Fiscal Capacity Building in Armenian Local Government System

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Introduction

Implementation of local governments’ responsibilities depends on existence and correct usage of financial resources, which requires fiscal capacity building. It is an important part of the integrated capacity building strategy.

Overall capacity building means the integrated development of appropriate system or framework conditions, organizational aspects and individual capacity requirements to support the performance of local governments responsibilities and provision for sustainability.

- System or framework capacities generally include the design of the overall structure and policies that guide local government, the coordination of different types of organizations (public, private and civil society) and the allocation and management of development resources.
- Organizational capacities focus on the structures, processes and management systems that enable specific organizations to function smoothly and adapt to changing circumstances. They include the human, physical and knowledge resources of an organization and the processes employed to transform these resources into services or products.
- Individual capacities include improvement in the ability of local government leaders and officials to perform their work functions, together with related changes in attitude and behavior, as well as the community’s ability to engage productively with the system through improved access to services and greater influence over resource management.

Capacity building is closely connected to decentralization process. Receiving some responsibilities from central government by the law, local governments under the requirements of the laws and reality “are enforced to build” capacity.

Decentralization reforms in Armenia may be divided into three phases:

- 2002 – widening of powers of local self-government bodies (LSGBs).

The success of decentralization reforms greatly depends on the effective division of the responsibilities among the governance tiers, solution of fiscal decentralization issues and fiscal capacity building of local governments. The public administration system in Armenia is divided into two levels: central government and local self-government. The territorial-administrative unites are: regions (marz) and communities (hamaink). State government is implemented in the regions and local self-government in the communities.

International organizations take an active part in capacity building process. They provide technical assistance, advising, training, etc. UNDP, World Bank, GTZ, DFID, Urban Institute, ICMA are among them.

Taking into consideration above mentioned the following issues are analyzed and discussed in this paper in the context of Armenia:

- Local governments capacity building process,
- Decentralization and local revenue creation capacity,
- The new Law on local self-government and fiscal capacity building,
- Public participation in community management and accountability to the public,
- Capacity building problems,
- Future prospective.
Local Governments Capacity Building Process
It is very important to have a complex and systematic approach for the institutional reforms. Physical, human and financial resources must provide reforms, also by political, economic, social and psychological conditions. The role of capacity building is very high. It must be main component of the reforms. If capacity building process is not provided then the reforms are in risk. Transition countries, especially new independent states (NIS), have many difficulties during the reforms implementation. It is mainly connected with the lack of capacity.

Institutional reforms, decentralization and local self-government system creation, which began after the adoption of the Constitution in 1995, took place in Armenia with lack or unsatisfactory level of some resources and conditions. First elections of local self-government bodies took place in November 1996. There wasn’t enough literature, methodical materials, and explanatory work. Central government bodies provided a few methodical materials (normatives, budgeting, etc.). Training centers or universities providing in-service training didn’t exist at that time. The formation of the society’s sectors (public, private and voluntary) was in preliminary phase. New elected heads of communities began the formation of his/her staff and implementation of responsibilities in this difficult situation. Community’s heads and elders (councilors) have neither been technically prepared for the performance of their functions nor have they received an orientation regarding principles and values underlying the democratization and decentralization of government. Particularly in the rural areas communities lack the knowledge on which roles and functions are to be performed and even more on how to carry them out. This refers to the internal organization as well as to their relationship to the communities and their position and rights within the entire system of governance. In general their perception of decentralization has a rather negative connotation as they see themselves with only little chances and prospects to deal with the difficult socio-economic situation they are facing within their communities.

Training and in-service training has a crucial role in capacity building process. Since 1997 some international organizations have mainly provided local governments officials in-service training. Training at first began International City Management Association (ICMA), which implemented project Modernization of Communities Financial Management from 1997 to 2000, with the Armenian School of Public Administration (ASPA). The project was very successful. But officials of only about 20 communities were involved in it. The topic of training included budgeting, financial management, public participation, etc.

Since 1997 ASPA has organized 2-3 workshops a year for local governments officials. 20-30 officials participated in each workshop, which is a very small number. ASPA has implemented 2 local government projects funded by the Eurasia Foundation. Projects included preparation and publication of training-methodical materials, textbooks, training of the LSGBs leaders and officials. One is the main outputs of the projects is the publication of 5 books, which are distributed among the local governments and widely used in training processes.

