

AMERICAN UNIVERSITY OF ARMENIA

BUDGET FORMATION IN ARMENIA: COMPARISON WITH CONTINENTAL AND
ANGLO-SAXON MODELS

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Abstract

The internship policy analysis project was conducted at the Finance Ministry of Armenia and aims to describe and analyze the budgetary regulations in Armenia with an eye to the borrowing policies and organization methods from other countries. First, the paper will present and scrutinize the central government structures, budgeting systems and standards in Anglo-Saxon and Continental European Countries. Afterwards, their practices will be compared with the Armenian case, with similarities and differences being identified. Consequently, this will enable to find out to which of the two models, the Armenian system stands closer. Finally, on the basis of the case studies, their successes and setbacks in the field, as well as the country specific factors, recommendations will be suggested to improve the budgetary process in Armenia.

Introduction

The budget is the most significant economic policy instrument of the Government, which provides a comprehensive understanding of the nation's priorities. It is the outcome of a procedure and is formed to provide an optimal allotment of limited revenues by taking into account sociopolitical considerations. The options it comprises display the role of different actors involved in the process. Those who succeed in influencing the budget can expect their choices and priorities to be included in it. And, of course, the power of a given public institution depends on the system of governance that the country pursues.

Hence, the following Internship Paper aims to find out the procedures and practices of the budget formation in Armenia, with a focus on the legal bases and administrative traditions. The reason is the fact that legality, being the cornerstone of the administrative law, enables the administrative institutions to carry out the tasks set by the government efficiently and successfully. It is a keystone for creating an effective administration i.e. agencies, local governments or other public institutions which exercise their authority in regard to the processes and norms identified by the law. The law defines the scope of authorities granted to each institution and parameters within which they are to be performed. Consequently, it can also improve the quality of decision-making. However, it should also be mentioned that the administrative government focuses not only on the efficiency of the government but also on the regulation systems which can be much stronger in some societies than in others (OECD, 2000).

Thus, the Internship Paper will define the concept of the central government, present two government structures: the Continental and Anglo-Saxon, analyze their administration systems and policies, compare them with each other, discuss how their regulation practices can influence on their budget formation systems and the actors as well as the stages that are involved in the

budgeting procedures. To provide case studies from the selected models, the Polish and the Indian budget formation processes will be under discussion.

The choice of the selected countries is based on cultural, political and historical backgrounds: in case of Poland, it is worth mentioning that it is a former communist state and to a certain degree was influenced by the dominance of the Soviet Union. The country has had administrative law codes since the 1950s and its state administration comprises of supreme and central Service Units, separate government administrations, joint government administration, delegate offices of ministries and central offices. And, nowadays, it is considered to be one of the most steadily developing countries in the world: it has achieved a remarkable economic performance and is well placed for a rather quick production growth in the medium term (OECD 1997).

As for Armenia, it is also a developing Continental country and is also a former Soviet Union country which inherited the Soviet regime specific features. Hence, it will be investigated whether the Armenian central government administration and its budget formation system have any similarities with the Polish system. Also, the probability of replicating their practice in our country will be observed.

Discussing India, it should be said that India, in contrast to Armenia, is a federation. The central government in here has more power concerning the state issues than the state government. And though the President of the country has the authority to dissolve the state governments, it is the Council of the Ministers with the Chief Minister to whom the real executive power belongs. The Government of the country has developed a detailed structure, rules and processes which ensure fiscal stability and constancy both during the crisis and normal times. As a result, the country has

had a stable and gradual economic increase since its independent (Government of India, 2009). Currently it is rather prominent with its highly developed and sophisticated Treasury System.

Hence, though there are differences in the government structures between India and Armenia, the former being a federation and the later-a republic, India is chosen to describe and analyze its budgetary procedure, study the differences and similarities between their system and ours, find out whether we can borrow features typical to their practices regardless their legal background and the government structure because borrowing “best practices” can be a vital source of inspiration for a policy-reform which can foster the efficient organization of the government (SIGMA, 2007).

The paper will also explore the reasons for discrepancies, present the gaps that will be observed in the Armenian case and suggest solutions and recommendations on the basis of the cases studies.

Thus, the Hypothesis of the Policy Paper is as follows: Being a Continental European country, the budget formation of Armenia is to be similar to the practices experienced in those countries.

For these purposes answers to the following Research Questions will be explored:

RQ1: What are the similarities of the budgetary processes in Armenia, Poland and India?

RQ2: How close are the Armenian budgetary practices to the selected cases?

Methodology

The methodology used in the Policy Internship Paper is based on secondary data, which are obtained from books, academic articles, researches and laws. The purpose of the Paper is to

make exploratory and descriptive study of different budgetary processes and make implications for Armenia.

Literature Review

The English word “budget” originates from the Middle French “bougette”, which means a leather bag. In England in the middle ages, letters of data about taxes and expenditures were presented to the Parliament by putting them in a small leather bag, which was located on the table ahead of the assembly (Rajkumar, 2002).

