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**Central Government's Expenditures for Local
Governments in Armenia**

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Abstract

Currently, Government of Armenia undertakes an ambitious territorial administrative reform with a far-reaching goal to decentralize more power to consolidated local governments. The aim of this specific study is to find out about the problems connected with the decentralization policy and try to suggest the ways of improving the policy. The research uses quantitative and qualitative methods. Data collection instruments involve secondary and primary data. Specifically, it includes the review of the Reports on RA Budget Implementation from 2010 to 2014, the RA State Budget for 2015, the Law of the Local Self-Government and in-depth interviews. The study concentrates specifically on the budget allocations for communities spent through line ministries and governors' offices. The study found that aside from intergovernmental transfers, the central government spends funds on the projects in communities that are not strictly under its discretion. The paper tries to find whether this practice is effective in terms of cost and citizen participation in selection of projects. The main conclusion is that state budget funding for local government purposes is an issue in Armenia that needs to be addressed. Furthermore, it gives hints of how to make central government financial support to local governments effective.

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Introduction

After the break-up of the Soviet Union and declaration of independence Armenia started to build a new system of governance based on the principles of liberal democracy. This state-building entailed a series of fundamental reforms in governance and establishment of democratic institutions, including also local self-government. The cornerstone of a modern democratic local government, the first Law on Local Self-Government in independent Armenia, was passed in 1996, after the new territorial administrative division was established in 1995. Since then Armenian government has made certain steps to proceed along decentralization path. One of the important steps was bringing the local government system in compliance with the European Charter of Local Self-government. Armenia ratified the Charter in 2002.

Decentralization is among the requirements of the European Council towards bringing Armenian legislation in compliance with the European Charter of Local Self-Governance (CoE 2014). Decentralization implies devolving more powers to communities. The real goal of decentralization is the efficient delivery of public services at the lower level of government. The principle of subsidiarity is the core idea of decentralization. The principle assumes that each level of government knows better what the most pressing needs of its communities are.

However, the current system of local government in Armenia cannot undergo further decentralization, without fundamental reforms, both in terms of size (jurisdiction) and functions of local government units. Large numbers of fragmented and financially weak municipalities are obstacles in reaching this aim. The analysis of the situation in local self-

government system let us assume that vast majority of communities are not able to execute their powers vested in them by legislation. Moreover, they will not be able to execute additional powers: even if such are devolved them by central government.

However, it should be considered that there is a misbalance between abilities of various local governments and a few of them are quite ready for the implementation of the powers, such as social service that is now under the discretion of the central government (RA Government 2013). There are 2 suggested ways to solve this issue:

- The consolidation of communities by reorganizing the territorial-administrative system. It means the consolidation (amalgamation) of communities, which will bring more benefits.
- The introduction of intercommunity unions, which will let communities to collaborate, thus sharing the experience of solving different and complicated issues.

There were four waves of decentralization in Armenia:

1. With the adoption of the Constitution, Armenia initiated the policy of decentralization that lasted from 1995-2002
2. With the adoption of the new Law on Local Self-Government and the ratification of the European Charter of Local Self-Governance in 2002, Armenia initiated the second wave of decentralization that lasted till 2005 when the amendments to the Constitution were adopted
3. Third wave of decentralization lasted from 2005 to 2009. During this period of time, Armenia implemented new constitutional provisions and adopted the Law on Local Self-Government in Yerevan.
4. Finally, the fourth period of decentralization and the current one is closely connected with the adoption of Concept Paper on Community Consolidation and Formation of

Inter-Community Unions (Protocol decision N44, dated November 10, 2011) and Strategic Approaches for the Further Development of Local Self-Government and the Decentralization of Power (2012), which paved the way for territorial administrative and local government reform in Armenia (TARA).

TARA implementation started in 2013. Government of Armenia announced community amalgamation in 14 pilot clusters. By the end of 2015, all necessary legal changes were adopted by the National Assembly (NA) giving the green light for pilots in Dilijan, Tumanyan and Tatev (CoE 2015). In May 2015 local referendum on consolidation was held in these communities with positive outcome. In February 2016 local governments in these consolidated communities were elected. Government of Armenia plans to complete 11 other pilot projects till the end of 2016.

Consolidation of communities and territorial administrative reform is not an end goal but just means to further decentralization. However, political decentralization cannot succeed without fiscal decentralization. Therefore, provision of additional powers to consolidated communities will need commensurate financial resources. These additional resources can come from different sources: own source revenues and intergovernmental transfers.

Own source revenues are the funds that are raised directly by local governments independently through taxes, fees, charges assigned to them legislatively. These revenues are collected especially from taxes. The local government can use these specific funds for meeting the needs of the community. The local own resources in Armenia consist of local taxes, duties and non-tax revenues (RA Government 2002).

Intergovernmental transfers are the main sub-national government funding in most developing and transition countries (Wildasin 2010). These transfers are of key importance for efficiency and equity of local service provision and financial wellbeing of subnational

governments (World Bank 2001). The system of intergovernmental finance (IGF) was introduced in Armenia since 1998, two years after local government system was established. The intergovernmental transfers usually comprise about 4% (but not less) of the consolidated budget of the Republic of Armenia. The transfers are usually done in the forms of subsidies and subventions. Subsidies are mostly given for the operational expenditures and subventions for capital ones (Drampian 2004).

Apart from subsidies and subventions, Government of Armenia expends significant amount of funds eventually intended for local governments through the line ministries, such as ministries of health, education, urban development, culture etc. (Tumanyan 2005). It creates undesired consequences for the local government. Firstly, it violates the principles of correspondence and subsidiarity. Secondly, it diminishes the local government's autonomy. The above-mentioned principles are mostly focused on the powers that should be executed by the appropriate level of government. In case of correspondence, if it is a matter of one local government and it does not spillover to another one, then it is under the responsibility of that specific local government and not the central one. However, if there is some spillover it can be raised to the central government (Mikesell 2003). The subsidiarity is mostly concerned with the issue that the local governments know better what people of their community want. And in case of central government's interference, it becomes some kind of a wasting of resources (Davoodi and Zou 1998).

