

## The process of community enlargement in the context of strengthening the financial capacity of communities

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### Համայնքների խոշորացման գործընթացը համայնքների ֆինանսական կարողությունների ամրապնդման համատեքստում

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**Ամփոփում**՝ 1991թ.-ից ի վեր ՀՀ-ը հետամուտ է եղել գործուն հանրային կառավարման համակարգի ստեղծմանը և կայացմանը: Հանրային կառավարման կայացումը և զարգացումը ենթադրում է վարչատարածքային բաժանման և տեղական ինքնակառավարման համակարգերի անընդհատ զարգացում և բարեփոխումներ: Անցած 30 տարիների փորձը ցույց տվեց, որ գործող վարչատարածքային համակարգը խոչընդոտում է տեղական ինքնակառավարման հետագա զարգացմանը և խորացմանը, ուստի անհրաժեշտություն էր առաջացել վարչատարածքային բարեփոխումների, որն էլ ՀՀ կառավարությունը ձեռնարկեց 2011 թվականին հավանության արժանացնելով «Համայնքների խոշորացման և միջհամայնքային միավորումների ձևավորման հայեցակարգը»-ը, որով սկիզբ դրվեց համայնքների խոշորացման գործընթացին: **Հանգուցաբառեր**՝ Խոշորացված համայնք, համայնքային բյուջե, համայնքի բյուջետային եկամուտներ, ապակենտրոնացում, համայնքի սեփական եկամուտներ, ֆինանսական ապակենտրոնացում համայնքի բյուջետային ծախսեր

### Процесс расширения сообществ в контексте укрепления финансовых возможностей сообществ

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**Аннотация.** С 1991 года РА стремится к созданию и становлению активной системы государственного управления. Становление и развитие государственного управления предполагает постоянное развитие и реформирование систем административно-территориального деления и местного самоуправления. Опыт последних 30 лет показал, что существующая административно-территориальная система препятствует дальнейшему развитию и углублению местного самоуправления, поэтому возникла необходимость в административно-территориальных реформах, которые Правительство Республики Армения приняло решение

в 2011 году, утвердив «Концепцию расширения сообществ и создания межобщинных объединений», положившую начало процессу расширения сообществ.

**Ключевые слова:** расширенное сообщество, общинный бюджет, бюджетные доходы общин, децентрализация, собственные доходы общин, финансовая децентрализация, бюджетные расходы общин

Administrative division is one of the most important systems of government for any state. The importance is due to the fact that different levels of government are formed as a result of administrative division. Then as a result of a distribution of powers the range of issues of public importance to be addressed at each level is determined. And the problems and challenges, facing the state, are forcing the system of administrative-territorial division of the state to be constantly reconsidered, as the efficiency of governance largely depends on the existing system of administrative-territorial division in the country. Therefore, it must be stated that the administrative-territorial reforms and their regular implementation are the guarantee of forming an established and developed state.

The aim of the research is to analyze the impact of the community enlargement process in terms of strengthening the financial capacity of the communities by the example of Ashotsk enlarged community. The theoretical basis for the research was domestic-foreign works, as well as research materials of state and non-governmental organizations. Various statistical data were used for the research. Information from the RA National Statistical Committee, professional literature, RA Ministry of Territorial Administration and Infrastructure, local self-government bodies analysis. The methods of deduction, induction and comparative analysis were used during the analysis. For comparison, the budget revenues of Ashotsk community during the pre-enlargement and post-enlargement periods were considered, the structures of the community budget revenues were analyzed to assess the financial independence of the community.

The system of local self-government in the Republic of Armenia, formed in 1996, is still experiencing a period of establishment and strengthening. Mechanisms and ways are being sought to improve the accountability of local governments, to make their work more efficient, high-quality, transparent, as well as to encourage the active participation of the population in community governance [1, Page 2]. After independence, the process of administrative-territorial division also started in Armenia, as a result of which the territory of the republic was divided into 10 provinces and the city of Yerevan (as a province).