Over the last years the Armenian reform process has received increasing support by bi- and multilateral development agencies. Some programmes with capacity building components have been identified that do not only focus on similar thematic issues but also are or will be working in the same geographical area as Integrated Food Security Project, South Armenia (IFSP-SA). In order to avoid duplication of interventions and provide for harmonized approaches towards the targeted clients it is recommended to establish a regular exchange of conceptual issues and modes of operationalisation.

The altogether little experience with strengthening participatory approaches to development and capacity building for Local Governments in Armenia is reflected in a very limited availability of documentation, background information and capacity building material particularly in the Armenian language. In order to limit the translation of standard documents into the Armenian language the development of training material shall build on field-tested approaches wherever possible.

UNDP
From March 1998 to June 1999 UNDP implemented a project on “Integrated support to sustainable human development” in four regions of Armenia. Complementary to the promotion of agricultural development, forestry rehabilitation, disaster prevention, social services in the education and health sectors the project comprised a particular Governance Component seeking to build the capacity of local and regional governing bodies.

Training interventions focused on aspects of “Management and Leadership” targeted at the offices of the regional Governors and community Heads. Training program was implemented in Lori, Shirak, Siunik and Tavush Regions. 246 regional and local self-government employees have been trained. The offices of the regional governors and the offices of the Mayors of 17 towns had been addressed. Due to the fact that the interventions have been held before the elections for the Local Government bodies majority of mayors and a number of staff however have been replaced since then. Thematical areas comprised a range of issues also were addressed under IFSP’S capacity building scheme; strategic thinking and planning, aspects relating to the internal organization as facilitation and communication skills, conflict resolution, conduct of meeting etc.
Under second “Local Governance” training scheme communities have been assisted in the elaboration of the community annual budgets and triennial socio-economic development plans. Based on the provision of general information relating to the legal and institutional aspects of the reform process in Armenia, mayors councilors and staff training aspects covered situation analysis, formulation of development strategies and objectives and their reflection in community development plans and budgets.

The programme had been operationalised through local trainers who received a comprehensive package of “Training of Trainers”, including adult learning facilitation and moderation skills.

The UNDP is currently cooperating with the Minister of Territorial Administration in the implementation of the Community Typology Project that will rank communities according to their development, resources and potential.

**USAID**

Under USAID’s Local Government Programme that assists Local Governments to become more effective and responsive to its citizens, nine pilot cities have been selected. Implementing agency is the Urban Institute. Major intervention areas comprise support to the promotion of public participation and strengthening of the development planning and financial management capacities of the targeted municipalities. In addition seven of these towns and 12 Yerevan district communities equipped and supported in the operation of Public Information-Analytic Centers (PIAC). The programme’s approach provides for tailor made advisory services to each of the municipalities. So far a baseline study assessing the progress of the local government reform in Armenia and basic consultation to some of the target municipalities in e.g. asset management have been rendered.

Eurasia Foundation funded formation of PIAC in more than 20 communities and training of its staff. Save the Children and the Communities Finance Officers Association (CFOA) have cooperated in the programme’s training and capacity building activities.

**The GTZ** has supported the Minister of Territorial Administration within the framework of a programme on the Promotion of Local Authorities. This programme focused on support to the legal framework, IT support to local authorities, and the improvement of local utilities. The GTZ has also been active in supporting the creation of Inter-Community Unions in the Syunik region (as part of its Integrated Food Security Programme in Southern Armenia), to develop local governance capacities and collaboration; and is currently expanding these activities to other regions in the country.

**Save the Children** has extensive experience in managing humanitarian assistance programmes in Armenia and the Southern Caucasus. It also has considerable experience in fund management and awarding funds to other organizations, and has produced a Sub-Grant Management Manual to guide fund managers and staff. SC has also helped to carry out participatory urban appraisals as part of the Urban Institute/USAID’s Local Government Programme. Through its Community Development Programme in Armenia, which has been ongoing since 1995, SC has worked successfully to promote community development and empowerment in a third of Armenia’s 930 communities. The programme’s methodologies and approaches are now being replicated by other NGOs and cooperation agencies. SC’s experience in working with communities and establishing Civic Action Groups will form a vital part of the LGP programme.

**DFID**, whose direct assistance programme initially concentrated on the governance, finance and agricultural sectors. More recent activities have included assistance to the Ministry of State Revenue and capacity building in the Prime Minister’s and President’s office. DFID is currently providing capacity building support to the World Bank Armenian Social Investment Fund II, and is in the process of launching a major governance and community development programme in the marzes of Tavush and Gegharkunik.