Budgets should be passed regularly, usually, on an annual basis, in order to guarantee that the government keeps on operating (Budget Manual of India, 2010). The role of the Finance Ministry or Treasury is crucial in the budgeting process. It is to organize and lead the budget procedures. Besides, the finance ministry enjoys the economic proficiency to set up macroeconomic projections which are of great importance when assessing the amount of the money to be spent. The finance ministry can have a central role in preparing fiscal policies, drafting the budget as well as in monitoring the budget implementation. The Minister’s role can also be that of the custodian of the public purse (Ashima Goyal , 2003)

As for the legislature, it should examine and approve the revenues and expenditures and ensure the successful implementation of the budget. The type and outcome of the legislative involvement may vary. Some legislatures may write the budget, others may approve the budget suggested by the executive without amendments. In some legislatures the debates around the budget may take place in the Parliament, still in others, the issue can be discussed in committees. Some legislatures can have a decision-making authority in the budget process in diverse committees; others can have only one financial committee dominating the process. Eventually,

the final decision is made in the chamber of the Parliament. Nevertheless, in the places where the committees have a strong role, the parliament is mostly directed by the committee reports. The legislators know about their constituencies' priorities and requirements when considering the budget (Ashima Goyal , 2003)

Discussing the audit institutions, it is worth mentioning that they carry out the audit of the public accounts to find out whether the government runs the budget as it was passed by the legislature. Some of them also estimate whether it was conducted efficiently or not. And though this fundamental task is alike across diverse organizations, there can be dissimilarities in the institutional design of supreme audit institutions e.g. some audit institutions are directly connected with the legislature, but there can also be legally independent institutions. Besides, there can also be differences in capacities, resources, and the types of audit (Wildavsky, 1989).

The budget process is guided by a timeline that generally can be divided into four different stages - drafting, legislative, implementation and audit. Nonetheless, it is essential to mention, that in actual life the budget cycles may overlap - different budgets are at different phases of the budget procedure at the same time, for instance, while one budget is being drafted, another budget can be awaiting the legislative approval, a third one can be in the process of implementation and a fourth one can be a subject to audit and evaluation. Hence, the legislature has to deal with several different budgets at different phases (OECD, 2002).

Still, each of the stages can be discussed more in details. The first stage, the drafting, is generally internal and is performed by the executive. However, it should not to be a secretive issue. For that purpose fiscal policy should be set and available revenues are to be estimated so as to establish the overall amount that might be available to spend. Subsequently the finance ministry should issue the maximum sum of expenditure for each department.

Taking into account the policy framework of the government, negotiations between spending departments and the finance ministry may bring to the allotment of funds across different functions. A consolidated draft budget is to be reviewed and approved by the top political level, the president or cabinet, which will also make the final decision (OECD, 2002).

After the complete budget is drafted, it is to be approved by the legislature to be in effect. During the legislative stage, the parliament examines the expenditure and revenue motions of the executive. Its choices are to approve or decline the budget, alter it, or sometimes even substitute the draft listed by the executive with its own budget. In some countries the legislature submits a separate legislation for appropriations and amendments to the tax code; in others it presents a joint budget bill. The precise type of the legislative approval is less significant than the fact that it must be complete. The legislative approval of the public expenditure and taxation guarantees the rule of law in public finance (Wildavsky, 1989).

The length of the legislative stage is an important component in budget procedures of different countries. For instance, the United States Congress spends about eight months on deciding the budget, while some other legislatures spend only about a month. And it is worth mentioning that the more time the legislature has for the review of the draft budget, the more its total possible influence is. Thus, at least three months for efficient consideration is required for the annual state budget (Wildavsky, 1989).

The budget implementation stage starts at the beginning of the fiscal year. This stage is mainly in the hands of the executive. The finance ministry or treasury is usually a leading player in guaranteeing that the funds are allocated to the spending departments in accordance with the approved budget. Nevertheless, in many developing countries, cash constraints cause certain expenditures to be cut. Other unexpected modifications to the approved expenditures are also

possible i.e. funds may be transferred to the purposes other than those that were accepted (Hallerberg, 2006).

The improvised budget reductions tend to influence the vulnerable groups that have weak political powers and are strongly dependent on the government initiatives unfavorably. Frequent amendments to the budgets can reveal the doubts that are typical of the macroeconomic environment. However, 'continuous' or 'repetitive budgeting' is also a sign of a weak and ill-disciplined budget organization. To guarantee that its power is not destabilized by excessive adjustments, the legislature may find it practical to control the implementation through the inspection of the actual expenditure during the fiscal year. Any major adjustment to the budget should be mentioned in the amendment or supplemental appropriations that are listed in the legislature for approval. Annual amendment decisions should be made transparently and be subject to an identical examination carried out at the budget formulation phases (Wildavsky, 1989).

During the auditing stage, an independent audit body, for instance an audit court or auditor general, should scrutinize government accounts and financial declarations. In many countries, the audit is accompanied with the contemplation of audit findings by the legislature. In case the procedure is effective, the audit based recommendations can be involved in the future budgets, thus, improving the public spending and financial administration systems. The audit should be conducted fast in order to be accurate and relevant. For the audit bodies to meet the deadline, departments and ministries are supposed to submit their financial statements in time (Hallerberg, 2006).