915 communities were established in the provinces, which started the process of forming a system of local self-government in the country. Almost half of these communities were mainly

small and financially disadvantaged. As a result, after about a quarter of a century, a large number of communities in Armenia are still in poverty and have a very low level of socio-economic development.

The problems related to the socio-economic development of communities in the RA are conditioned by many factors, each of which, in one way or another, hinders the development of communities and the establishment of a community economy.

However, it is obvious that the problems in the local self-government system in Armenia are mainly conditioned by the existence of communities with weak capacities. As we understand it, the reason for this is the large number of small communities formed in Armenia as a result of administrative division, local self-government bodies of which, regardless of their financial resources and the number of population, have to provide the same community services. Therefore, it is impossible to imagine how the problems faced by local self-government bodies, especially in small communities, will be solved.

The need for administrative-territorial reforms in the RA is first of all explained by the significant differences between the communities. These differences relate to the population of the communities, the land resources available within the administrative boundaries of the communities, the natural resources available in the community, and the socio-economic infrastructure of the community. By the way, these differences are typical not only for rural but also for urban communities. There are communities in the RA, the population of which is a thousand times different from each other, they also differ in their financial and human resources, but by law they are given the same scope of authority and "provide" the same community services. That is, legally, large and very small communities are not differentiated and operate within the same law. All communities (regardless of their financial and human resources) are obliged to exercise the full scope of their powers under the Law of the RA "On Local Self-Government". This is due to the fact that the resident, regardless of the community in which he or she lives (large or small), has the right to use all services provided by local governments that meet the minimum subsistence requirements.

As there is no alternative to the establishment of the local self-government system in Armenia, the administrative-territorial division system needs to be

reformed in order to ensure a sufficient level of socio-economic development through community capacity building. Hence the need for immediate implementation of administrative-territorial reforms in the country.

However urgent its implementation may be, the main criterion for its implementation should be to increase the efficiency of governance in the administrative units. In general, administrative units must meet certain conditions, under which only one can speak of the possibility of effective management in those units. The administrative-territorial units must meet the following conditions:

1. Physical conditions
2. Economic and financial conditions
3. Legislative and institutional conditions
4. Availability of human resources [4, Page 101-102]

It is obvious that many of the communities in Armenia only meet the physical conditions of their existence. That is, communities have clearly separated administrative boundaries and a small population. It is unrealistic to ensure effective local self-government here. The financial conditions of the communities are very important in the establishment of local self-government.

As for the financial capacity of the communities, everything is obvious here. There are many small communities in the Republic of Armenia, whose budget resources are not enough to do serious work and provide services, mainly spent on maintaining the mayor's staff [3, Page 15]. Therefore, the only effective way to overcome the socio-economic challenges of community development is to strengthen local self-government through decentralization. And decentralization cannot be an end in itself. The main result should be the most effective implementation of this or that authority, which should be used by the residents of the communities. The exercise of authority is possible with the availability of appropriate financial resources and resources [5, Page 61]. Therefore, the only effective way to overcome the socio-economic challenges of community development is to strengthen local self-government through decentralization. And decentralization cannot be an end in itself. The main result should be the most effective implementation of this or that authority, which should be used by the residents of the communities. The exercise of authority is possible with the availability of appropriate financial resources and