**The World Bank**, which has been involved in a range of economic and infrastructure development programmes, and in particular the provision of a USD 20 million credit for the second phase of the Armenian Social Investment Fund (ASIF). In addition to funding local infrastructure projects in all regions of the country, the second phase of ASIF will also have an important training and capacity building programme for community heads and finance officers, school principals and accountants, civil society organizations, and implementing agencies. This component, which is co-funded by DFID, will provide training in management and leadership skills, budgeting and fundraising. Participation in such training courses will be a precondition for accessing the fund. The project was started in 2002 and continued in 2003. Trainings have been take place in the regions.

The World Bank has also recently signed a USD 16 million credit with the GoA for a Project to Improve the Management of Natural Resources and Reduce Poverty in Armenia. The Project will target the two marzes of Tavush and Gegharkunik.

**TACIS** has supported programmes in the area of institutional, legal and administrative reform. During 2000-01, TACIS carried out a programme on Strengthening Regional Capacity in Lori Marz. Project staff and marz administration members elaborated a regional plan (the first marz in the country to do so), established a regional administrative computer network and information centers, and devised and introduced new budgeting formats. At its
conclusion, the programme left behind a number of local experts who moved from the programme into a newly created Regional Development Unit in the Marz.

It will be important to learn from the above programmes and to collaborate with those that are currently operating, particularly in the areas of training and capacity building.

Decentralization and Local Revenue Creation Capacity

Constraint on effective governance at the local level was the lack of sufficient financial resources. Total budgeted revenue for local government in 2001 was AMD15.3 billion or USD27.8 million at current exchange rates.\(^1\) Based on a population of 3.8 million, this gives a per capita spending on local government of USD7.3 (the corresponding per capita figure for spending by the national Government was over USD100 per capita). This compares unfavorably to per capita spending on local government in most of the neighboring CIS countries, let alone the more advanced western democracies.\(^2\) Such low levels of spending make it difficult for LSGBs in Armenia to provide a meaningful level of local public services. As the USAID/Urban Institute baseline study points out (Doane et al, 2000:8), “unless this circumstance is dramatically changed, local government in Armenia is unlikely to ever be significant enough to engender citizen participation in local democracy – simply because there is virtually nothing at stake.”

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<th>Table 1: Community Budget Revenues in Armenia, 1997 – 2001 (%)</th>
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<td><strong>Type of Revenue</strong></td>
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<td>Other Non Tax Revenues</td>
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<td><strong>Total Income</strong></td>
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<td>Subventions from State Budget</td>
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<td>Transfers from Other Community Budgets</td>
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<td><strong>Short-time Loans</strong></td>
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Local government revenue in Armenia is comprised of two main sources: (i) own revenue; and (ii) officials transfers (subsidies and subventions) from the state. Own revenue consists of a share of centrally established taxes and duties, as well as local duties and fees, land and property rents, and revenue from the sale of property. All taxes in Armenia are collected by the State Tax Agency. However, local governments are assigned a role in tax collection. Initially, the centrally established taxes paid to community budgets were land and property tax (from 2000 LSGBs have

\(^1\) This represented an increase over previous years. Total local government revenue (in AMD) was 9.9 billion in 1997, 12.3 billion in 1998, 11.7 billion in 1999, and 13.8 billion in 2000 (Tumanyan, D, 2001).

\(^2\) The per capita spending figures (in USD) for other selected countries are Georgia (27), Azerbaijan (37), Lithuania (235), Russia (137), the UK (2,518) and the United States (2,776) (Barents Group, 2002:22).
received 100% of these taxes), but later included fifteen percent of income tax collections. Since the latter are low or non-existent in rural communities, the government decided in 2000 to designate income tax as state budget revenue. To replace the local share of income tax collections, the government intended to increase the subsidy, but so far has failed to act accordingly. LSGBs also receive revenues from some state duties (essentially duties for registering births, marriages and deaths, as well as for notary services). Locally determined and collected revenues include land and property rents, revenue from the sale of property, and local duties (largely for various types of licenses) and fees (including user fees for local services, as well as fees for technical services provided by the LSGB). Details on community budget revenues for the period 1997-2001 are provided in Table 1 above.