This research aims to find out:

- The amount of national budget expenditures substituting local governments responsibilities in the last 6 years
- How effective are expenditures made through targeted line ministries and regional governors' offices for local government needs

- And, finally, the paper will suggest more effective way of allocating funds to local governments based on the principle of subsidiarity

Literature Review

Intergovernmental transfers are the one of the main types of fiscal interrelations between the levels of government. In some countries it is a relation between federal, state and local governments like in the United States and for other countries between the central and local ones (Mikesell 2003). So, what is an intergovernmental transfer actually? Why is it used?

Intergovernmental transfers mostly attempt to equalize the jurisdiction of tax capacities in subnational governments (Smart 1998). In other words, intergovernmental transfers are fund transfers from one level of the government to another one. They can be used to fund general operations of the government or for the specific purposes (Bergvall et al. 2006).

Apart from intergovernmental transfers, there are also funds that are executed by the central government for local governments without their participation. The funds are specifically used for implementing projects in communities. These projects are mostly done for the maintenance of national interests (Bergvall et al. 2006). This experience is used in Armenia, Brazil, Russia, Ukraine, Poland, Albania and Colombia. However, it is not effective because it violates the principle of subsidiarity and overall the principles of fiscal decentralization (Tumanyan 2005).

The two principles must be considered when talking about the intergovernmental transfers: principle of correspondence and subsidiarity. In this paper much attention will be given to the latter one.

The principle of subsidiarity assumes making public decisions at the level of the government that is closest to the people for whom the decisions are made. It is clear that local governments know better than the central government what exactly the people of their community want and desire (Boadway and Shah 2007).

The reviewed literature shows that there are different approaches on the autonomy of the local governments. Some of the authors assume that the local governments should exercise their authority (McMaster 1991). Others have a different point of view they believe that no matter how much power the local government has, the central one has to have a control on it (Yilmaz, Vaillancourt, and Dafflon 2012). The other group has completely different thoughts concerning this issue, they believe that the best way is to have an interrelation between the two levels (Mikesell 2003).

There are many scholars who think that the local government system has to be decentralized. It must have an opportunity to enact innovative policies without any obstacles. However, most of the developing countries have this trouble. The local government system is centralized and thus it meets a lot of obstacles. There are four types of difficulties: legal and administrative, financial, lack of local government staff ability and lack of democratic control by citizens. The financial difficulties mainly focus on the transfers that are done by the central government in communities on such projects that are not under the discretion of that level of government. Thus, the funds should be directly transferred to the local governments. This will give them independence and the opportunity to be more decentralized (Jun and Wright 1996; Bahl 2000; Adams and Maslove 2009).

According to Davoodi and Zou, the decentralization is also helping to improve the life of the people who live in communities. It makes a country more democratic with powers to make alterations and provide with public services. In spite of their limited financial abilities, local

governments do try to implement their allocated powers. One of the decisive prerequisites for establishment of local self-government is the fiscal decentralization. They also mention that local governments are legislatively given the power to have their budgets and freely manage their financial resources. Sometimes, the central governments spend funds on some capital programs in communities, but the community has nothing to do with these expenditures (Davoodi and Zou 1998). This goes against the democratic principles and especially the principle of subsidiarity.

In contrast, other scholars assume that the central government should have a strict control on the local governments. Especially, they are focusing on the issue of debt. The central government should have a right to intervene in case of subnational debt and not leave to the management of the local government. They believe that this will be beneficial for the local governments too (Fukusaku and de Mello 1999).

Of course, it is a widely known fact that the national constitution allocates taxing powers to both levels of governments but in reality it is mostly concentrated in the hands of national government. The central government has powers of import and export duties and it mainly collects the biggest share of the broad-base taxes (VAT, income taxes etc.). These authors are mainly focusing on the fact that there is no need to have a decentralized government because it will not be advantageous for the overall country. They are more prone to believe that all the levels of the government must be under the strong control because only in this case the country can develop (Prud'Homme 1995).

Completely independent operation of both governments undoubtedly will create some unwanted results. The main solution is to have interrelationship between two governments. Too much control will not let the local government to provide desired services, and without any control the national interests will be violated (Mikesell 2003).

The central government is responsible for operation of the local ones but it must not limit its ability to act. The limitations can bring to the unacceptable results such as lack of services that are desired by the people who live there. The element of subsidiarity must be taken into consideration here. The principle is that the responsibility of government for a function should be at the lowest level of government that can deliver the function efficiently (Yilmaz, Beris, and Serrano-Berthet 2008).

However, some control must be exercised on the local governments. The central government is responsible for the overall interests of the state. It is the sole keeper of the national legislation and the development of the country. If a state needs more educational programs to be developed then the central government must make sure that all the local governments stick to this program. In this case, it does not matter whether it is necessary for local governments to have one additional school or not if it is for the benefit of the whole country (Yilmaz, Beris, and Serrano-Berthet 2008).

Fiscal Decentralization by Countries: Brazil, Colombia, Russia, Ukraine, Albania and Poland

Decentralization became trendy in many countries. The majority of countries passed laws of further decentralization. The main aim of this policy is to reduce the responsibilities of the central government and to give a part of them to the local ones. This decision was made taking into account the above mentioned principles of correspondence and subsidiarity. The experience of many countries showed that acquisition of some responsibilities by the low levels of government is much more effective for the communities. Local governments are more prone to make decisions that are beneficial for the people of their communities and for the overall development.