resources. Communities must have sufficient financial resources to properly exercise their powers. Article 9 of the European Charter of Local Self-Government stipulates that the financial resources of local self-government bodies should be proportionate to their powers conferred by the constitution or by law [2, Page 3]. Strengthening the financial capacity of communities is one of the most important issues of public administration, without which it is impossible to imagine an established and developing system of local self-government. The latter presupposes the compatibility of fiscal decentralization and political decentralization. According to the Law of the RA "On Local Self-Government", the powers delegated and obligatory by the state must be performed first, the fulfillment of which is fully financed from the state budget [6, Article 10]. Voluntary powers are subject to fulfillment when the community budget provides sufficient financial resources for them. The majority of the 915 communities operating in the former administrative-territorial division were communities with small and weak financial capacities, the budget revenues of which were mainly sufficient for the salaries of the community staff and mandatory social payments. The budget revenues of the community are formed from two groups of revenues: own revenues, official grants. From the point of view of financial stability and independence, the share of the community own revenues in the total budget revenues is important. The higher the rate, the more financially independent the communities are and the less dependent they are on government grants. In the system of local self-government of the RA, the majority of budget revenues go to state grants. According to the Law of the RA "On Local Self-Government", there are two grants provided by the state: subventions and subsidies [6, Article 57]. According to the Law "On Financial Equalization", subsidies are provided to the administrative budgets of the communities, the expenditure directions of which are determined by the community governing bodies, and the subventions are purposefully provided to the fund budgets of the communities [6, Article 3].

In order to assess the results of fiscal decentralization as a result of community enlargement, we will examine the differences between community budgets before and after enlargement on the example of enlarged community of Ashotsk (includes 11 settlements).

**Table 1.** Enlarged community budget revenues of Ashotsk during 2016-2018 (The table was compiled by the authors).

	Community budget revenues (thousand drams)			Of which own income (thousand drams)		
	By individual communities	Ashotsk enlarged community	Ashotsk enlarged community	By individual communities	Ashotsk enlarged community	Ashotsk enlarged community
	2016 թ.	2017 թ.	2018 թ.	2016 թ.	2017 թ.	2018 թ.
<i>Ashotsk</i>	66466.4	186,863.3	194,992.4	16,350.6	57371.3	69378.6
<i>Bavra</i>	14975.6			16,350.6		
<i>Mets Sepasar</i>	20191.9			4,492.6		
<i>Pokr Sepasar</i>	5117.7			1,617.7		
<i>Tavshut</i>	9277.15			3,358.5		
<i>Saragyugh</i>	6598.5			3,098.5		
<i>Ghazanachi</i>	14271.6			3,280.7		
<i>Krasar</i>	12050			4,181.2		
<i>Karmravan</i>	7463.9			3,963.9		
<i>Zuygaghbyur</i>	13474			3,972.1		
<i>Sizavet</i>	8550.8			4,153.5		
<b>Total</b>	<b>178,437.6</b>			<b>186,863.3</b>		

As we can see from Table 1, in 2017, as a result of community enlargement, community budget revenues increased by 4-7% compared to 2016. It is noteworthy that the community's own income has also increased by 6-55%. When considering the growth of the community budget revenues, the growth of the share of the community own revenues in the total revenues is very important. It should be

noted that before the expansion, the community own income was 30-1% of the total income, and after expansion, although their own income increased, their share remained almost unchanged (30.7%), meanwhile, the enlargement process itself implied the strengthening of the financial capacities of the communities and the increase of their independence.

**Table 2.** Enlarged community budget revenues of Ashotsk during 2018-2020 (The table was compiled by the authors)

	Community budget revenues (thousand drams)			Of which own income (thousand drams)		
	Ashotsk enlarged community	Ashotsk enlarged community	Ashotsk enlarged community	Ashotsk enlarged community	Ashotsk enlarged community	Ashotsk enlarged community
	2018 թ.	2019 թ.	2020 թ.	2018 թ.	2019 թ.	2020 թ.
<b>Ashotsk</b>	194992.4	214710.2	243689.5	69378.6	71351.6	78419.8
<b>Total</b>	194992.4	214710.2	243689.5	69378.6	71351.6	78419.8

The budget revenue information of the communities of the RA is taken from the website of the Ministry of Territorial Administration and Development of the RA at the following link: <http://www.mtad.am/en/budgetary-incomes/>

Let us now examine the dynamics of the growth of the budget revenues of the enlarged community of Ashotsk, in particular, in the three years following the enlargement. It is clear from Figure 1 that in 2018 the community budget revenues increased by 4-35%, and in the next two years by 10-11% and 13-49%, respectively.

