

AMERICAN UNIVERSITY OF ARMENIA

BUDGET PROCESS IN THE LOCAL GOVERNMENT IN VANADZOR

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## **ABSTRACT**

The Internship project about the budget process is based on practical experience at the local government in Vanadzor.

The following paper describes the budget process of local government in Vanadzor, discusses the limitations and gives recommendations for the better organization of budget process.

The budget process includes budget development, consideration, approval, execution and reports on execution of the budget. Correspondingly, there are three phases of the budget process: the first is the formation and approval of the budget; the second is the execution and monitoring of the budget and the third is the formation and approval of the annual report on the budget execution.

The first stage of the budget process includes:

1. Preparation and formation of the budget draft creation activity
2. Workout of the budget draft
3. Approval of the budget

Because of the time limitation my internship was narrowed to the budget development, consideration and approval phase of the budget process. So, I could not participate in the process of execution and reports on execution, and only in the process of the development, consideration and approval of the budget.

## INTRODUCTION

The word budget comes from “budjet”, a Middle English word that meant king’s bag containing the money necessary for public expenditures (Ministry of Finance and Economy, 2004, p. 6).

The basic document for each community, where the community development policy and accomplishment planning are presented, is the budget. Budget is the axis of financial management of every local government.

According to Muradyan (2005), local budget is a financial plan for a certain period of time of the creation and consumption of financial means necessary for the realization of the designated power defined by the Constitution and Laws of RoA.

Local governments must allocate the limited financial means in such a way that to finance several processes and projects defined by the laws. Allocation of limited financial means among services and projects must be in such a way that to satisfy the needs and requirements of society with maximum efficiency.

Budget is often called functional plan. It is called to plan the future fiscal year, direct community life and is the guidance for the Mayor and Council Members for the activities of the coming year.

The budget of local government includes:

- Planned activities, projects and services;
- Prediction of means or revenues and the expenses, which are necessary for the financing of planned activities, projects and services.

The budget is the allocation of the limited means among potential consumers (Muradyan, 2005, p.5).

Local governments must allocate their limited financial means in the way to finance the activities and projects defined by the Laws and Constitution.

As stated by Muradyan (2005), budgets, as a rule, are formed under the limited conditions, where the needs are exceeding the existing means. Therefore, budget means making a choice among a number of alternatives.

Initially, one of the most important aims of the budget was to be the *tool for the confirmation of democracy*. Society must express its will; on the other hand, the state must be open for the critiques of the society. Budget can be the tool for the society to control financial means of the local community (Muradyan, 2005).

So, the budget process is very important for the confirmation of democracy.

The internship provided me with the best opportunity to directly participate and observe the budget process of local government in Vanadzor, which was under the planning and creation process at the time of my internship as envisioned by the law on Budget System of the Republic of Armenia, article 6 and article 31.

The internship focused on the budget development in general, and the budget creation in particular. Another objective of this study was the procedures established by the laws of the Republic of Armenia for the development of the budget of local government.

## LITERATURE REVIEW

According to Tumanyan (2005), in the aftermath of adoption of the Constitution in Armenia (July 5 1995), creation of public administration system in Armenia was accompanied by establishment of local self-governance. In July 1996, after the Law on Self-government was adopted, the November elections of local authorities launched the process of establishment of local self-governments in the country.

Tumanyan mentioned (2005), that one of the crucial preconditions for establishment of local self-governance is the fiscal decentralization. Local self-governments were legislatively granted the power to form their budgets and independently manage their financial resources. The budgetary system of the country has been restructured and community budgets become indivisible constituents of the financial and particularly budget system of the Republic of Armenia. The process of decentralization has thus commenced in Armenia.

Budgetary system plays an important role in the unified financial system of the country. The budgetary system is stipulated and established under the Law on Budgetary System, which regulates budget process in the country. This law was adopted in 1997 and extensively modified in the aftermath.

The budgetary system in Armenia includes:

- The state budget, as the first level,
- Community budgets, as a second level (Tumanyan, 2005, p.154).

This paper is going to discuss the second level, that is community budget, and particularly, the first phase of the community budget process, as it was already mentioned above.