However, granting some responsibilities does not make the local governments totally independent from the central one. The independence can be assured in case of fiscal decentralization. Many countries passed different reforms in order to have fiscal decentralization. Every year central governments grant some part of the budget to the local ones. This is done to help local governments to make their own decisions and spend money in the way they want to. For example, the money can be spent for the implementation of projects that aim to develop the communities. However, the similar projects can be financed not by the intergovernmental transfers, but by the other sources. Sometimes, central governments can implement projects in communities without directly granting funds to the local ones. They grant these funds to the line ministries or governors' offices and they implement projects in communities without any participation of local governments.

Brazil, Colombia, Russia, Ukraine, Albania and Poland had such experience. However, it turned out to be ineffective for the development of their communities. Some projects were totally inappropriate and unnecessary. The governments of these countries changed their policies and decided to include these funds into the intergovernmental transfers. They found out that spending funds on the projects without the participation of local governments was totally pointless and ineffective.

Brazil

In the sixties Brazil went thorough reform. During this time Brazil was under authoritarian rule. The government was extremely centralized. There was no such thing as fiscal decentralization. The main role that local governments were playing was the provision of basic services (Varsano and Mora 2001).

The "Brazilian miracle" then created a state with the government that was financed by well-organized tax system. However, the centralized nature of the government did not extinct. The

main change happened in 1988 when Brazil adopted new Constitution. The government became more decentralized, now local governments were able to make decisions on their own. Revenue decentralization was promoted (Varsano and Mora 2001).

Intergovernmental relations started to develop as the levels of governments gained some authority. The Federal government transferred money to the local ones for the implementation of certain projects. The education was not developed at that time in Brazil, so the main task of the local governments was connected with the development of education (Afonso and De Mello 2000).

However, the federal government spent some funds on the communities besides the intergovernmental transfers. These funds were not transferred directly to the local governments. This experience created unwanted consequences, because it became a trigger for the unnecessary spending. The central government started to waste money on the things that were not of utmost importance for the communities. This raised serious problems for the budget of the country. The government decided to include this money into the intergovernmental transfers and by that raised the effectiveness of expenditures (Afonso and De Mello 2000).

Nowadays, Brazil is considered to be a highly decentralized country with 27 states and 5559 municipalities (Rezende 2015).

Colombia

The fiscal decentralization in Colombia was a troublesome issue till the nineties. Public finances were in the worst conditions at that time (Alesina, Carrasquilla, and Echevarría 2005).

The main problem was again connected with the transfers that were not given directly to the local governments. To narrow down, the problem contained unnecessary spending and unwanted projects. The central government spent funds on the projects that were not needed by the community and it did not foster the community development. This problem led to the former one which was unnecessary spending. If the project was of no use then funds were spent ineffectively (Alesina, Carrasquilla, and Echevarría 2005).

In 1999, serious reforms were adopted in Colombia. The amount of intergovernmental transfers was significantly increased. The transfers to regions increased to approximately 27%. They managed to increase this number by just including the expenditures outside of the intergovernmental transfers into the intergovernmental transfers (Bird 2012).

In 2002 the amount of intergovernmental transfers increased more. It reached from 27% to 46%. Of course, Colombia is not considered to be a totally decentralized country. However, the reforms helped to avoid unnecessary spending and unwanted projects (Bird 2012).

Russia

Since the collapse of the Soviet Union, Russia has undertaken several reforms for achieving more decentralized and participatory fiscal system. However, it is far from being totally decentralized country, because the Federal government has an enormous control on the local ones (Norris, Martinez-Vazquez, and Norregaard 2000).

The central government of Russia makes expenditures that are not included in the intergovernmental transfers. These expenditures are particularly made for the development of education, health care and agriculture. In other words, the central government implements projects in communities without their participation. This experience has its shortcomings because it increases the level of unnecessary spending and does not contribute to the development of the communities. The main reason of its ineffectiveness is that these expenditures are not compatible with community needs (Freinkman and Plekhanov 2009).

Ukraine

The Ukraine has undergone significant changes. The election of a new president and establishment of a new government and the integration of the country into the European community made the country ready for the democratic reforms. These changes established strong indications that the government and president wish to implement fiscal decentralization reforms that were designed for ensuring economic stability and institutional development (Arato 2015).

However, being a country with hierarchical type of government for such a long time was a major hindrance for the fiscal decentralization. The patronal system is still working in the country and the central government has an enormous control on every sphere including fiscal issues (Thirsk 2000).

The main problem in fiscal area is connected with the unnecessary expenditures done by the central government. The Ukrainian government does not really understand what the local ones really want and their projects mostly do not meet the needs of communities (Arato 2015).

Albania

Like many other governments, Albania also undertook the decentralization policy beginning from 2000. At that time the transfers between the central government and local ones were obscure (Schroeder 2007).

However, starting from 2002 Albania implemented unconditional transfer system which transferred substantial funds to communities. The transfer was designed so as to take into consideration the transition from centralized system to a decentralized one. Of course, there were certain gaps that needed to be resolved. One of the gaps was the discouraging of local governments from their own source revenues. The other one was the fact that financial equalization was still unstable and obscure (Schroeder 2007).

Despite, the problems that existed and the ones that rose after the transfer program, Albania made an enormous step forward in decentralizing its government.

Poland

Beginning from 1990, Poland initiated reform after reform, however all failed. Poland was at the crossroad, GDP fell and the danger of hyperinflation was again there. In 1992 the reform was passed that mostly concentrated on the decentralization. The government stressed the importance of a decentralized government. This reform helped Poland to escape the above-mentioned dangers (Scott and Amenuvegbe 1992).

The local governments now were account for 11% of total public expenditure. The expenditure was financed by three channels: 50% from local government's own source revenues, 25% from shared national taxes and 25% from intergovernmental transfers (mostly block grants) (Scott and Amenuvegbe 1992).

