

**The Republic of Armenia
Public Financial Management
Performance Measurement Report**

2008

Ministry of Finance of the Republic of Armenia
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WELCOMING ADDRESS

It is known that ensuring a long-lasting and sustainable economic growth in the country and higher living standards for the population are viewed as priority strategic goals by the Government of the Republic of Armenia. The existence of a comprehensive, robust, transparent and controlled public financial management (PFM) system is an important guarantee for attaining these goals.

In order to ensure and manage a normal progress of any process in the predetermined direction, it is very important to look in retrospect at the road taken from time to time and assess the obtained results, identify problems and prepare a plan of future actions. Thus, the ultimate goal of the PFM Performance Measurement report presented herewith is to provide a complete picture of the current PFM system and provide bases for monitoring the effectiveness of system performance in future.

In general, the significance of the PFM performance analysis for our country is hard to overestimate. A mere listing of the components of the study for preparation of the report attests to it: assessment of the existing situation in terms of budget credibility, comprehensiveness, transparency, policy-based budgeting, predictability and control in budget execution, accounting, recording and reporting, external and internal audit. The measurement based on the analysis of individual PFM performance indicators provides general information on the existing situation in the PFM and will provide a scope for the debate on further development of the PFM system both inside the Government and at the Government-National Assembly level.

The Republic of Armenia PFM Measurement Report was prepared as a result of an extensive and detailed self-assessment work by a number of ROA states bodies. Experts from the World Bank and a number of other international organizations provided methodological and technical assistance to assessment activities and preparation of the report, also an important progress in building our capacities.

We expect that this document will form a basis for developing and consistently implementing future reform strategies in a range of PFM areas.

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WELCOMING MESSAGE

This Performance Measurement Report is important for Armenia for three reasons. First, it is the first official PEFA Report for Armenia, which now joins over a dozen 'PEFA countries' in Europe and Central Asia. Discussing PEFA reports with peers in bilateral and multilateral fora has become increasingly useful for countries with public financial management (PFM) reform programs. Second, the Armenia Report is an important management tool – it can be used as an input to the Government's PFM reform strategy, as well as to track performance improvements resulting from PFM reforms over time. Third, and perhaps most importantly, this report was prepared by the Government of the Republic of Armenia, which has demonstrated serious resolve and commitment to improving its PFM system by first understanding the strengths and weaknesses of that system in international perspective. Under the leadership and guidance of the Ministry of Finance, and First Deputy Minister Pavel Safaryan in particular, and with the participation of the National Assembly, the Chamber of Control, and the State Tax Service, the Report was prepared with great candor and competence. The World Bank would like to congratulate the Government for its proactive and thoughtful preparation of this Report. The World Bank would also like to thank the ADB, IMF, and DFID for their participation in the process, and to the EC and GTZ for their interest as well.

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ACRONYMS

AGA	Autonomous Government Agencies
AMD	Armenian Dram
ASB	Authorized State Bodies
DSA	Debt Sustainability Analysis
KfW	KfW Bankengruppe
GFS	Government Finance Statistics
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MDA	Ministries, Departments, and Agencies
MP	Member of Parliament
MTEF	Medium Term Expenditure Framework
NA	National Assembly
PE	Public Enterprise
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
ROA	Republic of Armenia
SAI	Supreme Audit Institution
SN	Sub-National
SNCO	State Non-Commercial Organization

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SUMMARY ASSESSMENT OF THE REPUBLIC OF ARMENIA PUBLIC FINANCE MANAGEMENT PERFORMANCE

This summary assessment provides a strategic picture of public finance management (PFM) in the Republic of Armenia (ROA).

Section 1 of the assessment is summarized along the six core dimensions of PFM performance measurement; section 2 assesses the impact of PFM weaknesses; and section 3 assesses prospects for reform planning and implementation

(i) Assessment of PFM Performance

a. Budget Credibility (PI 1-4)

As indicated by the trends in 2005–07, the budget is realistic and is largely executed as planned. Particularly during 2005–07, the deviation of actual budget expenditure from the approved budget was not significant: the deviation accounted for only 6.7 percent, 4.9 percent and 7.4 percent, respectively. The variance in actual primary expenditure composition in the state budget in 2005–07 exceeded deviation in primary expenditure by no more than 5 percentage points (2.9 percent, 2.6 percent, and 3.1 percent, respectively), and practically no expenditure arrears accumulated. State budget revenue forecasts were not only met but also exceeded. The latter enabled maintaining the deficit at the planned level and avoiding additional cutbacks in the approved expenditure that would adversely impact on the effectiveness of planned programs. There are some issues with collecting information on expenditure arrears for State Non-Commercial Organizations (SNCOs),¹ which, however, did not produce significant risks or have any impact on overall budget credibility.

b. Comprehensiveness and Transparency (PI 5-10)

Budget comprehensiveness has improved after the introduction of the approach for inclusion of receipts and outlays of extrabudgetary accounts. The budget classification used in the Republic since 2000 conforms to the Government Finance Statistics (GFS) classification. Budget transparency also has improved. Information on budget policies and macroeconomic forecasts is publicly avail-

¹ The Millennium Challenge Account-Armenia (MCA-Armenia) is a State Non Commercial Organization (SNCO) established by the Government of Armenia. The SNCO is responsible for overseeing the transparent implementation of the Compact signed between the Millennium Challenge Corporation (MCC) and the Government of Armenia. <http://www.mca.am/new/enversion/overview.php>

able and is published in mass media and the official websites of relevant Government agencies. Transfers to local governments are made according to procedures established in legal acts which are accessible for local governments. In fact, the majority of transfers are regulated by law. However, there are some problems with the oversight of overall fiscal risk from other public sector entities (state and community noncommercial organizations and companies) that prevent a clear and full picture of performance in maintaining fiscal discipline and managing financial risks.