Case Studies of Budget Formation

Having presented the budgeting processes in general, the Polish and Indian methods of the budget formation are to be discussed. For that purpose first the Polish system will be presented, then it will be compared to that of the Indian.

Stage 1: Drafting

In Poland the decision-making procedure on the budget is as follows. The Ministry of Finance makes the revenue estimations in the spring before the next budget year. Afterwards, it makes coarse budgetary plans, forms a projected deficit level, and presents the estimations for the “inflexible” expenditure, with these estimates being expanded one year ahead. The Ministry of Finance then requests the line ministries about their expenditure requirements for the next year. The figures the line ministries present are generally higher than they are to be in case they are consistent with the deficit level. Afterwards, there start bilateral negotiations between the Ministry of Finance and the line ministries which continue up to the end of summer. Around the beginning of September matters are confirmed, either by increasing the deficit level and cutting the proposals made by the line ministry or by combining the two (Misiąg, 2001).

The finance minister has a rather weak role in the procedure. Though there are bilateral negotiations; the Finance Minister does not have any extraordinary authority. Particularly, he is not an agenda-setter who plans the bulk of the budgets for each ministry (as in France, for instance) and he does not have a veto right to cut a given ministry’s request (as in Germany, for instance). Thus, the Finance Minister is efficient only when he enjoys the support of the Prime-minister in political fights within the cabinet. And if he does not enjoy that support, either he is to admit that he will lose some of the budget fights or be ready to leave (Hallerberg, 2006).

In contrast to the Polish case, in India, the budget preparation generally begins in September. But similar to the Polish practice, the Budget Division of the Department of Economic Affairs of the Finance Ministry gathers the estimations of spending (to be acquired in the next fiscal year, from April 1 of a year to March 31 of the next year) from all the line Ministries and Departments of the Central Government. After examining these estimates, the Indian Ministry of Finance, similar to the Polish Finance Ministry, prepares the estimates of spending for different Ministries, including their estimates with amendments. Before finalizing the estimates, the Ministry discusses the issue with the financial advisers of the given Ministries/Departments and Secretary of the Central Government, but unlike the Finance Ministry of Poland, the Indian one has the final say in regard to all the estimates. Hence, the Department of Revenue of the Finance Ministry sets up the revenue estimations. The Finance Minister scrutinizes the budget proposals and has the authority to make amendments in them when discussing it with the Prime Minister. The budget is also shown to the President. And then, the Finance Minister makes a speech in the Cabinet (Das, 2004).

As can be seen, both in the Indian and in the Polish case bilateral negotiations are held, hence, the centralization level in the two cases in the first stage is the same, though in the Indian case the finance minister has the final say in the discussions while the Polish finance minister lacks this authority.

Stage 2: Approval

After covering the discussion of the first stage of the budget making process, the second stage, the budget approval, will be presented in both of the countries.

In Poland, as soon as the government is in agreement on its budget draft, it is sent to the Parliament, which should approve it in a four-month period. The Sejm, the lower house, is the more central of the two houses so it gets the budget draft first. However, it has no authority to propose a budget independent of the government or make any amendments in the budget act that will raise the amount of the budget deficit. The Polish Constitution states that the Parliament cannot amend this amount, but it is independent to suggest adjustments in the spending. Changes should be impartial, in accordance with the budget balance, which implies that the Sejm can increase the expenditures more than what the government projected if it incorporates corresponding revenue growths. (Hallerberg, 2006).

After three readings in the Sejm, the changes are voted and an election on the complete budget takes place. The approved budget is also to be evaluated by the Senate, the Parliament's Upper Chamber. The Senate can also make changes in the budget act but these amendments should still be voted by the Sejm which can cancel the proposals. As for the changes approved by the Sejm, they become law. The President does not enjoy a formal role in the budget procedure and cannot reject the budget. According to Article 224 of the Constitution, he is to sign the budget within seven days after getting it from the Sejm. However, he can as well request the Constitutional Tribunal to check whether the projected draft is in line with the Constitution. And in case the Parliament does not pass the annual budget within four months after the Government's submission, the President can call new elections. If the budget is not approved before the beginning of the coming fiscal year (January 1), the budget drafted by the executive is implemented (Misiąg, 2001).

As can be seen, the role of the legislative in the budgeting process in Poland is rather restricted.

Coming down with the process of the budget approval in India, it can be said that here the presentation of the budget to the Parliament is commonly on the last working day of February. According to the Indian Constitution, the Parliament has a supreme role in financial issues. The Minister of Finance presents the Budget to the Lok Sabha, the Lower House, by making a speech where he introduces the Budget. A similar practice is, as described, in India. However, in contrast to the Polish case, in India Article 112 of the Constitution implies that at the conclusion of the Minister's speech the Budget Act is to be submitted to the Rajya Sabha, the Upper House. Nevertheless, it is worth mentioning that the demands for grants are presented only to the Lok Sabha, the Lower House (PILDAT, 2005) which, similar to the Polish case, can refuse it or cut.