Methodology

The paper is aiming to study the volume and structure of expenditures of central government for the local government that are not transferred directly to them and are not included in the intergovernmental transfers. The Armenian government usually does this through governors' offices and line ministries. The objects of this research will be the ministries of Education and Science, Health, Agriculture, Culture, Territorial Administration and Urban Development. These specific ministries are constantly making expenditures for the communities on such projects that are not under their discretion.

The paper will focus on the following research questions and hypotheses:

RQ1: How much does the Government of Armenia spend for local governments through targeted line ministries?

H1: Government of Armenia disburses significant amount of funds eventually intended for local governments through targeted line ministries.

The significance of the expenditures will be measured based on the information that the intergovernmental transfers comprise 4% of the consolidated budget. So, if these expenditures are more than 1% then they are considered to be significant.

Sub-questions of the first research question are the following:

RQ1-1: What is the nature of these expenditures: capital or operating?

RQ1-2: What is the ratio between expenditures made through the line ministries and intergovernmental transfers?

RQ2: How to make expenditures done centrally for local governments more effective?

H2: The direct allocation of funds to the local government is more effective way of spending.

The ineffectiveness of the current mechanism of spending will be measured depending on the 2 main components: the cost and the type of the projects implemented through state funding.

The cost assumes learning how much the local government typically spends for a project and to compare it with the amount that central government spends for the similar project.

The type assumes the type of the project that is going to be implemented in the community by the central government whether it is needed in the community or not. If it is not needed or not top priority for the community development then it can be considered as an ineffective expenditure.

Data collection instruments

The research will be based on the quantitative data mainly focused on the review of the Reports on the Implementation of RA State budgets from 2010 to 2014, 2015 RA State Budget and in-depth interviews with the representatives of the financial departments of the targeted ministries. Furthermore, the paper will proceed with gathering of qualitative data conducting interviews with experts, representatives of ministries and officials of National Assembly. Interviews and RA budget review will be used to learn about the volumes of government expenditures on behalf of local governments and assess effectiveness of such outlays. The documents such as the state budget of Armenia from 2010 to 2015 years, RA Constitution, the Law on Local Self-Government and the Law on Administrative-Territorial Division will be subject to the comparison, more specifically the laws will be used to find out what responsibilities are under the discretion of local governments, which are not implemented directly by the local governments. Eleven in-depth interviews will be conducted. All interviews will be semi-structured and last approximately 30 minutes. Six respondents will be the representatives of the financial departments of the Ministry of

Education and Science, Health, Culture, Agriculture, Urban Development and Territorial Administration. Also, two officials from the National Assembly and one from the Ministry of Finance will be interviewed. Moreover, the expert interviews will be conducted with two representatives of Community Finance Officers Association. In-depth interviews will help to find out why ministries spend funds on the community projects that are not under their discretion. Interviews will also reveal their attitudes towards these expenditures and why specifically these funds cannot be included in the intergovernmental transfers. Afterwards, the information will be analyzed and the recommendations will be given based on the principle of subsidiarity.

Findings

Budget Findings

As it was mentioned previously there are certain funds spent by the ministries in communities for the purposes that are under the competence of local governments according to the RA Local Self-Government Law. This paper focuses on the spending done by the Ministries of Education and Science, Culture, Health, Agriculture, Territorial Administration and Urban Development. Beginning from 2010 to 2015 RA government spent funds through the above-mentioned ministries. Below the expenditures are presented more in detail and finally the overall summary table of spending.

The Ministry of Education and Science

From 2010 to 2015 RA government spent significant amount of funds through the Ministry of Education and Science for implementing certain projects in communities. The mentioned projects should not be under the discretion of the central government. According to the Article 41 of the RA Local Self-Government Law, the trainings of the staff, the renovation

and construction of kindergartens and Art, Music and Sports schools are under the discretion of the respective community (RA Government 2002).

Here are the tables of the expenditures that the Ministry of Education and Science made:

Table 1. Budget Execution 2010 (Annual Report on RA State Budget Execution 2010)

Place	Type of Project	Expenditure
10 Marz Representatives	Methodical work in Music and Art Schools	48.1 mln. AMD
Kapan	Sports school	6.4 mln. AMD

Table 1.1. Budget Execution 2011(Annual Report on RA State Budget Execution 2011)

Place	Type of project	Expenditure
Aragatsotn, Lori and Ararat Marzes	Kindergarten funding (preschool education)	88.4 mln. AMD
Teachers of kindergartens in Marzes	Funding for Training	5.6 mln. AMD

Table 1.2. Budget Execution 2012(Annual Report on RA State Budget Execution 2012)

Place	Type of project	Expenditure
Shirak, Armavir, Gekharkunik, Syuniq, Vayots Dzor, Lori, Ararat, Aragatsotn	Kindergarten construction (preschool education)	151.6 mln. AMD

Table 1.3. Budget Execution 2013(Annual Report on RA State Budget Execution 2013)

Place	Type of project	Expenditure
Shirak, Armavir,Gekharkunik, Syuniq, Vayots Dzor, Lori, Ararat, Aragatsoth and Tavush Marz	Preschool education project (kindergarten funding)	276.8 mln. AMD

Table 1.4. Budget Execution 2014 (Annual Report on RA State Budget Execution 2014)

Place	Type of Project	Expenditure
Shirak, Armavir,Gekharkunik, Syuniq, Vayots Dzor, Lori, Ararat, Aragatsoth and Tavush Marz+ Kotayq Marz	Preschool education (kindergarten)	481.5 mln AMD

Table 1.5. Budget Execution 2015 (First Quarter Report on RA State Budget Execution 2015)

Place	Type of Project	Expenditure
Communities	Preschool Education	169.5 mln AMD

Ministry of Health

From 2010 to 2015 RA government spent significant amount of funds through the Ministry of Health for implementing certain projects in communities. The mentioned projects should not be under the discretion of the central government. According to the Article 42 of the RA Local Self-Government Law, the mayor arranges and manages operation of health facilities

such as medical posts and ambulatories in respective communities. And this is a mandatory function.

