

## ARMENIA

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ARMENIAN DRAM (AMD)

## POPULATION AND GEOGRAPHY

**Area:** 29 740 km<sup>2</sup>**Population:** 2.930 million inhabitants (2017), an increase of 0.3 % per year (2010-2015)**Density:** 98.5 inhabitants / km<sup>2</sup>**Urban population:** 63.1% of national population**Urban population growth:** 0.2% (2017 vs 2016)**Capital city:** Yerevan (36.9% of national population)

## ECONOMIC DATA

**GDP:** 28.3 billion (current PPP international dollars), i.e. 9 668 dollars per inhabitant (2017)**Real GDP growth:** 7.5 % (2017 vs 2016)**Unemployment rate:** 17.8 % (2017)**Foreign direct investment, net inflows (FDI):** 250 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 17.3 % of GDP (2017)**HDI:** 0.755 (high), rank 83 (2017)**Poverty rate:** 1.4% (2017)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to its Constitution, adopted in 1995, Armenia is a unitary state. Amendments to the Constitution in 2015 changed the form of government from a presidential republic to a parliamentary one. The legislative power is vested in a unicameral Parliament, the National Assembly, which consists of at least 101 representatives elected by proportional suffrage for five years. The new Constitution also provides for the allocation of four seats in the National Assembly to representatives of national minorities, one each from the country's Assyrian, Kurdish, Russian and Yezidi communities. The President of the Republic is the head of the state and is elected by the National Assembly for a non-renewable term of seven years. The President appoints as Prime Minister the candidate nominated by the parliamentary majority in the National Assembly. The Prime Minister is the head of the government.

The 1995 Constitution of Armenia recognizes communities (or municipalities) as local self-governments and states the principle of local autonomy. Following the adoption of the 1995 Constitution, the 1995 Law on Local Self-Government was adopted, and granted local self-government bodies greater power in terms of decision making, budget formulation, and control of public property. The 1995 Law is based on the European Charter of Local Self-Government, ratified by Armenia in 2001. Local self-government bodies were established in 1996. Since then, several laws and legal acts have been established, including the 2008 Law on Local Government in Yerevan City, which gave greater autonomy to Yerevan government bodies, shifting from an appointment system to an election system for the capital's mayor. Local elections are regulated by the national Electoral Code.

The country is administratively divided into 10 regions (*marzes*), which are deconcentrated executive bodies of the central government. The regions are headed by a governor, appointed by the central government. The governor is in charge of implementing the government's regional policy, supervising the local governments' activities and acting as liaison between the central and local authorities. The Ministry of Territorial Administration of the Republic of Armenia is responsible for the implementation socio-economic programs in the administrative regions and the development and reforms of local self-government sector.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality/community (ժողովուրդ / <i>zhoghovum</i> )			
	Average municipal size: 5 848 inhabitants			
	502			502

**OVERALL DESCRIPTION.** Armenia is structured under a one-tier local government system, made up of 502 municipalities (or communities), including the city of Yerevan. Since 2013, the national government has undertaken an administrative-territorial reform, aiming at promoting mergers of small communities and increasing the efficiency of self-governance and public services provision. As a result, in 2016, 118 former communities were amalgamated in 15 new communities. The total number of communities was reduced by 11.5% if compared to pre-reform. Overall, the process of municipal amalgamation has resulted in a decrease in the number of local self-governments from 793 to nearly 500 by early 2018.

**MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION.** Municipal self-government can be categorised as urban and rural. The average size of urban municipalities (excluding Yerevan) is 15 500 inhabitants and the largest cities, excluding the capital city, are Gyumry (117 700 inhabitants), Vanadzor (82 200 inhabitants), Abovyan (44 400 inhabitants), Armavir (28 900 inhabitants) and Artashat (20 700 inhabitants). The average size of rural municipalities is 1 460 inhabitants. In addition, there are smaller villages at sub-municipal level, which are not self-governing. All municipalities, including Yerevan, are governed by the Council of Aldermen and the Mayor. The members of the Aldermen Council are elected by universal suffrage. The number of councillors varies from 5 to 21 members depending on municipal size. The councillors elect the mayor among them, for a five years' term.