It is noteworthy that four years after the enlargement process, the community budget revenues increased by 36.5%, but the share of the community own revenues in the total revenues increased by only 2%. It follows that the main expectation from the enlargement process, which is to increase the financial independence of the communities, has not been justified.

**Table 3.** *The per capita income of the community of Ashotsk of the RA in 2016-2017.*  
(The table was compiled by the authors)

	Community budget revenues (thousand drams)			
	By individual communities	By individual communities (per capita)	Ashotsk enlarged community	Ashotsk enlarged community (per capita)
	2016թ.	2016թ.	2017թ.	2017թ.
Ashotsk	66,466.4	23.5	186863.3	25.4
Bavra	14,975.6	22.9		
Zuygaghbyur	13,474.0	23.8		
Tavsh	9,277.2	23.8		
Karmravan	7,463.9	29.3		
Krasar	12,050.0	21.9		
Ghazanchi	14,271.6	22.4		
Mets Sepasar	20,191.9	21.4		
Saragyugh	6,598.5	30.7		
Sizavet	8,550.8	21.8		
Pokr Sepasar	5,117.7	21.5		
<b>Total</b>	<b>178437.6</b>	<b>23.3</b>	<b>186863.3</b>	<b>25.4</b>

The budget revenue information of the communities of the RA is taken from the website of the Ministry of Territorial Administration and Development of the RA at the following link: <http://www.mtad.am/en/budgetary-incomes/>  
Information on community residents was taken from the website of the Statistical Committee of the RA at the following link: <https://www.armstat.am/am/?nid=540>

As, in the context of the study of budget revenues, the amount of per capita income of the residents of the communities is important, so let us consider the change of the mentioned index. As can be seen from Table 3, the per capita income before the enlargement fluctuated in the range of 21,000-30,000 AMD, on average the per capita income was

23,000 AMD. After the enlargement, the per capita income also increased to 25,400 AMD. Since it is impossible to determine the positive or negative impact of enlargement on the mentioned index in one year, we will present this index in the next three years. Figure 2 shows that per capita income is growing dynamically year by year.

**Figure 1.** *The per capita incomes of the community of Ashotsk of the RA in 2018-2020* (The figure was compiled by the authors)



In general, the study of the budget revenues of the community of Ashotsk provides some conclusions. Involvement in the enlargement process was expected to strengthen the financial capacity of the communities, which should primarily lead to an increase in community incomes and an increase in the degree of financial independence.

As a result of the analysis, it becomes clear that as a result of the enlargement, the community

budget revenues have a positive tendency to grow year by year. As a result, the per capita income also increases, which is an important indicator of the living standards of the population. The picture is different if we look at the impact of enlargement on the degree of financial independence. It is clear that the strengthening of financial capacity is largely due to the financial independence of communities. The degree of financial independence is conditioned by the share of own revenues in the community budget revenues. Prior to the enlargement, the own revenues of the communities averaged about 30 percent of total revenues.

Which means that the communities were not financially independent and could not solve the problems of community importance with their own resources. One of the main goals of the enlargement was to increase the level of financial independence. However, almost 4 years have passed since the enlargement, but in the budget structure of the enlarged community of Ashotsk, own revenues make up only 32% of the total revenues. In other words, the share of own revenues has increased by only 2%. This indicator cannot be considered

positive, as it is unrealistic to ensure the socio-economic development of communities in conditions of low financial independence.

In addition, as a result of the enlargement, it was expected to increase the level of professional qualification of municipal staff, which should improve the process of tax arrears in the community and increase the volume of own revenues. It is true that although there is an increase in the share of own income, it cannot be a sufficient indicator to ensure sustainable community development.

In general, assessing the impact of enlargement is a complex process. However, it should be noted that the results of the enlargement will be possible only after some time, because in addition to strengthening financial capacity, time is also needed to improve the legal framework. Communities must begin to meet all the conditions typical of administrative units. In order to achieve all that, it is necessary to actively involve all stakeholders in the development of the community, and only due to their years of hard work it is possible to ensure the socio-economic development of the communities.

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