Here are the tables of expenditures that the Ministry of Health made:

Table 2. Budget Execution 2010

Place	Type of Project	Expenditure
Shirak, Lori	Medical posts	12.9 mln AMD

Table 2.1. Budget execution 2011

Place	Type of project	Expenditure
Aygedzor	Ambulatory renovation	15.2 mln AMD
Shirak, lori, Armavir	Medical Posts	16.3 mln AMD

Table 2.2. Budget Execution 2012

Place	Type of Project	Expenditure
Haghartsin, Aygedzor, Mastara, Bambakashat	Renovation of ambulatories	38.3 mln AMD
Shirak, Lori, Armavir, Syunik	Medical Posts	19.9 mln AMD

Table 2.3. Budget Execution 2013

Place	Type of Project	Expenditure
Shirak, Lori, Armavir, Syunik, Vayots Dzor	Medical Posts	22.3 mln. AMD

Table 2.4. Budget Execution 2014

Place	Type of Project	Expenditure
6 villages	1 (Renovation of ambulatories), 5 (construction of ambulatories)	201.5 mln AMD

Table 2.5. Budget Execution 2015

Type of Projects	Expenditure
Mecial Posts	34.2 mln AMD

Ministry of Agriculture

From 2010 to 2015 Government of Armenia spent significant amount of funds through the Ministry of Agriculture for implementing community projects. The mentioned projects should not be under the discretion of the central government. According to the Article 44 and 44.1 of the RA Local Self-Government Law, the construction, renovation and operation of irrigation networks, the provision of veterinary services and plant protection are functions of respective communities.

Here are the tables of the expenditures that the Ministry of Agriculture made:

Table 3. Budget Execution 2010

Place	Type of Project	Expenditure
Armavir, Artashat, Storin Hrazdan, Shirak and Talin	Capital renovation of irrigation networks, in one community intercommunity road construction	493.5 mln AMD
Meghri	Veterinary Services	15.7 mln AMD
10 communities	Plant protection	68.6 mln AMD

Table 3.1. Budget Execution 2011

Place	Type of project	Expenditure
Arzni-Shamiram, Shirak, Talin, Artashat, Armavir	Renovation of irrigation networks	87.5 mln AMD
Communities (not specified)	Weed and pest control	99.7 mln AMD
	Veterinary Services	190.9 mln AMD

Table 3.2. Budget Execution 2012

Place	Type of Project	Expenditure
Aragatsotn, Kotayq, Shirak, Lori, Ararat, Armavir, Gegharkunik	Renovation of irrigation networks	1,200 mln AMD
Communities (not specified)	Plant protection	23.7 mln AMD
	Veterinary services	63.2 mln AMD

Table 3.3. Budget Execution 2013

Place	Type of Project	Expenditure
Aragatsotn, Vayots Dzor, Kotayq, Syunik	Plant protection	95 mln AMD
Mkhchyan, Dvin, Shamiram, Storin Hrazdan, Shirak, Nalband, Bajanarar+ 19 communities (not specified)	Irrigation networks funding and renovation of irrigation networks	186.9 mln AMD
Communities (not specified)	Veterinary services	64.4 mln AMD

Table 3.4. Budget Execution 2014

Place	Type of Project	Expenditure
Armavir, Noyakert, Qaxcrashen, Geghardalich	Irrigation networks renovation	90 mln AMD
Aragatsotn, Lori, Shirak, Tavush, gegharkunik, Syunik +23 communities	Veterinary services	100.5 mln AMD
172 communities	Plant protection	62.3 mln AMD

Table 3.5. Budget Execution 2015

Type of Project	Expenditure
155 communities (Plant protection)	64.7 mln AMD

Ministry of Urban Development

From 2010 to 2015 RA government spent significant amount of funds through the Ministry of Urban Development for implementing certain projects in communities. The mentioned projects should not be under the discretion of the central government. According to the Article 37 of the RA Local Self-Government Law, the construction and renovation of residential houses and buildings are under the discretion of respective communities. Especially, it refers to the maintenance of those multi-apartment buildings which are not ruled by condominiums or by the management body of multi-apartment building. According to 15 and 16 items of the Article 37 these kinds of buildings are under the management of respective communities.

Here are the tables of the expenditures that the Ministry of Urban Development made:

Table 4. Budget Execution 2010

Place	Type of Project	Expenditure
21 communities	Renovation of residential buildings	5,900 mln AMD

Table 4.1. Budget Execution 2011

Place	Type of Project	Expenditure
52 communities	Renovation of residential buildings	734.2 mln AMD

Table 4.2. Budget Execution 2012

Place	Type of Project	Expenditure
16 communities	Renovation of residential buildings	28 mln AMD

Ministry of Culture

From 2010 to 2015 RA government spent significant amount of funds through the Ministry of Culture for implementing certain projects in communities. The mentioned projects should not be under the discretion of the central government. According to the Article 41 of the RA Local Self-Government Law, the renovation and operation of community libraries, community centers and clubs and other entertainment facilities are under the discretion of respective communities. However, the law says nothing about construction of these facilities.