Each community has a mayor and council members, where the former creates, and the latter approves the community budget.

The mayor is elected by the community residents by the closed and secret election. The mayor is prohibited by the law to occupy any other position or paid job (though creative, scientific and pedagogic jobs are permitted) (Ghazaryan, 2003).

As Ghazaryan pointed out (2003), the task of the mayor in the financial field is that he/she is responsible to create the budget draft and represent it to the council member's consideration. He/she also makes suggestions about the amount of duties and fees, and also about the payments of the community services. The mayor is responsible for the budget execution, and for this reason he/she represents annual reports to the council members and to the public by mass media.

The mayor manages all the budget sources and he/she is the only official person, who has the right to sign the financial documents (Ghazaryan, 2003).

Based on the amount of the population there can be from 5 to 15 council members in each community. The community members elect council members. Council members are considered formed in case when more than a half of council members defined by the law are elected (Ghazaryan, 2003, p. 29).

A council member can be the person who is already 21 or more years old, has been the community member not less than a year, and who has the right to vote (Ghazaryan, 2003, p. 29).

As Ghazaryan mentioned (2003), a council member conducts social activity and he/she can occupy any other position. On the other hand, law prohibits council members to:

1. work in the mayor staff, budget departments or be the chief of any community departments or organization
2. be the mayor or council member of any community

3. work in law enforcing, state security, or judicial bodies (p. 30).

Council members participate in the solution of any community problem, especially council members define the amount of duties and fees, makes decision about the renting or selling of the community property, etc. On the other hand, council members monitor the mayor's activities. Especially, approves the community budget and annual reports on the budget execution, monitors the budget execution and usage of any financial means, decides about the salary of the mayor, etc (Ghazaryan, 2003).

Ghazaryan mentioned (2003), that council member's activities are organized by the means of meetings, which are taken place not less than every two month.

Council member meetings are called and managed by the mayor or his/her authorized official, which have advisory voice. This gives the mayor opportunity to participate in the discussions, express his/her opinion, make suggestions, though he/she cannot participate in any voting. Only council members are authorized to participate in votings (Ghazaryan, 2003, pp. 31-32).

The responsibilities of council members are:

- participate in council member meetings;
- conduct meetings with community residents to inform about the council member activities and decisions;
- participate in admission of citizens;
- in case of being admitted in a not corresponding position, inform urgently other council members and the mayor in a written form (Ghazaryan, 2003, p. 35).

According to Muradyan (2005), Budget draft is formed according to the three-year-working project of the community to solve the basic issues of the budget year based on the planned necessary financial means.

The designated power to form community budget draft, as well as to present it to the council members and publics, belongs to the community mayor.

The first phase of the budget process, the process of the budget draft workout, in its turn can be conditionally divided into three parts:

1. Preparation and formation of the budget draft creation activity
2. Workout of the budget draft
3. Approval of the budget (Muradyan, 2005, p. 53).

The mayor must organize the budget draft activities based on the budget plan (see table 2) (Muradyan, 2005).

The mayor presents the budget draft to the council members and answers the questions of the council members. Council members can present written suggestions about the budget draft, which will be discussed in the meetings of council members. If the suggestions include new costs, the council member, who presented the suggestion, must correspondingly mention new financial sources. The mayor may take a week after the suggestions to make changes in the presented budget draft or he/she may require to approve the budget (Muradyan, 2005, p. 55).

In the mentioned period the mayor invites a meeting with council members and presents his/her position about the suggested changes in the budget. The budget draft with the made changes by the mayor is being voted for. In case if the budget draft is not passed, council members with the agreement of the mayor decide about the periods of discussions of the new budget draft (Muradyan, 2005).

The community budget is approved by the council members. If the council members do not approve the budget until the beginning of the fiscal year the costs are done corresponding to the previous year. In this case the mayor must do the responsibilities of the

previous year, is not permitted to make new investments, and every month consume not more amount of money than the previous year (Muradyan, 2005, p. 56).

