

Performance Budgeting in Armenia

Since gaining independence from the Soviet Union in 1991, the process of political reform in Armenia has been slow. The 1995 constitution enshrines political freedom and provides for free and fair elections at both national and local level. However, all national level elections since independence have been disputed, with reports of widespread vote rigging. The elections of February 2008 were followed by a violent crackdown on opposition protesters, followed by a state of emergency, in which many basic civil rights were suspended and the independent media temporarily banned. Although the emergency has now expired, public meetings are still barred and many of those arrested remain in jail.

The ongoing conflict with Azerbaijan around the Nagorno Karabakh enclave and the trade blockade imposed by Azerbaijan and Turkey means that Armenia remains unstable and exposed to a possible military conflict. The continued domination of the economy by a small number of oligarchs aligned to the president, and the high rate of poverty (up to 50 per cent of the population live below the poverty line) has boosted massive levels of migration, mostly to Russia.

Decentralization reform in Armenia began with the adoption of the new Constitution in 1995. In the years following, a legal framework was adopted leading to the establishment of a Local Self-Government (LSG) system. Under LSG, local authorities were guaranteed wide ranging powers to make and implement policy independently from central government¹. Although provision of most basic services has remained the responsibility of central government, local governments can allocate additional resources to services from the community budget.

1.1 Local Budgeting in Armenia

In Armenia, local governments are responsible for forming and independently managing their own local budgets. In an environment where local government is committed to transparency, fiscal decentralization can potentially help improve the accountability of local service providers by making resource allocation decision making processes more accessible to the beneficiaries. Increased public involvement can also allow for more efficient expenditure, by promoting better targeting of the expenditure to community priority issues and by enabling citizens to oversee budget execution. Therefore, when local government institutions are responsive to citizen demands accountability can be improved, so long as citizens actively participate in the budgeting process.

A number of barriers to increased citizen participation and local government responsiveness exist in Armenia.

¹ LSG were granted policy making powers in a range of service delivery sectors, including pre and early school education and water and sanitation

- **Lack of a culture of participation:** Many years of highly centralized government rule, both under Soviet domination and in the early years of independence mean that Armenia has little established culture of citizen participation in planning, policy making or resource allocation decision making. The continued lack of some political freedoms has contributed to the remaining scepticism amongst citizens that engagement with state institutions can affect genuine change. Many civil servants also continue to see themselves as uniquely placed to make decisions on behalf of the people. The perceived lack of 'expert knowledge' in the general population by state employees tends to inhibit attempts to include citizens in decision making processes.

- **Legislative Framework:** In 2001 Armenia ratified the European Charter on Self-Government, which requires a high degree of fiscal decentralization. National legislation² requires community budgets to be presented to local communities; however there is no requirement for local authorities to incorporate local opinion in resource allocation decision making.

- **Autonomy of local government bodies and ability to allocate resources:** Although the legislative framework allows for local government to form and allocate budgets independently from central government, local government only has limited revenue raising powers and therefore remains reliant on central government for financial resources. As these are limited, local government bodies often do not have the resources to respond to wide ranging citizen demands.

- **Lack of capacity in local government:** Technical and administrative capacity within local government departments responsible for budget preparation is often very low, especially in rural areas. Lack of resources from the centre, coupled with staffing constraints (in part due to large scale migration of educated population from rural areas) and inefficient and poorly implemented systems (e.g. revenue prediction, monitoring and evaluation systems) mean that local budgets are often unrealistic and unsustainable.

- **Poor communication and understanding of local budgets:** Whilst legislation requires that community budgets are presented to local communities, these budgets have tended to be written and presented in inaccessible language and format, making them incomprehensible to those citizens interested in the process. This has reinforced the perception that local government is not interested in promoting wider participation in local budgeting.

1.2 The Performance Budgeting Programme

A Performance Budget (PB) differs from a more traditional Line-Item budget in that it links predicted expenditure to specific tasks or goals. The focus of a PB is not on what the municipality spends, but rather on the services provided for that money. Under PB funds are allocated by activity types and programs, with a description of the expected outputs, in line with the goals adopted by the respective government body. PBs therefore contain both financial and program

² Law on Local Self-Government and the Law on Budgetary System in Armenia

information, and **link local government policies and priorities (as seen by allocation of resources) to specific targets and objectives**. Annexes A and B provide examples of a Line-Item Budget and a PB.

A PB can be an effective tool for **promoting transparency** in public financial management by offering a simple and clear mechanism by which the productiveness of public resources can be assessed. By making explicit the linkages between activities and funds, citizens are better able to interpret budget processes and hold government to account. However, compiling such a budget requires more time and work than a Line-Item Budget, as it requires sufficient information about the whole municipality, and enough time and expertise to effectively estimate the cost of specific programs.

A key component of PB is the **active engagement of the population** in the setting of priorities and in **providing oversight and scrutiny** on budget execution. PB provides an opportunity for citizens and interested groups to engage in the budgeting process at the planning stage, through public consultations to identify priorities and align service delivery aims to citizen expectations. By producing a **single, simple to understand budget document**, with measurable benchmarks, the public are also better able to provide an oversight and scrutiny function.

Introduction of PB at the community level was started in 2006 under the UNDP Performance Budgeting Project (PBP). Initially 5 urban communities were selected to take part in a pilot study, with a further 8 added in 2007. Communities were selected to represent a cross section of economic and demographic trends, and based on the degree of understanding and enthusiasm shown for the PB concept by the mayor and municipal council.