Here are the tables of the expenditures that the Ministry of Culture made:

Table 5. Budget Execution 2010

Place	Type of Projects	Expenditure
10 communities (Culture Houses)	Renovation	233.7 mln AMD
Stepanavan, Kotayq, Kapan, Yeghegnadzor (Culture Houses and Clubs)	Renovation	29.3 mln AMD

Table 5.1. Budget Execution 2011

Place	Type of Projects	Expenditure
Armavir, Gegharkunik, Kotayq, Shirak and Syunik	Renovation of Community libraries	10.9 mln AMD
11 Culture Houses in Marzes	Renovation	408.8 mln AMD
Clubs in Stepanavan, Kapan, Yeghegnadzor and Kotayq	Renovation	34.5 mln AMD

Table 5.2. Budget Execution 2012

Place	Type of Projects	Expenditure
Clubs in Stepanavan, Kapan, Kotayq, Yeghegnadzor	Renovation, technical assistance	34.5 mln AMD

Table 5.3. Budget Execution 2013

Place	Type of Projects	Expenditure
Clubs in Stepanavan, Kapan, Kotayq, Yeghegnadzor	Renovation, technical assistance	35.8 mln AMD

Table 5.4. Budget Execution 2014

Place	Type of Projects	Expenditure
Clubs in Stepanavan, Kapan, Kotayq, Yeghegnadzor	Renovation, Technical assistance	40.2 mln AMD

Table 5.5. Budget Execution 2015

Type of Project	Expenditure
Clubs and Community centers	8.3 mln AMD

Ministry of Territorial Administration

From 2010 to 2015 RA government spent significant amount of funds through the Ministry of Territorial Administration for implementing certain projects in communities. The spending done by the Ministry of Territorial Administration in the communities are mainly so called “priority projects”. The funding is from the budget reserve fund and is done through government decrees and especially by governors’ offices.

Here are the tables of the expenditures:

Table 6. Funds Execution 2010 (RA Ministry of Territorial Administration 2010)

Place	Type of project	Expenditure
Storin Hrazdan, Arevashat, Aygehovit, Ayrum, Geghadir, Brnakot	Projects for the urgent solution	0.24 mln AMD

Table 6.1. Funds Execution 2011 (RA Ministry of Territorial Administration 2011)

Place	Type of Project	Expenditure
Metsamor, Ayrum, Aparan, Aratashat, Armavir, Verin, Getashen	Projects for urgent solution (Irrigation networks)	1.3 mln AMD

Table 6.2. Funds Execution 2012 (RA Ministry of Territorial Administration 2012)

Type of project	Expenditure
Projects for urgent solution	17,400 mln AMD (Reserve fund)

Table 6.3. Funds Execution 2013 (RA Ministry of Territorial Administration 2013)

Type of projects	Expenditure
Projects for urgent solution	9,200 mln AMD (Reserve Fund)

Table 6.4. Funds Execution 2014 (RA Ministry of Territorial Administration 2014)

Type of projects	Expenditure
Projects for urgent solution	6,000 mln AMD (Reserve Fund)

Table 6.5. Funds Execution 2015 (RA Ministry of Territorial Administration and Emergency Situations 2015)

Type of projects	Expenditure
Projects for urgent solution	4,000 mln AMD (reserve fund)

Summary Table of Expenditure

To sum up all the expenditures done in 6 years, here is the table with expenditure done through the ministries that are not under their discretion. The intergovernmental transfers are provided to see what the ration of these specific expenditure and intergovernmental transfers is.

Table 7. Summary Table (in Millions)

Ministries	2010	2011	2012	2013	2014	2015
Science and Education	54.5	94	151.6	276.8	481.5	169.5
Health	12.9	31.5	58.2	22.3	201.5	34.2
Agriculture	577.8	378.1	1,200	346.3	252.8	64.7
Urban Development	5,900	734.2	28.1	-	-	-
Culture	263	454.2	34.5	35.8	40.2	8.3
Territorial Administration	0.24	1.3	17,400	9,200	6,000	5,000
Total	6,808	1,693	18,872	9,881	6,976	5,277
Total Budget (%)	(0.8%)	(0.2%)	(2.1%)	(1%)	(0.6%)	(0.5%)
Intergovernmental Transfers	32,700	32,400	32,400	36,200	41,010	46,700

From the tables presented above it is clearly seen that the RA Government spent some amount of funds on the community projects during last 6 years. These funds were spent through ministries, specifically: The Ministry of Health, Education and Science, Agriculture, Urban Development, Territorial Administration and Culture. And according to the Law of Local Self-Government of the Republic of Armenia, the implemented projects presented above are not under the discretion of these specific ministries. These responsibilities are direct functions (either mandatory or in some cases delegated) of the appropriate communities.

After the careful investigation of the RA Budget it is learnt that RA Government spent some amount of money on the communities through ministries. However, the aim of the paper was also to see how these expenditures compare to the intergovernmental transfers.

The intergovernmental transfers comprise approximately 4% of the total budget for each 6 years. The funds that were spent through the ministries fluctuated from 0.2% to even 2% of the RA total budget for each 6 years.

Interviews Findings

For the analysis of in-depth interviews content analysis was conducted. The analysis includes categorizing the content of the conducted interviews and counting their intensity means.

As it has been already mentioned, the interviews were conducted with the representatives of financial departments of target ministries. The in-depth interviews were conducted also with the two officials of the National Assembly. Moreover, interviews were conducted with the experts from the Community Finance Officers Association.

For this purpose four descriptors were selected on a 5 point scale for the intensity of each interviewee's response, where 1 meant weak intensity of the respondent's position and 5

indicated strong intensity and accordingly 3 meant neutral intensity. This is done to see the significance of each category. The higher the mean of the intensity, the higher is the significance for the interviewees' perspectives.