In order to create the budget draft, it is useful for the mayor to know about the opinion of the public about the community development plan and also to know about the assessments and suggestions of the public. The mentioned is possible to reach by conducting meetings by the participation of community staff, council members, and other representatives of the community to discuss some questions in that field. It is also possible to reach by conducting sociological interviews with the representatives of the community, and conducting discussions by the mass media (Muradyan, 2005).

Community residents direct participation in budget process is not regulated by the law. There are few cases when by the initiative of local governments or requirement of citizens the latter are involved in budget process (Muradyan, 2005).

According to Tumanyan (2005), with the objective to ensure financial expenses required for fulfillment of powers of the local self-governments, local budget should envisage relevant revenues (see table 1). From the point of view of autonomy of local self-governments budget revenues may be classified into the following groups:

- own revenues;
- official transfers;
- borrowings (p. 161).

Own revenues are classified into two major groups, i.e. tax revenues and duties, and non-tax revenues. Tax revenues include land tax levied for land located within the administrative borders of the communities and property tax for the property located within the administrative borders of the communities (except state and church property). The law envisages also deductions from income and profit taxes, as well as environmental fees, but these deductions do not take place in practice (deductions from income taxes were applied

only in 1998 and 1999). Rate of all the taxes are defined in the legislation adopted by the National Assembly. Only the rates of local duties and fees are defined by the local self-governments though within the limits prescribed in the legislation (Tumanyan, 2005).

**Table 1: expenditures and revenues of community budgets in Armenia**

<i><b>Expenditures</b></i>	<i><b>Revenues</b></i>
<b>Expenditures of administrative budget</b>	<b>Revenues of administrative budget</b>
Administration	<i>Tax revenues and duties</i>
Education (kinder gardens)	<ul style="list-style-type: none"> <li>• Land tax</li> </ul>
Health	<ul style="list-style-type: none"> <li>• Property tax</li> </ul>
Social security and insurance	<ul style="list-style-type: none"> <li>• Income tax</li> </ul>
Culture, sports, religion	<ul style="list-style-type: none"> <li>• Other tax revenues</li> </ul>
Communal and household	<ul style="list-style-type: none"> <li>• Stamp duties</li> </ul>
Construction and environment protection	<ul style="list-style-type: none"> <li>• Local duties</li> </ul>
Transport and communication, road utilities	<i>Non-tax revenues</i>
Public ordinance	<ul style="list-style-type: none"> <li>• Land rentals</li> </ul>
Defense	<ul style="list-style-type: none"> <li>• Real estate rentals</li> </ul>
Other economic services	<ul style="list-style-type: none"> <li>• Local fees</li> </ul>
Expenses not classified among main directions, of which	<ul style="list-style-type: none"> <li>• Other non-tax revenues</li> </ul>
<ul style="list-style-type: none"> <li>• Repayment of debts from previous years</li> <li>• Realization of delegated powers of the local self-government</li> <li>• Repayment of budget borrowings</li> <li>• Reserve fund</li> <li>• Other costs</li> </ul>	<i>Official transfers</i>

<b>Expenditures of capital budget</b>	<b>Revenues of capital budget</b>
Capital construction	Subvention
Capital repair	Earmarked allocations from other sources
Formation of material stocks	Allocation from reserve fund of the
Other expenditures	administrative budget
	Proceeds from alienation of property
	Other revenues

Predominant share of own revenues of the communities is generated from tax revenues and duties (Tumanyan, 2005, p. 161).

As Tumanyan pointed out (2005), an important indicator of autonomy of local communities is the share of local duties and fees in the local budgets.

Half of the capital budget revenues represent allocations from the administrative budgets. Predominant portion of the remaining revenues reflect proceeds from alienation of assets. Prior to 2002, i.e. enforcement of the new Law on Local Self-government and introduction of amendments in the Law on Budgetary System of Armenia, capital budget revenues were loans and receipts from allocation of bonds issued by local authorities. According to these laws, these sources have become the sources of financing budget deficit (before that, community budget may not have deficit); however, as in the past, these resources may be used exclusively to fund capital expenditures (Tumanyan, 2005).