As mentioned, in the Polish Lower House the budget is read three times. In India, it is discussed through two stages. In the first stage, a general discussion is held on the fiscal and economic policies proposed by the government, mentioned in the budget and in the Finance Minister's speech. In the second stage, a detailed discussion is held to make a decision over the demands for grants. Hence, each demand for grant is separately voted. Still, as it is not possible to confer to each demand, the Minister of Parliamentary Affairs, along with the leaders of all parties in the Lok Sabha, selects the Ministries whose demands are to be discussed in the House. The demands that cannot be discussed are gathered and voted at the end of the period without discussion. After making adjustments and deciding the budget, similar to the Polish case, the Lower House sends the bills to the Rajya Sabha for comment which, similar to the Polish case, is not obliged to accept the remarks. As for the Rajya Sabha, it cannot reject the bills. On the other hand, in contrast to the Polish trend, the bills in India become law when signed by the President.

The budget proposal comes into force on April 1. The Lok Sabha has one month before the budget presentation to amend the budget proposal. And if it does not come up to the deadline, the budget is completed in May, after the beginning of the new fiscal year (PIIDAT, 2010).

As seen, in neither of the cases does the Parliament have the authority to raise the level of the budget deficit. In this stage it is also worth mentioning that in contrast to India, where it is the President who endorses the budget bill, in the Poland it is performed by the Parliament.

Stage 3: Implementation

Discussing the third, the implementation stage of the budget formation, it is worth mentioning that no matter how splendidly the budget is designed, it can fail in case it is not authentically implemented.

In Poland, at the implementation stage the fiscal rules are to guarantee the deficit target which is incorporated in the annual budget. This implies that at the times the revenues are more than planned, they merely count against the deficit, for instance, higher revenues of 2004 and 2005 led to lower deficits. If during the budget year it turns out that the target will be surpassed, the government can take one of the following three options: reducing the expenditure or applying to the parliament to increase revenues, amending the deficit target or spending the target by supplemental budget (Hallerberg, 2006).

At least formally the Minister of Finance has a key role during the implementation stage. He can even block the expenditures in the middle of the year. Besides, although he does not have the authority to put clear cash limits, he is to approve all the expenditures of funds. If he

gets the support of the Public Finance Committee of the Sejm, he can also transfer expenditures across chapters, with this kind of reallocations being possible only by his approval. Still, there are provisions to carry the funds that are not spent to the following year.

In addition, there are two more options. In the first case the reserves are targeted and are used for special purposes, for example reserving a fund for a debt service. In the second option the Prime Minister has an account for about 1% of GDP to be used in case of unplanned developments. As seen, the system will work when the changes are minor. Generally, the Minister of Finance makes from 20 to 30 amendments which are later considered by the Public Finance Minister and are commonly approved.

However, if the problem is larger, the system can be broken and the Minister of Finance generally does not have the political support to exercise the required amendments. For instance, in 2001 because of the economic recession which created revenue deficit, the Finance Minister proposed expenditure reduction for about 1% of GDP; however the Cabinet declined the amendments. Hence, the government went to the Parliament with supplementary budget which raised the budget deficit target (Hallerberg, 2006).

In contrast to the Polish case, the budget implementation in India, although very detailed, tends to focus on monitoring. Its aim is to monitor whether the money is spent as projected, what is delivered and to whom. Like in Poland, in India, the overall responsibility for the coordination and control of the budget is in the hands of the Finance Minister. And once the budget is approved by the Appropriation Act, the Finance Minister makes suggestions to the spending ministries about the allocation of their funds. He also monitors the expenditures to ensure that the money allotted to the spending ministries is not exceeded. Besides, each Minister is individually responsible to supervise the execution and guarantee the efficient working of the

staff under his charge. As for the unspent balances, unlike those in Poland, in India they are unavailable for consumption in the following year. Officers that incur spending from the public money are supposed to fulfill with the set standards of the financial propriety: all the savings are surrendered to the Finance Ministry before the end of the fiscal year (PILDAT, 2010).

Hence, when making parallels, it can be seen that in both countries the role of the Finance Minister is crucial, though the aim of the implementation varies, in India it being monitoring and in Poland – ensuring the budget deficit in the annual budget. Another difference is observed in case the budget is not approved before the beginning of the fiscal year. In this situation, in Poland the budget drafted by the executive is exercised, in India- the budget is completed in May, after the beginning of the fiscal year.

Stage 4: Audit

As already mentioned, auditing is the last stage in carrying out the budgetary cycle. In order to ensure the accountability of the executive to the legislature, the expenditures should be audited.

In Poland, the budget is subject to internal and external audit which should be conducted independently and transparently. Hence, in the public sector there are bodies due for the external and internal audit. At the central governmental level the external audits are conducted by the Supreme Chamber of Control (NIK) which is a politically independent body. It scrutinizes the financial conformity with the budget legislation. The internal audit is provided by a steadily developing service, with the number of auditors increasing systematically (Benecki, 2006).

The state budget audit performed by the NIK is concluded with two documents, the first one being a detailed analysis of the implementation of the State fiscal policy plan and the second

one being the NIK's attitude towards the vote approval for the government. The Head of the NIK presents the two documents to the Sejm at its plenary session of summer. The NIK assesses whether the state budget was performed on such criteria as legality, sound management, integrity and efficiency and whether the funds of the budget are spent economically and efficiently. Thus, the state budget implementation auditing is a key component for the state's relevant functioning (Benecki, 2006).