Below is the Table 8 with categories and their intensity means:

Results of the Content Analysis of Interviews

Table 8 — Content Analysis of Interviews				
Category	Descriptors	Expert Interviews	Interviews with Ministries 'staff'	Interviews with the officials NA
Not Top Priority Projects	Priority Ranking	4	3	4
	Engagement of community members	5	4	4
	Lack of Influence by communities	5	4	4
	Demand of community members	4	3	3
	Decision-making independence	4	4	3
	<i>Intensity mean</i>	<i>4.4</i>	<i>3.6</i>	<i>3.6</i>
	<i>Cumulative Intensity mean</i>	<i>4 (3.86)</i>		
Cost of Projects	Overspending	4	3	4
	Exploitation of resources	5	3	5
	Cheap projects	5	3	4
	Unfinished works	3	2	5
	<i>Intensity mean</i>	<i>4.25</i>	<i>2.75</i>	<i>4.5</i>
	<i>Cumulative Intensity mean</i>	<i>4 (3.83)</i>		
Importance of Community Consolidation	Subsidiarity	2	5	5
	Too many communities	4	4	3
	Need of big communities	3	2	4
	Decentralization	4	2	3
	<i>Intensity mean</i>	<i>3.25</i>	<i>3.25</i>	<i>3.75</i>
	<i>Cumulative Intensity mean</i>	<i>3.41</i>		

Not Top Priority Projects

The data collected from the in-depth interviews showed that there were a lot of cases where the ministries spent funds on the projects that were unnecessary or not the top priority for the specific community. The intensity mean of this category is approximately 4 (3.86) which is strong intensity for the respondents' positions. With such intensity this category is worth attention.

According to the interviews with the ministries' staff the project implementation decisions are based on the needs of the communities. The ministries before the implementation of such projects take into account all the needs of the communities. They ask people about what the needs of their community are. However, the problem is that they do not ask people to rank the priorities of the communities. They do not survey them properly. This is the reason why sometimes the ministries implement the projects that are not of an extreme need for the community. The Project Implementation Units of every Ministry take into account that the community does not have veterinary services; however for that community the primary issue is that they do not have also renovated irrigation networks. Thus, for the community it is more important to have renovated irrigation networks than to have veterinary services. This can be known only by conducting a survey or a town-hall meeting, where people of the appropriate communities should rank the priorities of their communities. Community development practice provides with a number of tools to identify needs and rank them in a descending order (Wang and Burris 1997).

Cost of Projects

Responses from the in-depth interviews showed that many ministries spent some amount of funds in communities. “Cost of projects” category has a strong intensity mean of 4. The interviewees admitted that sometimes ministries spend significant amount of funds on the projects that are under the competency of local governments. Whether it is under the competency of the central government or the appropriate local government is learnt from the Law on Local Self-Government of the Republic of Armenia. The law clearly indicates the cases when the local government should act and execute certain functions and when the responsibilities must be undertaken by the ministries or governors’ offices.

The main emphasis was put on the intergovernmental transfers and the fact that some amount of public funds is not transferred directly to the communities and is spent through the ministries. This kind of spending cannot be considered as intergovernmental transfers. In other words, they cannot be considered to be subventions or subsidies, because they are not transferred to local governments. Instead they are spent directly by the appropriate ministries.

Despite the argument that the spending of these funds is initially discussed and coordinated with the communities, there are certain cases when the funds were spent on the costly projects, meaning that communities typically spend much less on similar ones than the line ministries or governors’ offices. According to the data gathered from Community Finance Officers Association, communities spent about two times less on the similar types of projects than the central government through line ministries and official governors’ offices in 2010, 2011, 2014 and 2015 and three times less in 2012 and 2013.

Importance of Community Consolidation

The responses from the in-depth interviews indicated that the policy of community consolidation (amalgamation) is needed. The intensity mean of the importance of consolidation is 3.41 out of 5, thus it means that this category has a neutral intensity for the positions of the respondents.

The main emphasis was put on the link between the importance of consolidation and the decentralization policy. Most of the respondents claimed that with approximately 915 communities it is impossible to have a decentralized country or to implement decentralization policy. There is a need for the community consolidation. Although, the consolidation is underway, however it still needs to be further undertaken.

Many respondents claimed that only after the consolidation of communities it is possible to implement equalization. Equalization will contribute to the equality of the communities. If the communities are consolidated and their number is reduced to about 400, it will be possible to implement the fiscal decentralization policy and only in this case the communities can reach more independence.

Other respondents claimed that it is necessary to have independent but consolidated communities. Only in case of consolidation the communities can be relatively independent.

This issue was connected with the principle of subsidiarity too. The respondents were stressing the need of acting according to the principle of subsidiarity. As it was mentioned earlier, the principle assumes that the local governments know better what people of their community want and what their primary needs are. Subsidiarity is about decision-making power by the government closest to people. Political decisions should be taken at a local level if possible.

The main way of the independence and further decentralization of the country is to act according to the principle of subsidiarity. The respondents clearly mentioned the significant role that the principle could play in the decentralization process of the country. Of course, they connected it with the community consolidation and stressed that without latter it is impossible to apply the principle of subsidiarity.

Analysis

In this part of the paper the interpretation and analysis of the findings will be provided. The first research question tried to find out whether the Government of Armenia spends funds in communities on such projects that are not under its discretion through the line ministries and governors' offices. According to the first tool of data collection which was review of the Implementation of RA budgets from 2010 to 2014 and State Budget for RA budget of 2015, the central government does spend some amount of funds through line ministries in the communities. Moreover, according to the Law of Local Self-Government, the respective ministries spend funds on the projects that are not under their competence. They are under the competence of the respective local governments.

However, the first hypothesis suggests that the amount that was spent is considered to be significant. The significance of the expenditures was expected to be measured based on the information that the intergovernmental transfers comprise 4% of the consolidated budget. So, if these expenditures that are not part of the intergovernmental transfers are more than 1% then they are considered to be significant. From the findings it is clear that the percentage of those expenditures fluctuated from 0.2% to approximately 2%. It means that for 2012 and 2013 those expenditures were significant, because they were more than 1%.

The first sub question of the first research question tried to find out the nature and structure of those expenditures and whether they were capital or operating. According to the review of

budget for six years the expenditures were mainly capital because they were directed mostly to the construction and renovation of the buildings, including medical posts, community centers, irrigation networks, kindergartens etc.