Communities of Armenia widely differ from each other in climatic and natural conditions, geographic, demographic, socio-economic, financial conditions as well as opportunities to promote general development strategies. These differences have different impact on communities, which may be both positive and negative. Significant role in diminishing the negative impact of these conditions and promoting harmonious community development is attributed to the state. The state fulfils this role in a variety of ways with

significant share given to extension of official transfers to local budgets from the state budget. Subsidies are provided to local budgets in accordance with the Law on Financial Equalization, the use of which is discretionary for local self-governments. Subventions from state budget are the allocations earmarked for capital expenditures, and directed to the fund budgets. The legislation does not regulate the procedure of subvention allocation (Tumanyan, 2005).

Predominant share of official transfers is attributed to subsidies allocated to local budgets under the financial equalization mechanism. Provision of subventions to communities is of unique nature and makes significant amounts (Tumanyan, 2005, p. 163).

As Tumanyan stated (2005), the procedures for allocating relevant financial resources, ensuring financial autonomy with the objective to implement statutory powers, identifying the list of revenues and expenditures for conducting independent policies are stipulated in the law, separately for administrative and fund budgets.

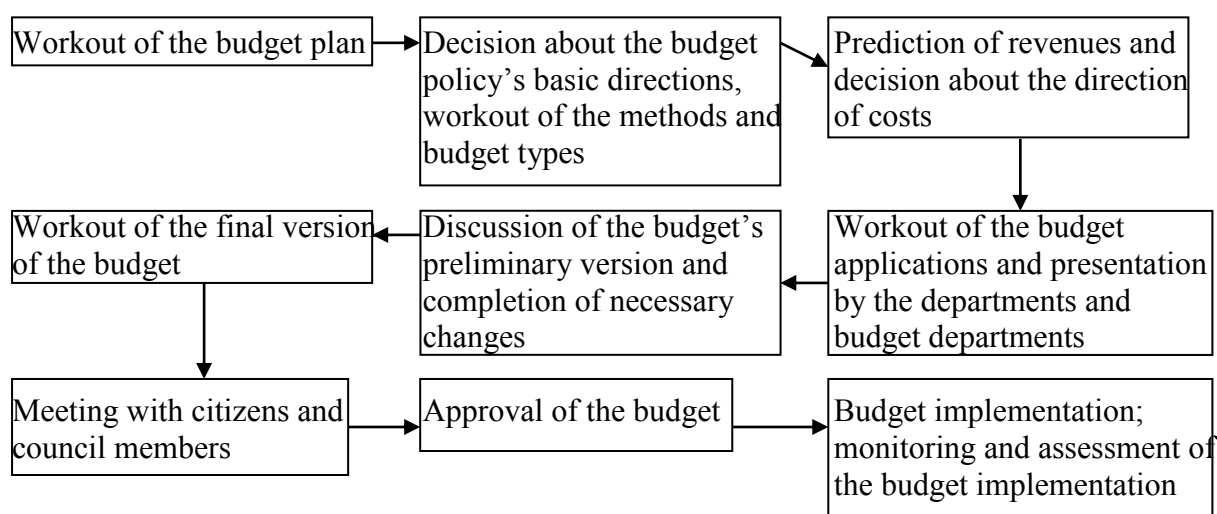
The important guarantee of communities' sustainable and regular activity is the provision of their budgets stability. The stability of communities' budgets in Armenia depends on forecasting of budget revenues and their invariability during the budget year, as well as other circumstances. The forecasting of community budget tax revenues- land tax and property tax- is rather high. According to the law on Taxes changes of tax rates, their definition or abolishment should be done only at the beginning of fiscal year and according to the law on Local Duties and Fees the rates of duties and fees should not be changed during the current year, which are very important. The rates of above mentioned taxes, duties and fees almost practically haven't been changed recently. Besides the positive aspects negative ones also exist. *Now all communities receive equalization subsidies from the state budget, but the state budget, as a rule, is adopted at the end of fiscal year. Those communities, which adopt their budget before the adoption of state budget, have to do some changes after the*