Since the adoption of the 2008 Law on Local Government in Yerevan City, the capital city has shifted from a deconcentrated unit of government (*marz*) to an elected local self-government body. The Yerevan Council of Aldermen comprises 65 members elected by a proportional electoral system for four years. Yerevan city is now divided into 12 administrative districts.

Inter-municipal cooperation is promoted by the Constitution itself, as well as by the Law on Local Self-Government (adopted in 1996, amended in 2002). Besides municipality merger and consolidation, the central government has also promoted inter-municipal cooperation. The adoption of a law on Inter-Municipal Unions creates the conditions for the central government to establish inter-municipal unions on its own initiative, thus delegating state competences to municipal unions and hopefully increasing the accessibility of public services.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Functions of local self-government bodies are stipulated by the Law on Local Self-Government and the Law on the Budgetary System of Armenia. Responsibilities of local state administrations are regulated by the Presidential Decree on State Governance in Armenian Regions. Local self-government responsibilities are divided into own competences (divided into mandatory and optional ones) and delegated competences, which may also include some central government functions. For instance, Yerevan performs the function of primary and secondary education as a delegated responsibility, receiving funds from the central government. Although legislation provides that municipalities are responsible for matters that are of local interest, there is no clear definition of local authorities' competences and delegated powers. Most local services are managed by the central level.

There is no regulated distribution of resources and competences according to criteria of size or population. All local governments share the same competences. Inevitably, the scope of actually performed functions varies significantly across municipalities in accordance with their fiscal capacities. Thus, poorer municipalities rely on the deconcentrated bodies of the central government for service provision.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Administrative services (civil registry, etc.); Public buildings and facilities
2. Public order and safety	Municipal police; Urban traffic signs
3. Economic affairs/transport	Local road; Park spaces; Local ports; Urban transports; Pupils transport; Local tourism
4. Environmental protection	Parks & green areas; Waste management; Street cleaning
5. Housing and community amenities	Construction/renovation; Provision of drinking water; public lighting; Urban and land use planning; Urbanism
6. Health	Primary healthcare (medical centres); Preventive healthcare (mostly maintenance of hospital and ambulances buildings)
7. Recreation, culture & religion	Sports; Libraries; Local museums
8. Education	Pre-primary education; Maintenance of school buildings; Primary and secondary education (delegated responsibility of Yerevan city)
9. Social protection	Social care for children and youth; Support services for families

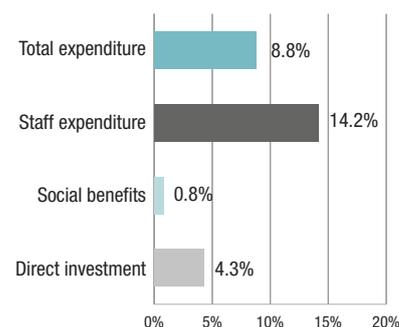
## SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	SNA 2008	Availability of fiscal data: <b>High</b>	Quality/reliability of fiscal data : <b>High</b>
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**GENERAL INTRODUCTION.** Municipal finance is governed by the Tax Code, the national law on the Budgetary System, the Law on Local Duties and Fees. Local taxes are established by the National Tax Code and include the real estate tax and the vehicle property tax. The national law on the Budgetary System provides that shares of national taxes may be attributed to municipal governments in accordance with the State Budget Law for the coming year. According to the "Republic of Armenia Government's 2017-2022 program", the main priorities in budgeting and financial management at the community level are the introduction of program budgeting methodology in municipalities as well as the increase in the share of own income in local government revenues.

### SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>225</b>	<b>2.6%</b>	<b>100%</b>	
<b>Inc. current expenditure</b>	<b>213</b>	<b>2.4%</b>	<b>94.7%</b>	
Staff expenditure	41	0.5%	18.1%	14.2%
Intermediate consumption	40	0.5%	17.9%	
Social expenditure	6	0.1%	2.5%	0.8%
Subsidies and current transfers	88	1.0%	38.9%	
Financial charges	0	0.0%	0.0%	
Others	39	0.4%	17.3%	
<b>Incl. capital expenditure</b>	<b>12</b>	<b>0.1%</b>	<b>5.3%</b>	
Capital transfers	n/a			
Direct investment (or GFCF)	12	0.1%	5.3%	4.3%



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**EXPENDITURE.** The share of local expenditures corresponds to 8.8% of general government expenditures and to 2.6% of the national GDP, although municipal competences are theoretically quite significant. The major item of expenditure by economic classification is “subsidies and current transfers”. These transfers are lump-sum funding provided to municipal institutions. General government’s main expenditures are generally personnel wages, which together with administrative staff, wages of municipal institutions’ personnel, account for more than 50% of total expenditures. After a slow increase following the establishment of the Armenian local government system, these ratios have remained stable since 2011.

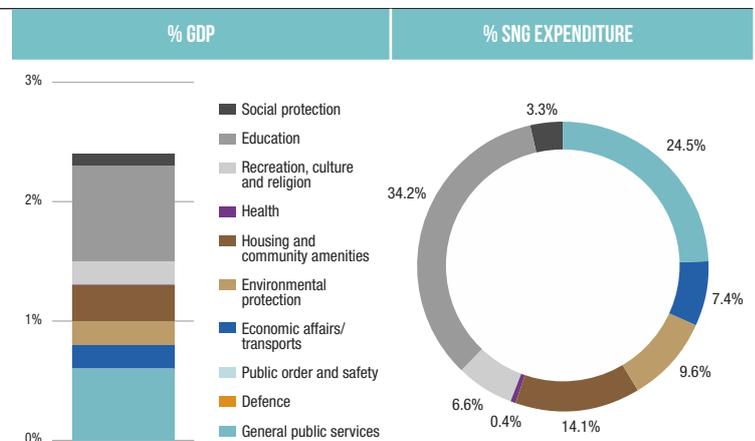
**DIRECT INVESTMENT.** The share of capital expenditures in total municipal expenditure dropped from 12.3% in 2012 to about 5% in 2016. This can be explained by the fact that the central government has centralized capital expenditures on local infrastructure, shifting them from municipal to state-controlled local administrations (*marzes*). This is in line with the “Republic of Armenia Government’s 2017-2022 program” adopted in 2017, which reflects the central government’s vision for the coming years with respect to the implementation of capital investment programs to reduce disparities in the socio-economic development of communities and *marzes*.

Most municipalities’ capital expenditures are thus dedicated to small capital repairs. Capital expenditures in Yerevan, on the other hand, are still funded through targeted capital grants from the central government.

#### SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education (34.2%), general public services (24.5%), housing and community amenities (14.1%), environmental protection (9.6%) are currently the key sectors of local government expenditure. Expenditures in the education sector also include construction and maintenance of schools and kindergartens.

However, it is noteworthy that Yerevan’s expenditures amount to about 60% of total municipal expenditures and that therefore, average figures of subnational expenditure are not as representative as they would be if expenditure was more uniformly distributed across local governments. Though the ratio of municipal governments in total GG spending appears to be stable, the composition of local expenditures has been changing over time and nowadays the main resource-intensive competence is the provision of pre-primary, primary, and secondary general education.



#### SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>223</b>	<b>2.5%</b>	<b>10.7%</b>	
Tax revenue	43	0.5%	2.2%	19.1%
Grants and subsidies	96	1.1%		43.0%
Tariffs and fees				0.0%
Property income				0.0%
Other revenues	84	1.0%		37.9%

**OVERALL DESCRIPTION.** Taxes, state duties, charges, transfers and other revenues, such as land and property rent, contribute to local revenues at large, but local governments do not enjoy local fiscal autonomy yet. The share of local revenue relative to national GDP remains very low (2.5%). Armenian municipalities have limited resources and rely mostly on intergovernmental transfers, amounting to 43% of SNG revenue in 2016. Moreover, there exist important territorial differences in fiscal capacity and Yerevan alone accounts for more than half of total local revenues.