The auditing practices in India and Poland are mainly identical. In India, auditing, performed by the Audit Department, similar to that of Poland, is constitutionally autonomous of the Executive. The inspected accounts are collected by the General Accountant who passes it to the State Government. The Public Accountants Committee is a Legislative Assembly Committee which is formed after the first session of the Assembly. The Committee mostly evaluates the report on the Appropriation Accounts and comes up with recommendations on the surplus of the expenditures. It also inspects the spending and the Finance Accounts of the state government and appraises the government accounts.

As for the Audit General, it is to guarantee that the funds, allotted to different agencies of the government, have been conducted with regards to the law, that the incurred spending have the authority, processes and rules overseeing such expenditures have been considered, the records for the spent money have been kept and submitted to the competent authority (Budget Manual of India, 2010). This phenomenon is as well practiced in Poland.

Thus, when summarizing this stage, it can be said that the process is almost identical in both of the countries: in both cases the external and internal audit are conducted with the external audit having a greater importance and value. Besides, in both countries at the end of the external auditing procedure two documents are presented to the Parliament: the evaluation of the budget

implementation and the attitude of the auditor. And this, of course, fosters the further improvement and perfection of the system. Thus, it can be said that the audit system both in India and in Poland is rather developed and provides a sufficient level of transparency and reliability.

The Budgetary System of Armenia

Coming down with the Armenian case, it should be mentioned that the budgetary system is conducted through the Law on Budgetary System of the Republic of Armenia. Being adopted in 1997 and modified later on, the law makes regulations on the budget process of the country which comprises the state budget and the community budget. The system is based on general doctrines, which provide a united budgetary system, differences between the expenditures and revenues of the budgets in different stages, independence of the budgets, unity and balance of the revenues and spending, effectiveness in the utilization of the budgetary resources, transparency, as well as realism. The community, state and social insurance budgets form the consolidated budget of the Republic of Armenia (AEPLAC, 2007). The Law on the Budgetary System defines the actions to be taken for the formation of the draft budget. It is organized by the Cabinet with the Prime-Minister's decision.

Hence, below the findings for each of the four stages will be presented:

The Budget Drafting in Armenia

The fiscal year begins on January 1 with the budget preparation process which involves the establishment of the Medium Term Expenditure Program aimed to increase efficiency in the public spending system. Its adoption provides a basis for the preparation of the state budget of

the next year. Here, the spending ministries and the bodies, in contrast to Poland and India, are directly accountable to the Parliament and the President and are supposed to compile their own draft calculations which are to present the ministries' priorities and objectives. For health and education services, the ministries should also supervise the budget preparations of the regional and local administrations so as to guarantee that the budgetary resources are adequately estimated (Safaryan, 2008).

Nevertheless, the final budget preparation work is performed mainly by the Ministry of Finance. As in the case of India, the Armenian Finance Minister is also a key player in the budgetary process: he makes the final decisions on individual budgetary allocations. As for the line ministries, their role, similar to that of the Indian practice, is rather restricted in the budget formation: they are not given the budgetary ceilings and this implies that the budgets they present are higher than available resources. Thus, it is the Finance Ministry that makes a decision on the budget allocations (AEPLAC, 2007).

Another reason for the limited role of the line ministries is that some ministries, for instance the Ministry of Education, have minimal role in submitting their budgets i.e. their role is only getting policy based information which is in line with the standards. Discussing the role of the Finance Minister, it should be said that in June he prepares and submits instruments for the preparation of the financial proposals of the next year. From September 23 to 25 the Ministry of Finance passes the draft of the state budget to the Government of the Republic of Armenia. There it is discussed for a week and then is submitted to the National Assembly of the Republic of Armenia. It is also worth mentioning that the draft should be submitted to the National Assembly not earlier than 60 and not later than 90 days before the start of the fiscal year (AEPLAC, 2007).

Thus, the table showing the similarities and differences in the drafting stage in the three countries can be presented below:

Table 1:

	Poland	India	Armenia
a) the Role of MoF in initiating the draft budget	Making revenue estimations in the spring before the next budget year	Preparing guidelines to be followed by the line ministries when making their budget estimates and also setting the time-schedule for the submission of the final estimates	Providing overall macro fiscal framework and fiscal priorities, as well as Preparing and circulating the Medium Term Expenditure Framework instructions
b) The involvement of the line ministries in the budget drafting	The Ministry of Finance then requests the line ministries about their expenditure requirements for the next year	The Ministry of Finance gathers estimations of the spending from all the line Ministries and the Departments of the Central Government	The Medium Term Expenditure Frameworks are prepared by the line ministries and state agencies
c) The Finance Minister's authority in scrutinizing the draft budget	Bilateral negotiations between the Ministry of Finance and the line ministries are held with MoF having a restricted authority in the procedure	the Ministry of Finance of India has the final say in regard to all estimates	The final budget preparation is performed, with Ministry of Finance having the final say

The Budget Legislation in Armenia

Describing the budget approval procedure, it is worth mentioning that the law on the budgetary system is somewhat ambiguous when deciding the expenditure amount required by the Parliament. And though the articles in the law on the annual budget proposes 11 functions and 79 sub-functions, the governmental appropriation is not included in the main articles of the annual budget law. The Government submits the draft of the state budget to the National

Assembly, to ensure its implementation. Since the Armenian Constitution does not enable the legislature to provide recommendations, it has no power to do so. Yet, the Members of the Parliament, Standing Committees, factions, can unofficially make recommendations to the representatives of the executive branch during the discussions. However, these comments are not binding (The World Bank, 2003).

