

ARMENIA

UNITARY COUNTRY

EURO-ASIA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME Local currency - Armenian Dram (AMD)

POPULATION AND GEOGRAPHY

AREA: **29 740** km²

POPULATION: **2.989** million inhabitants (2014),
an increase of 0,4% per year (2010-2014)

DENSITY: **101** inhabitants/km²

URBAN POPULATION: **62.7%** of national population

CAPITAL CITY: **Yerevan** (35.1% of national population)

Sources: IMF, World Bank Development Indicators, UNDP-HDI,ILO

ECONOMIC DATA

GDP: **24.3** billion (current PPP international dollars)
i.e. 8 115 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.5 %** (2014 vs 2013)

UNEMPLOYMENT RATE: **16.2 %** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **404** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.733** (high), rank 85

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
915 COMMUNITIES ("HAMAYNQ") (49 CITIES AND 866 VILLAGES) AVERAGE MUNICIPAL SIZE: 3 266 INHABITANTS	-	-	915

MAIN FEATURES OF TERRITORIAL ORGANISATION. Armenia is a unitary country with a one-tier decentralization system, as the 10 regions are deconcentrated entities under the authority of central government. Local governments were established in 1996. The only level of devolution consists of 915 communities divided into 49 cities (urban centers) and 866 villages (rural settlements). The Capital-city has switched from region to specific community-status in 2015, and is made of 12 districts. Armenia ratified the European Charter on Local Self Government in 2001, and since then the country has made significant efforts to implement the provisions of the Charter. Constitutional changes has been made in 2005 and followed up by the adoption of the Law on Local Self-Government of Yerevan in 2008. Since 2013 the Ministry of Territorial Administration has initiated Community Enlargement process, aiming to promote mergers of small municipalities, and to minimize disparities between the regions of Armenia and the capital Yerevan.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Functions of local self-government bodies are stipulated by the "Law on local self-government" and divided into own competences (divided into mandatory and optional ones) and delegated competences. Some state functions can also be transferred as delegated competences. Although legislation provides that municipalities are responsible for matters that are of a local interest, there is no clear definition of local authorities' competences and delegated powers. Most local services are managed by the central level. Despite the great variety of communities' sizes, population and levels of development they all have the same responsibilities, resulting for many small-size municipalities in limited service delivery capacity.

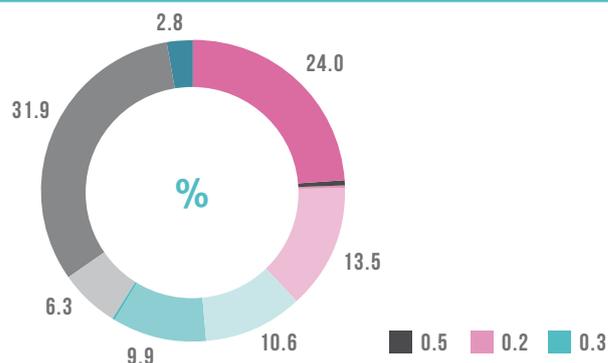
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2012)	2.1%	8.9%	100%
CURRENT EXPENDITURE	1.9%	-	87.2%
STAFF EXPENDITURE	0.4%	8.3%	18.8%
INVESTMENT	0.3%	8.4%	12.3%

The share of local expenditures in the public expenditures reach 8.9% and 2.14% of the national GDP, way below the average of European Union countries. After a slow increase since the establishment of Armenian local governments systems, these ratio are stables since 2011.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



The share of municipal budgets in the expenses of the consolidated budget and GDP remains very small in 2012, and a large part of these expenditures are dedicated to municipalities operating budgets. The main sectors of expenditures are education (32%), general public services (24%), economic affairs (14%), environment (11%) and housing (9.9%).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2012)	2.1%	9.2%	100%
TAX REVENUE	0.4%	2.6%	21%
GRANTS AND SUBSIDIES	1.1%	-	51%
OTHER REVENUES	0.6%	-	28%

Local revenues are made of taxes, state duties, charges, transfers and other revenues such as land and property rent, but local governments do not have local fiscal autonomy. The share of local revenue compared to the national GDP remains very low, Armenian municipalities have limited resources and relies mostly on intergovernmental transfers, reaching half of local total revenues, which are not clearly regulated. Moreover, it must be noted that the capital-city accounts for more than half of the total local revenues.

TAX REVENUE. Municipalities main sources of local own revenues are property taxes and land taxes since the 2010 reform of tax law. Taxes rates are determined by the central government. Significant share of own revenues is attributed to property taxes from buildings, structures and vehicles. Local governments receive a share of environmental mandatory payments from the State. According to the law, local governments may also perceive shares from income tax and profit tax, but this is not yet effective in practice. Local self-government units can set tax reliefs for land tax and property tax up to 10% of planned local budget revenues of the year, including tax allowances and tax credits.

GRANTS AND SUBSIDIES. Around half of municipalities revenues are constituted by grants. The latter are divided between: equalization grants designed to compensate the new charges and expenditures implied by the devolution of powers ; targeted State subventions, mainly to the capital city Yerevan ; capital grants. Calculation criteria determining the equalisation mechanisms is not regularly reviewed, and does not comprise the real needs and expenditures specificities of municipalities.

OTHER REVENUES. Local charges and fees and other revenues make a large part of local revenues, as set and regulated by the separate law on local charges and fees. Local governments perceive user charges, from both delegated services (civic acts, notary services) and local services (charges for local transportation, construction, entertainment and lottery, etc). They also perceive local fees, and revenues from local property leasing. Within a given range, local community councils take the final decision of setting the charge/fee rates.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2012)	-	-

Armenian local governments may borrow only with prior approval of the state designated agency (Ministry of Territorial Administration and Emergency Situations). Credit expenditures cannot exceed 20% of total local budget. Communities can borrow only after paying back the previous loan and revenues can be allocated to the capital budget only. Yet, in practice, only a few communities have capacities to borrow, and the environment is not favorable for Armenian municipalities to issue bonds. On the other hand, local authorities may borrow from another municipality respectively when agreed with each other and state designated agency, but these loans are to be allocated to current expenditures.

A joint- study of:



Sources: IMF-GFS • Performance report of the Ministry of Territorial Administration, on www.mta.gov.am (2011) • Ministry of finance: <http://minfin.am/index.php?cat=206&lang=1> • Community finance officers association of Armenia • Congress of Local and Regional Authorities • Council of Europe (2014), 26th Session Chamber of Local Authorities • Council of Europe (2015), Strengthening institutional frameworks for local governance, LFB: Armenia