Collection rates for these various taxes, duties and fees are very low in Armenia, currently averaging between 40% and 50% (Barents Group, 2002:19). As the Barents Group and others have pointed out, the reasons for this include:

- The state tax agencies have little incentive to collect land and property tax because these revenues go to the local budgets.
- LSGBs generally lack the tools (computers, databases or even hard-copy tax rolls) to show the amounts due and collected from individual taxpayers.
- The high rates of poverty in Armenia result in many citizens lacking the means to pay.
- The low level of services provided by many LSGBs means that citizens have little incentive to pay these taxes, even if they have the means to do so.\(^3\)
- There are no effective enforcement mechanisms in place.

Under the Law on Financial Equalization, a proportion of the community budgets are funded by transfers (subsidies) from the central government.\(^4\) The total amounts of such transfers are quite low, however, and, as Table 1 shows, fluctuate significantly from year to year (partly as a result of fluctuations in property and land tax payments for which the subsidy attempts to compensate). Late payment of subsidies serves to compound the situation.

Another problem with subsidies has resulted from the government’s decision to introduce a programme of offsetting the cost of supplying water to individuals, via the community distribution systems, against the subsidies due to communities. Basically this means that amounts accruing from unpaid water bills are deducted from the subsidy, leaving the LSGBs to shoulder the burden.

In addition to subsidies, the central government also provides subventions to LSGBs to be used for the purpose of capital investments. These go into a separate fund component of the community budget. Table 1 shows that such subventions form an extremely low proportion of total community revenues.

These constraints underscore the desperate fiscal situation in most Armenian local governments. Own-source revenues are low, transfers from the state budget are insufficient, staff salaries are often not paid for months at a time, many local public services are simply not provided, and there are few if any resources available for capital investment.

Property and land taxes collection responsibility is given to the LSGBs by the new law on Local Self-government. At the beginning of 2003 State Tax Agency began transferring taxes databases to the local authorities. Taxes databases are not in satisfactory situation. It is necessary to carry out a lot of work for clarification of databases. Implementation of this responsibility, of course, will strengthen LSGBs fiscal capacity, but only by the provision of local self-government employees with appropriate training.

The New Law on Local Self-Government and Fiscal Capacity Building

Although the New Law on Local Self-Government (May, 2002) is not as radical as some observers had hoped, it does try to address some of the limitations and deficiencies of the old law of 1996. Some of the most important changes introduced by the new law include:

- The community is now given recognition as a legal entity.
- The new law applies to the whole territory of Armenia (under the previous law some areas were considered as state property).
- Land and property (assets), which are considered state property and situated in the administrative territory of the community, are transferred to the communities without compensation (unless such assets are necessary for the State to implement its authorities).

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\(^3\) This, of course, leads to a vicious circle -- citizens don’t pay their taxes, so LSGBs can’t afford to provide decent services, so citizens have no incentive to pay.

\(^4\) The Law contains a formula (based on size in the case of very small communities, and on a combination of population and previous years land and property tax revenue in the case of the remainder) designed to ensure that the subsidy addresses financial differences and imbalances between the different communities.
• The Heads of Community are required to have specialized secondary or higher education. Community Heads can be elected continuously not more than twice.
• Heads of Community now have the responsibility for the organization of land and property tax collection and control; registry and civil acts services; maintaining the urban, environmental, agricultural and other cadastres; and the initiation of economic activities.
• Community councilors (elders) also have a number of new responsibilities, including approval of the community development programme; the establishment of local public user charges; approval of the number of employees, personnel list and salaries of the community head’s staff and budget agencies; decision making powers with regard to the establishment, reorganization and liquidation of community budgetary institutions and commercial and non-commercial organizations with community participation; and approval of the composition of the boards and supervisory bodies of such organizations.
• Community councilors now have the right to appeal the actions of community heads or the council in court.
• Sessions of the Community Council must now be open.
• Financial resources from the alienation of community property shall be transferred to the fund part of the community budget.
• One of the conditions for tenders for local service provision shall be the highest rate of payment for the services provided.
• The State shall not increase the scope of powers of the community or decrease the revenues without relevant financial compensation.
• LSGBs will now receive a share of income tax, profit tax, and nature protection fees. The share of these taxes and fees will be defined in the State annual budget Law.
• Clarification of the position regarding the removal a head of a community from office by the Government upon the request of the marzpet.
• Clarification of State monitoring and control local governments. The National Assembly (through its Supervisory Chamber) will once a year perform the supervision of targeted utilization of financial resources provided to communities from the State budget. In addition, the Government, through the relevant state authorized body or the regional governor’s office, will carry out an annual financial inspection of communities.