**TAX REVENUE.** Local taxes constitute 19% of total local revenues and are determined by the central government. Municipalities can, on own initiative, raise real estate and vehicle taxes’ rates by up to 10%.

Almost 82% of local tax revenues come from property taxes from buildings, structures and vehicles. Local self-government units can set tax reliefs for property taxes up to 10% of planned local budget revenues for the year, including tax allowances and tax credits. According to national legislation, local governments can also retain shares from personal and corporate income taxes, but this is not yet effective in practice.

**GRANTS AND SUBSIDIES.** Around half of municipality revenues are constituted by grants, which are predominantly current transfers. These include capital grants and equalization grants, designed to compensate new charges and expenditures elicited by the devolution of powers. The total amount of equalization transfers is guaranteed up to 4% of the consolidated budget revenues for the previous fiscal year. Nevertheless, targeted central government grants for the implementation of delegated powers are only provided to Yerevan.

In 2016, the adoption of a new law on Financial Equalization defined concepts and principles of financial equalization, as well as calculation and allocation procedures for the subsidies granted according to the equalization criteria. The law is going to enter into force in 2019.

In addition, the central government introduced in 2018 a new capital grant program aiming at providing subventions to finance capital infrastructure development at the municipal level (amounting to AMD 500 million, i.e. 0.9 dollar PPP per capita). Lastly, local governments also receive a share of environment-related mandatory payments from the central government.

**OTHER REVENUES.** Local charges and fees and similar revenues make up a large part of local revenues, as set and regulated by separate regulatory instruments on local charges and fees. Local governments keep user charges, from both delegated services (e.g., civic acts, notary services) and local services (e.g., charges for local transportation, construction, entertainment and lottery, etc.). They also collect local fees and revenues from local property leasing. Local community councils have a certain degree of power regarding setting charge/fee rates for different services.

#### ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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#### Total outstanding debt

Financial debt\*

\* Currency and deposits, loans and bonds

**FISCAL RULES.** The law on the Budgetary System states that Armenian municipalities must prepare a balanced budget which covers both operating and capital expenditures and revenues. Municipal budgets may include a contingency fund to finance unplanned expenditures, interests on borrowings and capital investments. This fund may not exceed 30% of the total budgeted revenue of the municipality for the given fiscal year. Furthermore, municipal budgets must be public and accessible. After adoption of the municipal budget by the municipal council and the regional governor, the mayor must submit the budget to the field treasury of the Ministry of Finance and Economy. The implementation of the municipal budget is overseen by the municipal council and/or a specialised audit company, as well as the National Assembly and the central government.

**DEBT.** Armenian local governments may borrow for investment purposes, although with prior approval of a designated national agency. Borrowed amounts plus debt servicing costs cannot exceed 20% of the amounts allocated for capital expenditure. Municipalities can proceed to a new borrowing only after paying back previous loans. Yet in practice, only a few communities have capacities to borrow. To cover their deficit, municipal governments can borrow from the central government funds. The law on Municipal Bonds is under consideration by the National Assembly. This law will regulate procedures regarding the issuing and allocation of municipal bonds.

In 2016, municipalities received no loans from external sources. Similarly, in the reported period, no rules of procedure regarding the issuing and allocation of municipal bonds were adopted and municipalities have not issued any bonds meanwhile.



Lead responsible: UCLG  
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**Socio-economic indicators:** World Bank // UNDP // UN DESA // ILO.

**Fiscal data:** Finance Statistics of Armenia 2017.

**Other sources of information:** Communities Finance Officers Association (2018) Local Self-Government in Armenia Report (2017) // OECD, UCLG (2016). Sub-national Governments around the world: Structure and finance // Statistical Committee of Armenia (2016) The Demographic Handbook of Armenia // Congress of Regional and Local Authorities (2017) Information report on the elections to the Council of Elders of the City of Yerevan, Armenia (14 May 2017) // The Government of the Republic of Armenia (2017) Government Programme 2017-2022 // International Monetary Fund (2019). IMF Country Report No. 19/33 of The Republic of Armenia.