*adoption of the state budget. Destabilizing factor is also the definition of shares of local budgets from income tax, profit tax and environmental fees according to the Law on Annual State Budget. Now community budgets are mainly changed during the fiscal year because of incorrect planning (Tumanyan, 2005).*

The rate of deficit or surplus of community budget is defined as decided by the Community Council for the budget year in question. In addition, sources of financing administrative budget deficit of communities are loans extended by the state budget and the free balance carried out forward from the previous budget year; sources of financing the fund budget deficit of communities include credits from the state budget and other legitimate creditors, receipts generated on allocation of community securities, as well as 30% deduction from privatization proceeds on real estate (except land), including unfinished construction sites (Tumanyan, 2005, pp. 155-156).

Budget process is the procedures established by laws for the development, consideration, approval of budgets, execution, as well as procedure for consideration of reports on execution of budgets that comprise the budget system of the RoA (Ministry of Finance and Economy, 2004, p. 67). See the figure 1:

**Figure 1. Budget process**





According to Muradyan (2005), budget process for the next year starts by the decree of the mayor and ends on the day of the approval of the fiscal year's report on the budget execution.

In order to create the community budget draft the mayor constructs the budget plan (see table 2).

Fiscal year in Armenia starts on January 1 of each year and ends on December 31 of the same year.

Budget process is realized through 3 phases:

1. The formation and approval of the budget draft
2. The execution and monitoring of the budget
3. The formation and approval of the annual report on the budget execution (Muradyan, 2005, p. 47).

The duration of budget process, as a rule does not exceed 22 months (Muradyan, 2005, p. 47).

As Muradyan stated (2005), the first phase of the budget process starts in the middle of the previous year of the budget year and lasts approximately from six to seven months.

The duration of the second phase is 12 months and it is the same as the predicted budget year period (from January 1 to December 31). The next phase starts on the day after the ending of the budget year. According to the law, the mayor should present on the budget execution to the council members, and he/she should do this not late than March 1 after the budget year, on the other hand, council members must approve it not late than March 20 after the budget year (Muradyan, 2005).

The budget of local government is a public document, which can be introduced the each member of the community. Moreover, the law requires that the mayor create and make public the basic indexes and program points in order to make the budget more accessible for

the public. They can be published in the form of statistical data and graphs in the bulletins and books, including analytical part and comparison of the previous years. If communities have internet page, these documents can be located in that page making information more accessible not only for the community members, but also for every person (Ghazaryan, 2003, pp. 99-100).

Publication of the local budget is very important mean for the direct and frequent participation of the council member, which in its turn provides the development of the system (Ghazaryan, 2003).

As Ghazaryan mentioned (2003), the more the community is informed about the budget the more is the trust of the community and the better is the participation of community in the process of decision making about the budget.

## METHODOLOGY

I have participated at the process of budget formation of the local government in Vanadzor from August 29<sup>th</sup> to November 7<sup>th</sup> (ten weeks).

I have conducted *document analysis* to find out accessibility of the budget draft for the public. These documents were bulletins and newspapers, where the community budget was published.

I have done the *analysis of legislation* to find out the appropriateness of legislation and practice. Particularly I have done the analysis of the Law on Budget System, Law on Local Self-governments, and also Law on State Budget in the Republic of Armenia.

I have made *direct observance* of the ten week plan of budget process at the local government in Vanadzor. The direct observance was *controlled* (structured and standardized; the activities were registered according to the plan) and *participative* (I analyzed the process from inside) for ten weeks. I have participated in meeting and discussions, made discussions with local government staff, budget departments and also with the public.

There was no systematic wide-scale survey, so the *evidence* supplied is rather *anecdotal*.

## BUDGET PROCESS IN THE LOCAL GOVERNMENT IN VANADZOR

As it was already mentioned earlier, budget process is the procedures established by laws for the development, consideration, approval of budgets, execution, as well as procedure for consideration of reports on execution of budgets that comprise the budget system of the RoA. And also, that there are 3 phases of budget process:

1. The formation and approval of the preliminary version of the budget
2. The execution and monitoring of the budget
3. The formation and approval of the annual report on the budget execution.

