind, while Dilijan and the two cities lead among the five pilots.

Chart 1. Local Finance Benchmarking scores



REPORTING

The pilot municipalities received approximately 20-page-long reports from the local team. Each municipal report included detailed analysis of all LFB sections and areas. The score of each municipality was compared to the pilots' average and the minimum or maximum scores. The municipal reports formulated specific recommendations on those LFB areas, which scored the lowest.

Based on these municipal reports, various recommendations were formulated. They targeted partly local government decision-makers, but they are policy proposals, as well. According to these proposals, the following areas of local financial resources and financial management should be improved:

- *Transparency:* Increase transparency and public involvement in the budget process; Ensure transparency and accessibility of fiscal information to all users.
- *Strategic approach:* Strengthen the links between the local mid-term development strategy and the budget; Multi-annual budget plans should be prepared.
- *Tax administration:* Take measures to prevent tax avoidance and tax evasion; Reserves should be set aside for litigation.
- *Cooperation with NGOs and other local authorities* in the provision of basic services, and improving service quality.
- *Service management:* efficiency, outputs and unit costs of municipal services should be regularly evaluated.
- *Capacity building:* assess capacity building needs, approve mid-term training programme for finance staff.
- *Internal and external audit:* proper audit strategy, effective cooperation between internal and external auditing. Internal audit should be improved with the introduction of programme-based budgeting in 2018. Legislation on external audit is missing.

CONTINUATION OF THE LFB PROJECT

The proposed host organisation of the LFB and the complementary Local Finance Database and Indicator Project is the *Municipality Finance Officers' Association* (CFOA: <http://cfoa.am/en/>). This is a highly professional NGO with twenty years of experience. Presently it is the leader of a consortium managing a large USAID project on Civic Engagement in Local Governance (CELoG: <http://cfoa.am/en/archives/4489>).

According to their plans, the LFB survey will be implemented in all *56 municipalities* participating in the CELoG project. This will create a solid basis for comparison. They plan to repeat the survey regularly and publish the results on the CFOA website, once the web application is available in March 2017. A team of local experts will be trained to implement the LFB survey (minimum one contact person in each region).

These regional experts might share the tasks of implementing the LFB survey with a core, central team. As proposed by the experts completing the pilots, the actual data collection for the LFB *survey might be separated from the scoring and evaluation* report writing. In this case, the time-consuming data collection will be done by the local governments themselves under the supervision and guidance of the regional experts. Based on these evidences, the central team will do the scoring. This separation of tasks requires very precise and straightforward scoring methodology because the core team will not meet the local governments. This can minimise the estimated workload because local governments would be actively involved in the survey implementation. Assuming local administration input, the local/regional expert would need 5 days, the scoring and report writing would take another five days, a total of 10 days per municipality.

The only risk identified by the local expert is that the LFB survey might be *misused by the national government* for punishing local governments for low performance. The LFB is a diagnostic tool, which aims to improve management through information exchange and learning. If it becomes a regulatory tool, then the implementation might be biased. The LFB experts could be influenced to manipulate survey results and scoring.

The following documents have been uploaded on the LFB project website:

1. Country Study for Preparing Local Finance Benchmarks: Armenia
2. Presentation on Local Government Finances: Armenia
3. LFB Local Toolkit Armenia (+ Armenian version)
4. Launching conference, Yerevan, 14 April 2016: presentation of Péteri Gábor (+ Armenian version)
5. Closing workshop presentations:
 - Piloting the LFB in Armenia (April-November 2016) by Gábor Péteri (+ Armenian version)
 - LFB project in Armenia by Levon Barkhudaryan and Hasmik Babayan (+ Armenian version)
 - Local finance database of municipalities in Armenia by Vahan Movsisyan (+ Armenian version)

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