In some workshops and presentations central government officials explained that the objectives of the new Law included (i) the setting of a clearer legal framework for local governance, consistent with the Constitution; (ii) the establishment of a clearer division of powers and responsibilities between the State and LSGBs, and between the different powers of local government bodies (mandatory, delegated and voluntary); (iii) bringing together as much as possible into a single law, thus reducing the possibility of conflict with other legislation affecting local governance; (iv) providing clearer powers to community councils to enable them to organize their activities in a more accountable and independent way, according to rules adopted by themselves; and (v) enabling community councils to be less dependent on the heads of community. They also mentioned that the Government had decided to refrain from introducing radical change mechanisms at this time, preferring instead to allow developments to take place on a voluntary basis and to test these before making fundamental changes to the existing legislation.

But in reality the new Law on Local Self-government was not followed by amendments to other laws, which raised many ambiguous among them. Even more, at the end of 2002 the Parliament adopted amendments to the Law on Local Self-government, which complicated the situation.

One of key changes in the new law is that the total amount of subsidies provided from the state budget to the community budgets would not be less than 4% of the sum of revenue actually received by the consolidated budget of the RA during the preceding year (Article 58 of the New Law). It would be a difficult financial task for the Government to honor this commitment, given its current fiscal position.

Public Participation in Community Management and Accountability to the Public
Armenian legislation does not address public participation in the decision making process in detail. According to the 1996 Law on Local Self-Government, community residents may submit draft resolutions to the community council

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5 The removal of a head of community may only take place when s/he breaks the Constitution, Laws or the decisions of the community council. The Government’s decision on the removal of a head of community may be appealed to the court by the head or the community council. The head of community continue in office until the decision of the court is made known.
and attend council sessions with the permission of the local council. Under the new Law of 2002, residents will no longer require permission to attend council meetings. Article 14 of the new Law states that “sessions of community councils shall be open”, unless decided otherwise by a two-thirds majority vote of the councilors present at the meeting. To date, however, the level of public participation in council meetings and local government affairs in general has been very low. Most citizens are poorly informed about local authorities and their responsibilities, as well as local government procedures. Although the Constitution provides for forms of direct democracy, such as referenda, public hearings and meetings, they have been rarely used at the local government level.

Different surveys were carried out among citizens in Armenia to determine their level of knowledge of, interest in and satisfaction with local government. Its main findings were:

- Citizen understanding of and participation in local government is in general very low.
- Citizens are generally dissatisfied with the quantity and quality of local service delivery, but do not believe that they or the local governments themselves can do anything to improve the status quo.
- Few opportunities exist for effective civic participation in local government activities.
- Citizens perceive that LSGBs lack the resources to have meaningful programmes, so there is no reason for them to take an interest in local government matters.
- Citizens who are interested in local government activities and operations have great difficulty in gaining access to information.
- There is very little coverage of local government activities in any of the media. Reporters have considerable difficulty in gaining access to credible and reliable information about local governments.
- Condominium associations potentially provide an effective vehicle for developing cooperative relationships between LSGBs and citizen groups, especially in urban areas, but this potential has not as yet been realized.
- Residents of villages have a stronger sense of their community and are comparatively better informed of local government activities than their urban counterparts. However, residents of villages also lack understanding of how community revenues are generated and what the spending objectives are of local governments.
- In many localities, and especially the smaller rural ones, there are insufficient numbers of organized business interests, workers groups, citizens associations, NGOs and other interest groups to constitute a healthy and pluralistic democracy at the community level.
- Local government bodies in their present state are not effective institutions of democracy.

However, these surveys should not necessarily lead to the conclusion that no potential whatsoever exists for improved collaboration at the local level between LSGBs and civil society. For a country of its size and with its particular history, Armenia has a relatively large number of NGOs and other civil society organizations (CSOs). Over 3,000 NGOs are currently registered with the Ministry of Justice. Admittedly many of these are based in the urban rather than rural areas, quite a number are non-operational (though still registered), and few of them are actively involved with local governments. But there is still potential for collaboration, providing greater incentives, some resources and a greater willingness by both sides (LSGBs and civil society) to cooperate together.