The first stage of the budget process includes:

- Preparation and formation of the budget draft creation activity
- Workout of the budget draft
- Approval of the budget

Because of the time limitation of the internship only the first phase will be discussed in this internship policy paper. So, budget planning, development, creation and approval in the local government in Vanadzor are at the focus of this study.

Every fiscal year of the Vanadzor community starts on the January 1<sup>st</sup> and ends on the December 31<sup>st</sup>. Budget process starts earlier and lasts longer than the fiscal year. Budget process starts six or seven months earlier than the fiscal year by the decree of the Mayor and ends with the report of execution by the Mayor to the Council Members of the local government (there are 15 council members in the local government of Vanadzor).

Therefore, the first phase of budget process, which is the formation and approval of the preliminary version of the budget, starts six or seven months earlier than the second phase, the execution and monitoring of the budget, which is the fiscal year. The third phase of

the budget process, the formation and approval of the annual report on the budget execution starts after the fiscal year until the March 1<sup>st</sup>.

The Mayor of the local government in Vanadzor created the budget plan (see table 2), by which the budget process was conducted step by step.

**Table 2: Budget Plan of the local government in Vanadzor for 2006 fiscal year**

First week	August 29- September 5	Preliminary discussion of the presented applications and programs by the Mayor, the Finance Department, the Division of Programs and all the budget departments
Second week	September 5- September 12	Formation and discussion of the preliminary version of budget
Third week	September 12- September 19	Making changes, suggested at the result of discussions, in the preliminary version of budget.
Forth week	September 19- September 26	Preliminary discussion of the final version of the budget at the Finance Department
Fifth week	September 26- October 3	Final discussion of the budget version by the Mayor and Departments
Sixth week	October 3- October 10	The formation of the Council Member's decision plan about the budget of local government by the Mayor and Finance Department
Seventh week	October 10- October 17	Public discussion of the budget version by the people
Eighth week	October 17- October 24	Making final changes in the preliminary

		version of the budget at the Finance Department
Ninth week	October 24- October 31	Presentation of the budget plan to the Council Members by the Mayor
Tenth week	October 31- November 7	Discussion and approval of the budget by the Council Members

The plan must be implemented until the approval of state budget (January 1). The local government in Vanadzor plans to conduct the plan approximately 2 months earlier because of the auction (which lasts approximately 2 months).

In the local government of Vanadzor I was introduced the budget process formation, and informed that it should be planned and systematic. I participated at the preliminary discussion of the presented applications and programs. There were the Mayor, the Deputy Mayor, the members and the Head of the Financial Department, the Head of the Division of Programs, the Council Members, the applicants; the Heads of all the departments of the local government, the representatives of the organizations under the authority of local government and accountants.

The Head of the Division of Programs presented the three-year working project, which is simultaneously in the formation process with the budget. After, the Head of Financial Department presented the preliminary version of 2006 budget and discussed the applications.

The Mayor made the final speech informing that from overall discussions it was clear that the amount of money needed according to applications was more than the incomes predicted. 1,174,000,000 dram was predicted on the other hand 1,473,000,000 dram was suggested. 300,000,000 should be decreased.

In the second week, the Mayor ordered the Financial Department to make the preliminary version of the budget and conducted the meeting on the budget with applicants. He ordered the applicants to come back the next day with new suggestions and make presentations about the spending reductions by the importance. Either the costs should be reduced or there should be deficit-covering sources. He mentioned that deficit-covering sources were unclear and not real. The result of these discussions was the next- third week.

In the third week, changes were made in the preliminary version of the budget based on the discussions and suggestions. Firstly, the budget was discussed by the Mayor and his staff, secondly, the budget was discussed by the Mayor, Deputy Mayor and Council of Members, and finally the budget was discussed by the initial first staff: the Mayor, the Deputy Mayor, members and the Head of the Financial Department, the Head of the Division of Programs, the Council Members, the applicants; the Heads of all the departments of the local government, the representatives of the organizations under the authority of local government and accountants. During this discussion several suggestions were made, which were recorded. The mayor ordered to make adequate changes in the budget. Every department increased its salaries by 50%, on the other hand the Mayor increased by 15%, so the salaries were decreased. And capital spending should be reviewed.