If the budget is not approved before the beginning of the budget year, then the expenditures are made in the amount of the previous year budget. The institution accountable for the coordination of the budgetary issues in the National Assembly is the Permanent Committee on Finances and Credit, Budget and Economics Issues. To guarantee the draft, approval, implementation and transparency of the budget as soon as the draft of the budget is presented to the National Assembly, the Government publishes it in the media within 3 days (The World Bank, 2010).

Hence, the table comparing the approval stage in the three countries is as follows:

Table 2:

	Poland	India	Armenia
a) Submission of the draft budget to the Parliament	The Government sends the draft budget to the Parliament.	The Minister of Finance presents the Budget to the Lok Sabha, by making a speech.	The Government submits the budget draft to the National Assembly.
b) The procedure inside the Parliament	The Lower House gets the budget draft first	The Upper and the Lower houses get the budget draft at the same time. But the demands for grants are presented only to the Lower House.	The President of the NA sends the draft and the schedule for the submission of the amendments and discussions to the Control Chamber and other bodies.
c) The Role of the Upper Palace	The Sejm has no authority to propose budget independent of	The Lok Sabha does not have the capacity to come up with	

	the Government or make amendments that will increase the amount of the budget deficit.	adjustments which will raise the budget deficit.	
d) Budget Discussions within the Parliament	Three readings are held in the Sejm. As a result changes are voted and an election on the complete budget takes place.	A 2-stage budget discussion is held at the Lower Palace	Receiving the opinion of the Control Chamber, NA discusses and approves Annual Budget Execution Report
e) Comments made at the discussions	The approved budget is to be evaluated by the Upper Palace which can also make changes in the budget act. Yet, these changes should also be voted by the Sejm which can as well cancel them.	The approved budget is sent to the Rajya Sabha for comments. But, the Lok Sabha is not obliged to accept the changes and the Rajya Sabha cannot reject the bills.	PM, Standing Committees and factions can unofficially make comments which are not binding.
d) Approving the budget	The changes that the Sejm approves become law.	The bills become law when approved by the President.	NA approves the budget
e)The outcome in case the budget is disapproved	If not approved before the beginning of the coming fiscal year, the budget drafted by the executive is implemented	If not approved before the deadline, the budget is completed in May after the beginning of the new fiscal year.	If the budget is not approved before the beginning of the budget year, the expenditures are made in the amount of the previous year budget

As seen, both Poland and India have a two-palace parliament system in contrast to our Armenian case; hence, there are differences in the sequence of actions required for the budget legislation.

Budget Execution in Armenia

The body accountable for the implementation and reporting in Armenia is the Treasury Office. The Article 5 of the Republic of Armenia on the Treasury System defines the functions

of the Treasury, stating that it is to “organize the management of the financial resources of the State and Communities, fund their expenditures as well as organize the execution of the State and Community budgets in accordance with the legislation. Established within the Finance Ministry in 1996, it is to improve the budget implementation, accounting for the spending as well as the management of the extra-budgetary funds of the budget bodies. By May 1 of the next fiscal year the annual account on the state budget implementation is submitted to the National Assembly where it is discussed only in case the Chamber of Control of the Republic of Armenia makes an issue on a proposal on it (The World Bank, 2010).

Making parallels describing the implementation stage in the three countries, the subsequent table is suggested:

Table 3:

	Poland	India	Armenia
a) The key player of the process	The Ministry of Finance	The Ministry of Finance	The Treasury System within the Finance Ministry
a) The aim of the implementation	Ensuring the deficit target in the annual budget	Monitoring	Improving the budget execution, accounting for expenditure and extra-budgetary funds

Budget Audit in Armenia

The comments made by the Control Chamber are submitted to the National Assembly within six month of the audit completion. Their comments as well as the budget implementation report are published in the budget. After getting the report, the Chief Financial officer reviews it and makes written instructions on correction of violations, shortcomings and weaknesses that have been observed as a result of auditing. The budget audit is performed by the Audit

Department, which is within the Prime Minister’s Office and by the Department of Control and Inspections within the Finance Ministry. Both of the bodies execute external audit. As for the internal audit conducted by the Treasury, it is to monitor the compliance of the budget expenditure, the budget approval as well as other functions of the internal control system. However, it is worth mentioning that the internal audit arrangements are not strong and cannot provide regular internal guarantee (AEPLAC, 2007) and the necessity of amendments can be beneficial.

As seen, both the external auditing and internal one have gaps in our system and lack to provide adequate guarantee. The reason can also lie in the fact that in contrast to India and Poland, where audit is performed by independent bodies of government, in our case both the internal and the external audits are performed by the Ministry of Finance, hence this can become a source of ambiguity and inconsistency.