Even in the rural areas, evidence of this potential is illustrated by the work of organizations such as Save the Children and NGOs such as Shen. Through its Community Action Programme, SC has assisted communities to form Civic Action Groups in a third of Armenia’s 930 communities. The CAGs have engaged their communities in over 370 small-scale investment projects. Many CAGs have transformed themselves into viable and active NGOs, community associations and cooperatives. CAG members have been elected to local community councils or as community heads, as a result of their CAG leadership. Since its establishment in 1988, Shen has facilitated similar forms of community mobilization and empowerment, leading to many successful small-scale investment projects in areas such as irrigation, drinking water and road rehabilitation and construction. Again some of the community members who played a leading role in such activities have subsequently been elected as councilors and community heads (UN National Human development Report, 2001:53). What clearly needs to be done is to link these forms of community mobilization and empowerment more effectively to the activities of LSGBs, in ways, which are mutually beneficial to both partners and the communities they serve. To date, many of the community development programmes sponsored by NGOs and international organizations have by-passed the local authorities.

There are currently three major local government associations operating in Armenia. These are the Community Union of Armenia (CUA), to which 530 of Armenia’s 930 communities are affiliated; the Union of Armenian Elders (UAE), which has close to 80 members; and the Community Finance Officers Association (CFOA), which has over 80 members, mostly from LSGBs. The CUA was established in 1997 and the UAE and CFOA in 1998. The main
purpose of these associations is to support their members (through advice, training, workshops etc.), and to advocate on their behalf for changes and improvements in the policy and legislative framework for local government. All three of the associations have engaged in a number of useful activities. The CUA has drawn up a draft concept of public policy in the sphere of local self-government and submitted this to the Government. The UAE has submitted amendments on local government laws to the National Assembly, and has organized training workshops for Yerevan district councilors (elders). The CFOA has in many ways been the most proactive to date. In partnership with various donors, it has participated in the drafting of the new Law on Local Self-Government (with particular reference to the finance sections), carried out training, organized seminars and workshops, drafted plans for the joint financing of inter-community projects, and established and operated community information centers. With support from the Eurasia Foundation, the CFOA has also developed a computerized software package on budgeting for use by LSGBs. In 2002 2003 CFOA with the support of Urban Institute organizes workshops for the preparation of representatives from civil society and local governments in local budgets public hearings. Budget hearings took place in 9 cities, each year.

However, all the associations have experienced problems in collecting membership dues, and only the CUA is able to employ full-time paid staff. Because of this, and the short time that such organizations have been in existence, they have not been fully influential as yet as change agents. Nevertheless, the potential is clearly there, and it will be important for the donor organizations to work closely with such bodies.

Tradition of accountability to the public only began to form in Armenia. Local self-government leaders and officials don’t find a necessity of it. On the other hand, there is no demand from the public. While legislation, particularly the law on Legislative acts (April, 2002) requires to publish local governments normative legislative acts. It is very difficult to implement in rural communities.

Capacity Building Problems
Underlying different problems is a serious lack of capacity and resources in many LSGBs. This applies to human and physical capacity, as well as to financial capacity issues. Although capacity constraints affect all local authorities, they are particularly pronounced in the large number of small rural communities. Many of the 59 urban communities have administrative, financial and service departments staffed with trained specialists, as well as the necessary equipment to carry out their functions, including IT equipment in an increasing number of urban LSGBs. However, such resources are seriously lacking in the rural areas. Most rural authorities lack the funds to hire qualified specialists in management and budgeting. It is hardly surprising, therefore, that many of them struggle to properly estimate the cost of the various services the communities must provide. There are 930 communities in Armenia, among which 54.4 % has less than 1000 population. It is very difficult to have their trained and skilled officials.

Training and capacity building needs exist in all or most LSGBs, especially in areas such as management and leadership, strategic planning and strategic thinking, participatory planning project management, budgeting and financial management, fundraising, human rights and gender awareness. Training programmes are also needed in the area of change management, to expose local government leaders and officials to attitudinal change and new ways of thinking, in order to help them move away from the current rule-bound and dependent culture (“you can’t do anything unless the law says so”) towards more innovative, entrepreneurial and problem-solving approaches to their work.