In each selected community, a **public meeting** was arranged in which the concept and process of PB was introduced. **Initiative Groups (IG)** were set up representing various groups within the community. IGs consisted of up to 17 individuals, identified as being representative of the community by participants at the initial public meeting. The IGs worked with municipal staff to identify and set budget expenditure priorities. Municipal staff units (Working Groups) then compiled draft budgets, copies of which were distributed within the communities. **Public hearings** were organized in which the draft budget could be discussed and debated before being presented for approval by community councils.

An **educational manual** on PB in Local Self-Government Systems was also developed. The manual is based on experiences gained during the initiation of the PB project in the 5 pilot municipalities, as well as international best practices. It provides a detailed description of local PB principles, frameworks, budgeting process phases, execution and oversight.

The process of introducing PB at the community level has been supported by **capacity building programs** organized for Local Government and municipality staff as well as local people and NGOs. Through a number of study tours and seminars the participants were trained in using the new model, theoretical knowledge of each stage and cycle of budgeting, and the role of community participation in the budgeting cycle.

1.3 Results

The Performance Budgeting Programme (PBP) has increased the transparency of the budgeting process in pilot communities. Demystifying the process has presented the opportunity for greater citizen engagement, and facilitated **increased citizen participation**. Furthermore, PB has resulted in **increased confidence** of citizens to affect change in the way that resources are allocated, and thereby to hold local government to account for the allocation of resources.

All pilot communities have seen significant increases in both the number of public hearings being held, and the numbers of people attending and actively participating. Local authorities are more aware of the priorities of the people, and citizens are more aware of the roles and responsibilities of the local authorities in terms of service provision.

Citizens have also expressed increased confidence to make their voices heard and demand improved provision of services. A key challenge to project implementation was **overcoming widespread scepticism** that citizens could affect change by engaging with the state. In order to help overcome this problem, donors have agreed to fund one community priority, quick impact project in each municipality that could not be paid for through the budget (due to lack of funds). This allowed for citizens to see an immediate effect associated with their participation and instilled confidence in the PB process.

Another key challenge involved the general **lack of trust between citizens and local government** agencies. Working and Initiative Groups, made up of both local people and LSG workers helped to promote mutual understanding of the PB concept, but also to encourage increased dialogue between citizens and state officials. By promoting community and municipality staff involvement in the budgeting process (as opposed to budgets being prepared by a small number of 'experts') community ownership has also been greatly improved.

The **impact and sustainability** of the PB model has varied depending on the location of communities. An analysis of the sustainability of PB implementation after two years found that the 5 communities involved at the first stage of the programme were ready and able to replicate the PB methodology and process independently into the third year. Community council members and staff of local government bodies reported a high degree of understanding of the PB concept and processes, and valued its impact.

There were marked differences between urban and rural communities. Rural communities generally have **fewer resources and lower capacity** to fully gather the necessary information and invest sufficiently in developing a full PB compared to urban ones. Furthermore, in rural communities, the provision of services through the local budget was fairly small, meaning that funding was lacking for multiple priorities. However, participation was high, with a great deal of unanimity concerning priorities. Identification of priorities in urban communities was generally more complex as a greater number of competing claims were expressed.

In 2007, following piloting of PB at national level, and drawing on the lessons learned from the PBP at the local level, legislation was introduced making PB mandatory for the national budget. Legislation is planned to extend this to cover all community budgeting shortly.

References:

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Annex A: Example of a Line-Item Budget

Table 1.

An Example – a Section – from a Municipality Line-item Budget

Group 04	EDUCATION AND SCIENCE
Sub-group 02	Pre-school education
Organization	Kindergarten No. 2
	Overheads

Code	Item	Amount (AMD thousand)
0010	Salaries and salary-like payments	1200
1600	Mandatory social insurance contributions	405
2100	Office supplies	35
3550	Electricity costs	90
3600	Rent for water and sewerage company services	51.4
3500	Heating costs	126
3000	Communication costs	18
5600	Costs of acquiring other services	38
2500	Food	2170
	<i>Total</i>	<i>4133.4</i>

Annex B: Example of a Performance Budget

Table 2.

An Example – a Section – from a Municipality Program Budget.

Group 04	EDUCATION AND SCIENCE	
Description		
<ul style="list-style-type: none"> ❖ Organizes the work of pre-school facilities (kindergartens) and extra-school institutions (station of young technicians, children's creativity center, and the like) in the community. ❖ Develops and implements educational programs. ❖ Participates in the determination of the amount of funding allocated to education and establishes control over their purposeful and efficient use. ❖ Coordinates the activities aimed at developing national crafts and artistic creativity. ❖ 		
Goals:		
<ul style="list-style-type: none"> ❖ To develop a behavior of social adaptability and co-existence among the children. ❖ To strengthen the link between theoretic knowledge and practical studies. 		
Objectives:		
<ul style="list-style-type: none"> ❖ To coordinate the work of ----- facilities operating in this sphere in the community, which have enrolled about ----- children. 		
Sub-group 02	Pre-school education	
Organization	Kindergarten No. 2	
Description		
<ul style="list-style-type: none"> ❖ Kindergarten design capacity - 100 children/places ❖ Actual engagement of kindergarten - 75 children ❖ Actual number of employees - 26 persons ❖ The kindergarten building has: <ul style="list-style-type: none"> • Local heating • Telephony • ❖ 		
Objectives:		
<ul style="list-style-type: none"> ❖ To ensure 8-hour service for 75 children (3 groups) during 2005-2006 ❖ 		
Overheads		
Code	Item	Amount (AMD thousand)
0010	Salaries and salary-like payments	1200
1600	Mandatory social insurance contributions	405
2100	Office supplies	35
3550	Electricity costs	90
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