In the fourth week, preliminary discussion of the final version of the budget at the Finance Department was conducted with the members and the Chief of Finance Department.

Finally, it was already clear that 100,000,000 dram was saved from salary reduction, and 200,000,000 from capital spending reductions.

Final discussion of the budget version by the Mayor and Departments and the whole initial staff was taken place in the fifth week. They agreed upon the changes made.

After the creation of the final version of the budget plan, the council members' decision plan (about the budget of local government) was formed by the Mayor and Finance Department in the sixth week.

The huge gap of the budget process is that there have been no public discussions of the budget version in the week seventh. The preliminary version of the budget in the local newspapers and bulletins are published as defined by the law of RoA. This could not raise public awareness about the budget process, as the information is not understandable for the public as it is written in the professional manner.

As there have been no public discussions, which could promote making changes in the preliminary version of the budget at the Finance Department, thus changes were not made in the eighth week.

Presentation of the budget plan to the council of members by the Mayor and the discussion and approval of budget by the Council of Members were postponed (a week later than it was planned).

As the budget plan of the local government in the city of Vanadzor must be implemented until the approval of state budget, which is until January 1, the last steps of the budget plan are legally permitted to be implemented until January 1, 2006.

The last two steps of the budget plan were delayed because of the Mayor and Council Members election on October 16, 2005. As some Council Members were in the educational process, the presentation of the budget plan to council members by the Mayor and the budget approval were delayed. As these delays may be implemented until January 1 2006, so they are not considered as law violations.



## FINDINGS

To sum up, it was clear that the Mayor of the Vanadzor community and his staff formally follow all the technical procedures as specified in the legislation and Ministry of Finance regulations.

According to the article 57 of the Law on Local Self-government of the Republic of Armenia, the revenues of local governments may include some sharing by the central government of income tax and profit tax, and this sharing is defined every year by the Law on State Budget. In practice this sharing has been equal to 0 in the last 5 years.

Another finding was that according to the budget plan public discussion should be taken place earlier than publications about the budget, which hinders public participation in the budget process, as without being informed about the budget, there can be no public discussions.

On the other hand, there have been no public discussions in the Vanadzor community about the budget draft. And the reasons for the lack of public discussions are non-accessibility of information for the public and also apathy of the population.

Information about the budget is non-accessible for the public as the content of information is not accessible and also there is no access for the public to the local government in the city of Vanadzor for discussions about the budget.

At the result of the anecdotal evidence it was clear, that there is apathy of population, because there is lack of education of community residents and also there is lack of belief in their ability to change something.

## RECOMMENDATIONS AND CONCLUSION

There are some recommendations for the better organization of budget process, which are:

1. Make published information about the budget more accessible for the public through figures, tables, diagrams, charts, and statistical data showing comparisons with the previous years and/or other cities.
2. There should be amendments to the existing laws concerning the government discussions, which would make budget process more understandable for the public and the laws, which should be amended are:
  - The law on the public discussions with the Mayor about the budget
  - The law on the public discussions with the Council Members about the budget.

The information about the local government budget should be more understandable for the people after the discussion of the budget with the Mayor and the Council Members.

3. Educate people in the schools and universities about the budget.
4. Change the budget plan correspondence making publications take place before the public discussions.
5. In 2006, define the exact percentage of income and profit making taxes as the part of the revenue for the local governments in the Law on Budget System or in the Law on Local Governments. Even a very little percentage from the income and profit making taxes could be a real support for the local government of Vanadzor to implement more projects for the Vanadzor community.

And in conclusion it is worth to mention, that in order the budget to be effective and to meet the needs of society, society itself must be involved in the budget process. There is a huge problem in Armenia in involvement of society in the budget process of local governments. So, the local budgets cannot be called transparent in this case. There must be some mechanisms of public awareness about budget process of local government and there is a need for the collaboration of local government and society. Only with the involvement of the society Armenian local governments may reach the democracy for the people, of the people and by the people.

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