

Fiscal Decentralisation and Territorial Cooperation

Working Together for Development

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**Fiscal Decentralization in Armenia:
practice and challenges**

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Legal bases of FD

- **Constitution of 1995 as starting point of decentralization in general and FD**
- **Legislative bases of FD**
 - The Law on Admin. and Territorial Division (1995)
 - The Law on Local Self-government (1996), new Law on Local Self-government (2002)
 - The Law on Budgetary System (1997)
 - The Law on Local Duties and Fees (1998)
 - The Law on Financial Equalization (1998)
- **Amendements to the Constitution – 2005**
 - Additions to the Law on Taxes (relates to local taxes) (2010)

FD Good Practice

- Clear separation of state and local budgets revenues
- Local budget revenues are:
 - local taxes
 - state duties
 - local charges (duties and fees)
 - intergovernmental transfers
 - other revenues (land and property rent, etc.)
- Regulation of local duties and fees levy
- Regulation of financial equalization grants allocation
- Management of local taxes and charges databases

FD Problems

- Law level of FD
 - Share of local budgets in PE - 4.7%-8.5% 1997 - 2010 without any clear trends and 8.8%-2011, 9.4%-2012
 - Share of local budgets in GDP - 1.2%-1.7% 1997 - 2009 with clear raising trend and 2.4% in 2010, 2011 and 2012
- There aren't defined share of centrally established taxes (PIT and CIT) as local budget revenues
- There isn't regulation on allocation of subventions (targeted transfers from the state budget to the local budgets)
- There isn't regulation on allocation of so called "other grants" (state tr.), which is defined by the law
- Municipalities are far from capital market
- Vague regulation of local duties, fees and municipal services charges

FD Chalanges

- Consolidation of municipalities as a starting point for further FD
- Transferring to local authorities the right of definition of all local taxes rates within the limits of the law
- Regulation of local duties and fees for the porpose of their unification, clarification and updating
- Regulation and updating of all state transfers to local bugets
- Establishment of all necessary conditions for involving municipalities in capital market
- Transferring new responsibilities and appropreate finance to local authorities

Thank You For The Attention