Training is mainly organized through international organizations such as the International City/Country Management Association (ICMA), the UNDP, and the Urban Institute, also by NGOs with support of donor organizations. Despite such interventions, a more comprehensive training system for local government employees is urgently needed. Only the Law on Local Self-government regulates (if it may be called regulation) the civil service in local self-government system. Unfortunately the Law on Civil Service has not included local level, which makes difficulties for the implementation of civil service in broad principles in public administration, as well as in local self-government systems. The Law on Municipal Service is not adopted, yet. It means that the framework of the civil service is not clarified. It raises many negative consequences: instability of personnel, defenselessness of civil servants, casual persons appointment in high posts, etc. As a result professional and stable “corps” of civil servants is

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6. The staff of the larger urban LSGBs will normally include the Mayor, Deputy Mayor, Secretary of the Local Administration, and the Head and support staff of a number departments, both service departments (such as public utilities, trade, housing, education, culture and sport) and support departments (such as administration, finance and budgeting, legal, architecture and urban development, public relations). In the smaller rural LSGBs, there will be at best a Head of Community, a Deputy, a Secretary of Local Administration, a Community Accountant and perhaps a small number of support staff. Computer equipment is generally lacking in most of the smaller LSGBs.
not formed. After each elections of local self-government bodies newly elected community leaders dismissed a lot of municipal employees. Actually recruitment, promotion, mobility, evaluation and training of staff are not regulated by any normative acts. In the absence of a coherent national policy, each local government addresses such issues in its own manner.

As the framework of civil service is not clarified, the official statistics inform only total number of municipal employees. It was 6425 (without the heads of communities) in 1999: rural communities’ employees – 77,7%, urban communities’ employees – 12,6% and district communities’ employees – 9,7%.

The low salaries paid to most of the country’s local government officials and workers, which has resulted in many cases in low motivation and productivity, and high rates of staff turnover and absenteeism have often compounded capacity problems. Most employees, especially of small rural LSGBs, earn less than USD 10 a month, and are often paid irregularly. In order to survive, many of them are forced to engage in multifarious commercial and other activities, and may even be tempted to accept illicit payments for offering their services (UNDP, UNDESA, SALA, 2000:7). Another factor that affects morale and performance is the fact that local government staff has no security of tenure. When a new head of community is elected, s/he can replace existing staff with new appointments. It is clearly very difficult to develop a professional service ethos in such circumstances.

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**Future Prospective of Capacity Building**

More than six years experience of local self-government system shows that for its further development it is necessary to make up decentralization strategy and implement it. The strategy must clearly define the spheres for transfers to the local governments new responsibilities, terms, phases, mechanisms, evaluation indicators and criteria’s.

Decentralization strategy must include the following items:
- Communities enlargement,
- New responsibilities delegation to the LSGBs,
- Legislative bases development in time,
- Strengthening of local governments capacity,
- Allocation of financial resources accordance to the local governments responsibilities.

It is necessary to take into account that between these items exists logistical connection. It is not possible to provide for the local government development without their inter-relationship and implementation of accordance actions at the same time. Also expansion of local governments responsibilities and definition of corresponding amenabilities will support their strengthening and development.

The development of decentralization strategy is the central government issue. In it implementation will take part central government, local governments, civic and private sectors.

Only giving powers and responsibilities to the local governments by the law is not enough for the development. It is necessary to adopt the law on Municipal Service, which will define municipal service framework, service...
requirements, rights and responsibilities of municipal servants, jobs description, the matters of servants retraining, attestation and defense, their social guaranties, etc. At the same time, it is very important to found training centers for local governments. Municipal servants must be mandatory involved in in-service training. In-service training expenses should be drafted in the local budgets and transferred to the training centers for training. Donor organizations have a great role in this matter. They must be interested in foundation of training centers because it is a base for sustainable development.

International organizations also must envisage interventions fall in the area of financial management including budget preparation and administration and strengthening of the capacities of civil society organizations as nongovernmental and community-based organizations. Efforts to harmonize approaches however have to be undertaken in relation to common activities concerning public participation in local governance issues, planning of development projects, support in the delineation of functions between the regional and local government bodies and enhancing cooperation among municipalities as envisaged by the ISFP via the support to the formation of Council associations.

Conclusion
Local governments capacities is one of the weaknesses of the local self-government system in Armenia. There is no central government clear defined strategy in this matter. Legislation doesn’t provide all conditions for capacity building and strengthening. The Law on Municipal Service is not adopted, yet. Sustainable functioning training centers are not founded. Many international and donor organizations have organized and implemented different capacity building, including training, projects. But it is not satisfactory for sustainable development. Only solution of the above mentioned problems allow developing a capacity building process.

The strategic goals and objectives of community’s development, including capacity building must be in the center of central and local governments attention and implemented in a close cooperation with another sectors of the society.

References