Consequently, the table presenting the audit system in the three countries will look as follows:

Table 4:

	Poland	India	Armenia
Types of audit	Internal and external	Internal and external	Internal and external.
Internal Audit	It is provided by a steadily developing service	Each ministry has a special unit dealing with internal auditing	Internal audit is conducted by the Treasury
External Audit	External audits are conducted by the Supreme Chamber of Control	External audits are conducted by the Auditor General	External audits are performed by the Audit Department and the Department of Control and Inspections

Conclusion

Thus, after the presentation of the two case studies and the discussion of the Armenian case, it can be seen that though with some differences the Armenian budgetary process resembles more to the Indian practice rather than to the Polish one and this can also be seen by presenting a table which will provide an overall comparison for all the four budgeting stages:

Table 5:

	Poland	India	Armenia
Budget Preparation	The Finance Minister is not an agenda-setter who plans the bulk of the budgets for each ministry: he does not have a veto right to cut a request	The Finance Minister has the final say in all the estimates	The Finance Minister performs the budget preparation
Budget Legislation	Budget bill becomes a law when signed by the President	Budget Bill becomes a law when approved by the Parliament	Budget Bill becomes a law when endorsed by the National Assembly
Budget Execution	Aimed to ensure the deficit target in the annual budget	Monitoring	Organizing and monitoring state and community budgets
Budget Audit	Internal and external	Internal and external	Internal and external

Organization of Central Government

To answer the second Research Question, the public administration of Anglo-Saxon and Continental European countries is to be studied. In this aspect it is worth mentioning that the organization of the government is not an end in itself, but a means for achieving national objectives. The purpose is to allocate the tasks of the government so that they are performed in a manner that is both efficient and economical. It is important to define the areas of authority and

responsibility of administrative units. The organizations, based on the principle of power allocation to the ministries, steady to their competency and accountability, also promote flexibility and openness to new policies and progresses. As for a poor organizational structure of ministries, it should be said that it can become a central reason for an unproductive execution of government policies (OECD, 2002).

Hence, when describing the Anglo-Saxon model, it should be mentioned that the system of government is based on a hierarchical integration within the organization of a ministry. According to it, the hierarchical line starts with the politician at the top and goes down to the street-level officer at the bottom. The system implies vertical division according to policy areas between and within ministries. The performance of such a managerial structure depends on simple hierarchical lines in terms of decision-making authority and accountability, disciplinary powers and sanctions, and also parliamentary scrutiny of the dealings of politicians. Its complements have been the parliamentary liability of the government and ministers and a strong system that maintains information within the management in order to ensure the minister's accountability. It has to be said that though the scheme applies to the general managerial system, it has never hindered the existence of autonomous public institutions with precise roles. The logic of the structure, however, is found in that hierarchy and is also reproduced in the regular composition of the boards of these institutions, the categories of administrators elected as chief executives, and the general regulatory environment (Casini, 2008).

As for the Continental European countries, it is worth mentioning that in contrast to the Anglo-Saxon model which implies vertical separation of power, the Continental model illustrates a horizontal division of power. Here the government and ministers are jointly responsible for identifying new policies, allotting budgetary funds and monitoring policy execution. Besides, the

model implies autonomous organizational bodies responsible for the implementation of legislation. These institutions are protected by the Constitution against the intervention of other public authorities in their decision making and are directly accountable to the Parliament and the public. This method can, of course, foster transparency and democracy (SIGMA, 2007).

Thus, the Continental countries practice the structure of the “functional decentralization” i.e. split from the state or local governments. The degree of executive sovereignty differs greatly from one society to another, depending on the laws and systems setting up each body. Its autonomy also depends on the scrutiny of powers ascribed to the administrators who are in charge of the sector in a ministry. In these countries unitary states have different levels of regionalization, e.g. in Spain after the establishment of democratic government, the regions got noticeable legislative authority and their own fiscal funds. Another example can be provided by recalling the Italian practice where the regions have legislative and operative authorities to a degree that is called “quasi-federal” (Wollmann, 2010).

Thus, in general, in Anglo-Saxon countries the government is based mainly on one-tier model, where the overall power is rather centralized. As for the Continental model, it supposes decentralized structure of public administration, though the level of decentralization may vary from country to country. From this analysis, the reason for differences in the budget formation processes in the two models can also become understandable, i.e. because the Anglo-Saxon model of the central government administration has rather centralized system, their budgetary procedure is also more centralized than that in case of the Continental countries.

In our, Armenian case, the Constitution, laws and rules of RA concerning the government structure are the key legal sources for the system to function. The legal structure also comprises intergovernmental agreements with different countries and international organizations. The

Armenian Government consists of two levels: the central and local. However, similar to the Anglo-Saxon model, the local authorities have rather restricted role and most managerial functions are executed by the central government (Khachikyan, 2008). As for the inter-ministerial structure, it is worth emphasizing the role of the Finance Ministry, which is an executive body that develops and implements policies related to the state budget formation, organizes and realizes the audit of the financial activities of the government agencies, coordinates social-economic programs, etc. In here, the line ministries have to coordinate all their programs on the ratification of the budget with the Ministry of Finance which has the authority to cut the demands for revenues.