The second sub-question of the first research question tried to learn what the ratio is between the intergovernmental transfers and the expenditures that were made through line ministries and governors' offices. As it was seen from Table 7, these expenditures are less than the intergovernmental transfers. The percentage of those expenditures ranges from 3% to 56% in intergovernmental transfers. The range is so big because of the priority projects that the Ministry of Territorial Administration initiated and the ratio grew beginning from 2012.

The hypothesis can be **accepted partially**, because not every year the amount that was spent in communities through line ministries was significant.

The second research question was about how to make expenditures of central government for the communities more effective. The hypothesis was that the direct allocation of funds to the local government is a more effective way of spending.

The ineffectiveness of the current mechanism was suggested to be measured depending on the 2 main components: the cost and the type of the projects implemented in communities. The cost assumed learning how much the local government typically spends for a project and to compare it with the amount that the central government spends for the similar project through the line ministries and governors' offices.

The type assumed the type of the project that was going to be implemented in the community by the central government. Especially the main emphasis had to be put on the needs of the community, more specifically whether this project is the top priority for the community or is

the secondary need. If it is not a primary priority for the community then it can be considered as an ineffective expenditure.

Thus, according to the in-depth interviews, there were projects done in several communities that were not primary priority for the respective community. There were several cases when the community members and local governments did not consider the project implemented by the central government through line ministries and governors' offices as a primary priority for the community development.

As refers to the cost, according to the data of the Community Finance Officers Association the communities spend much less on similar projects than the central government through the line ministries and governors' offices.

Thus, it can be concluded that the current mechanism of spending is not an effective one. In the next section the recommendations of making them effective will be provided.

Conclusion and Recommendations

Conclusion

After the collapse of the Soviet Union and the independence of Armenia the policy of decentralization became one of the main objectives. This state-building procedure involved series of fundamental and significant reforms in establishment of democratic institutions, including also local self-government. Decentralization assumes granting more powers to communities. In decentralized countries; the communities have an impact on the decision-making process. Especially, they are playing significant role in the decisions that concern the respective community and its members. The principle of subsidiarity is the key idea of decentralization. The principle assumes that each level of government knows better what the most critical needs of its communities are.

The issue of decentralization policy in the Armenian context is directly connected with the inadequate funding of local governments. Based on the review of budget it can be assumed that besides the intergovernmental transfers, the central government spends some amount of funds on community projects that are not under its competence, these projects rather fall under the competence of local governments. However, more than one percent of the consolidated budget is spent by line ministries and governors' offices to finance community-based projects. Here the question arises what kind of a problem it creates. The paper focused specifically on two problems that this pattern of action created: the problems of overspending and selection of projects that are not the top priority for the beneficiary communities.

The research also showed that typically local government spends less on the same type project than the central government through line ministries and governors' offices. And after conducting several interviews, it was found out that some projects implemented by the central government in the communities were not top priorities for the recipients. The projects were

not unnecessary or unwanted ones, they were just not among the top priorities or critical needs for the communities.

Thus, there is an underlined need for the revision of the policy of funding community-based projects through central government agencies. There are clear weaknesses that include inappropriate funding by the government in communities through ministries and governors' offices.

Recommendations

The issue of inappropriate funding by the central government in communities through line ministries and governors' offices should be addressed. Thus, the Government of Armenia should solve the issues connected with the overspending in communities and in identifying the top priorities for the community development. The current study, based on the findings of the Reports of the RA budget implementation and in-depth interviews came up with several recommendations of how to make this whole process work better and in a more effective way:

- The survey or any other way of polling must be conducted in communities for the identification of the top priorities. Community members should have an opportunity to rank order the needs of the community for its further development. This will help to avoid spending funds on the things that are not top priorities for the respective communities. It should be mentioned that town-hall meetings are conducted by different organizations in order to identify the main needs of the community. However, another problem should be identified here, that the majority of the participants at town-hall meetings are municipal workers. Thus, the diversity of participants during community meetings should be provided in order to hear

everybody's voice. By diversity it is meant to engage people belonging to various spheres of occupation, to different age and gender group.

- Since the RA Government spends funds on the projects in communities through line ministries and governors' offices that are under local government competence, it will be more effective if the government includes these funds in the intergovernmental transfers, either in the form of subsidies or subventions. This will help communities to become more independent in their actions and they will participate directly in the project's design and implementation procedures.
- Since the policy of decentralization has been accepted by the RA Government, then the core principle of the policy should also be accepted. As it was mentioned several times in the study, the subsidiarity principle plays a critical role in a decentralization process. Under the principle of subsidiarity, each level of the government follows and applies the responsibility that is under its discretion and no one intervenes in the jobs of one another.

Limitations

The main limitations of the study are connected with the time and lack of prior studies on the topic. More time would help to go to a few communities and to be acquainted with the situation from the first hand. The direct observation will be useful for the overall understanding of the critical needs of the respective communities and how the relations are implemented between the local and central governments.

Another limitation is connected with the lack of previous studies on the topic. It was very difficult to find studies which addressed this topic in the Armenian context. There were a lot of studies dedicated to various countries; however the same cannot be said about

Armenia. The fiscal decentralization of Armenia was discussed by many authors, but very few studied the funds that are channeled by the central government in the communities through line ministries or governors' offices.

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Appendix

Interview questionnaire

1. Please describe cases when ministries implemented projects for local governments.
2. In your opinion, why does central government spends its funds for local governments through ministries and governors' offices?
3. In your opinion, why do some ministries implement certain projects in communities that are not under their discretion?
4. When a ministry implements a project for local governments, does it consult with municipality and community residents?
5. In your opinion, is it possible to transfer the money to the local governments directly instead of spending them out of their discretion and participation? Is it possible to include it in the intergovernmental transfers?
6. How the decisions are made on allocating these expenditures to appropriate line ministry?
7. Will the allocation of funds directly to the local governments contribute to the development of those communities?