As can be seen, on the one hand the Armenian practice of administration is based on a two-tier government system- local and central; on the other hand the role of the local bodies in the managerial issues is rather restricted. Besides, when discussing the inter-ministerial relationship it is worth mentioning that although bilateral negotiations are held between the Finance Minister and the line ministers when deciding the amount of funds allocated to each ministry; it is the Minister of Finance who has the final say in those negotiations.

Thus, drawing parallels between the Armenian practice and that of the Anglo-Saxon and Continental, it can be said that the Armenian system has certain similarities with the Anglo-Saxon model though there are also some elements in our practice typical to the Continental model.

Findings to the Second Research Question

The answer to the second Research Question, which explores the similarities of the budgetary practices in the selected countries compared with Armenia, is that the Armenian

system stands closer to the Anglo-Saxon model, where, similar to our case, though there exist autonomous local bodies that have specific functions, the government relies on the unitary managerial system.

However, certain distinctions also exist in the structures exercised in Armenia and Anglo-Saxon countries. This can be the result of numerous different factors such as geography, history, economy and politics. The first reason for the differences can lie on the fact that for about seventy years Armenia was under the dominance of the Soviet Union and the country still preserves some of the practices which were typical to the USSR regime and that first of all meant total centralization of the government. The Soviet legacy is indeed deeply rooted in our mentality and creates numerous obstacles on our ways of reformation and good governance. Hence, we have also cultural differences and this is expressed in our understanding of what the role of a proper government and inspection function should be.

In addition, despite the similarities that were described between the Armenian case and the Anglo-Saxon model, it cannot be said that Armenian system totally replicates the Anglo-Saxon practice also because here the role of the international organizations is observed. Namely, the role of the European Union can be mentioned which aims to improve the economic condition, develop and strengthen democracy and the rule of law, enhance human rights and fundamental freedoms in the South Caucasus region consequently also in Armenia. This involvement can foster efficient promotion of good governance, democratization, durable peace in Armenia and this of course implies certain level of decentralization which in the future may be endorsed not only on the paper but also practiced in reality. Amendments have also been conducted on the advice given by International Monetary Fund and the World Bank. Indeed, a lot of suggestions and recommendations over the organization of the Treasury have been proposed also by the

International Monetary Fund (IMF) and the World Bank (WB). Especially worthwhile is mentioning the two-generation reforms program. The first generation was executed from 1996 to 2002 and the second generation was carried out from 2003 to 2009. The programs enabled to move from the accounting system operating in the public sector from the Soviet Union period to the standards that are applied in the public sectors internationally, ones that are compatible and comparable with the Government's 2001 Financial Statistics Manual of the IMF as well as with the accounting standards introduced in the private sector. In this aspect it is also useful to mention that the Ministry of Finance focused to shift from the fiscal method to the International Public Sector Accounting Standards (Economic Periodical, 2003).

Thus, though the budgetary process in Armenia is closer to the Anglo-Saxon model there are also some elements from the Continental structure.

Conclusion and Recommendations

Overall, the above presented analysis shows that there are certain distinctions in the central government models, their functions and roles. This implies that the budget formation procedures and regulations can also be different from system to system.

The above presented discussion shows that the Armenian practice is closer to the Anglo-Saxon model though we also have elements from the Continental structure. Thus, it is worth mentioning that the Continental – Anglo-Saxon divide does not define everything, other factors such as geographical position, history, economy and political disposition are also at play.

Consequently, taking into consideration the described similarities and differences as well as the gaps that have been observed in our budget formation processes compared to the practices experienced in the selected models, we can as well borrow strategies and policies successfully

implemented by them. However, it is also important to mention that even when borrowing, culture, traditions, historical and social background of our country is to be taken into consideration.

Hence, it is advised to pick measures from the above presented case studies rather than totally apply to any of them because the reform will succeed if based both on best practices and on the country specific features (SIGMA, 2007).

One of the most vulnerable features of our budgetary process, as already described, is the audit as both the external and the internal audit are carried out by the Ministry of Finance, hence becoming a source of ambiguity. In this aspect the following recommendations are suggested: concerning the external audit it is vital to endow the budget control, data recording and payment facilities to Non-Commercial Organizations and include their budget execution data in the Treasury reports (as is the procedure both in Poland and India).

Besides, as mentioned above, the internal audit is not well developed in Armenia, either: the arrangements are not strong and cannot provide regular internal guarantee. Therefore, it is also suggested to improve the internal auditing stage to provide assurance on the standard of risk management, control, and governance.

One more phase in our budget formation that needs further improvement can be noted in the drafting stage. As already presented, in this stage bilateral negotiations are held between the line ministries and the Finance Minister. However, the level of decentralization is not that high because the Minister of Finance has the final say in the conciliations and can cut the demands for funds presented by the line ministries. Thus, in this aspect it is recommended to borrow the practice implemented in Poland, i.e. increase the level of decentralization by promoting the role of the line ministries in the budget making process as it will make the system more democratic.

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