c. Policy-Based Budgeting (PI 11-12)

Since 2003, Armenia has significantly improved its budget preparation. ROA-government-implemented policies in different sectors, which find their reflection in long-term strategies (namely, the PRSP), adopted in advance and medium-term expenditure frameworks (MTEFs) adopted each year, are at the heart of state budget proposal preparation. Budget proposal preparation has a clear institutional basis and is carried out in accordance with legislative requirements. However, there is scope to improve the process: the current process of introducing program budgeting has promising prospects. Program budgeting itself would be enhanced by making sector strategies more complete and comprehensive.

d. Predictability and Control in Budget Execution (PI 13-21)

Due to the measures taken, clear trends of improved predictability in Armenia's budget execution have been observed in recent years. Taxpayer liabilities are largely comprehensive and clear, and the discretionary powers of the tax authorities are fairly limited. The system for tax appeals by taxpayers is not based on independent administrative structures. Activities are underway to introduce risk-based audit plans. Despite the increase in the collection of tax payments, the amount of arrears is still significant. In the meantime, reliable systems are in place for recording and managing cash balances, debt and guarantees, and predictability in the availability of funds for commitment of expenditures and organizing procurement.

e. Accounting, Recording, and Reporting (PI 22-25)

Reconciliation and accounting of budget accounts and reporting are under control and regulated. Daily reconciliation of the single Treasury account with the corresponding account in the central Treasury is performed at aggregate and detailed levels, as is also done for extrabudgetary accounts. Information on

funds allocated from the State Budget to service delivery units is collected daily (online), and information on other funds transferred to SNCO accounts in commercial banks is contained in annual reports.

Data presentation in reports follows functional, economics and administrative classifications that conform to the budget. The statements on expenditure contain information on commitments, funded, and spent resources, which are recorded by the Ministry of Finance (MOF), but summary reports contain data only on cash expenditure. The reports are presented quarterly in a consistent format and are issued within 45 days of the end of period. There are some concerns over the accuracy of some data, namely, those of the funds outside the Treasury system. However, overall, data issues do not significantly affect the accuracy of the statement.

A consolidated Government statement (consolidates the state and community budget execution) is prepared annually. Information on revenue, expenditure, and bank account balances may not always be complete, but the omissions are not significant.

The consolidated statement is submitted for external audit within five months of the end of the fiscal year (FY).

f. External Scrutiny and Audit (PI 26-28)

A Chamber of Control was established and operates in the Republic of Armenia. Its status and activities are regulated largely by the recently adopted law on the Chamber of Control. The reports of the chamber are submitted to the legislature, and audits comprise predominantly transaction-level testing. The ROA government provides official information to the Chamber of Control on the follow-up measures taken within the specified period to correct the violations identified in the chamber's reports.

The procedures established by law enable the National Assembly to scrutinize the fiscal policies, medium-term fiscal framework, and priorities underlying the government-submitted budget proposal, as well as the details of expenditure and revenue. The current period allowed for budget proposal review, and the by-laws defined by law enable the National Assembly's involvement in budget preparation process at an early stage. The rules and limits for in-year budget amendments (without prior approval by the legislature) are defined clearly in law and are consistently respected.

Each year, the National Assembly discusses the state budget execution report within the specified period, provided that there is an opinion by the Chamber of

Control. The legislation covering the area does not enable the Chamber of Control to issue recommendations on the annual state budget execution report.

(ii) Assessment of the Impact of PFM Weaknesses

In general, there have been obvious improvements in the PFM system. The success of ensuring budget credibility enabled a more efficient use of the budget as an effective policy tool. However, some issues regarding collecting information on expenditure arrears do create some uncertainties over how realistically the budget objectives can be achieved. The latter could adversely impact the overall level of budget discipline and lead to an unmanageable increase in expenditure arrears, which could also cause redirection of resources from budget priorities.

Improvement in budget comprehensiveness enabled wider public sector functions to be performed in line with key provisions of the fiscal policy and established budget management procedures. The increased transparency in budget management had a positive impact on Government policies and programs, and the scope for external oversight of their implementation. Nevertheless, issues of control of the overall fiscal risk from other public sector entities prevent developing a clear and complete understanding of the Government's effectiveness in maintaining financial discipline and managing financial risks. There also is limited scope for both public assessment of Government effectiveness in addressing policy priorities and public scrutiny of the use of financial resources by service delivery units.

Adoption of policy-based budgeting extended the scope to perform the planning and use of public financial resources in line with strategic and fiscal policies. However, the *incomplete introduction of performance budgeting* prevents three important functions:

- a. Proper linkage between the budget and policy measures
- b. Clarification for line ministers of the indicators for intrasector allocation in line with Government policy priorities for a given sector
- c. Comprehensive assessment and discussion of the efficiency of budget spending and the consistency of results achieved with policies.

Despite some predictability achieved in budget execution, there are still outstanding issues, specifically in the area of control, that impede future progress. In particular, while internal audit was introduced in the state bodies to organize the audit process, it falls short of international standards. The tax collection

process also is affected by the lack of clear risk-based criteria incorporated in audit plans. Resolving the issues above would improve the effectiveness of the expenditure control mechanism and the tax collection process. As a result, it would create the necessary conditions for meeting the target level of the budget deficit, preventing the need for unplanned reallocations of financial resources and the risks of untargeted spending of funds.

Orderliness in accounting, recording, and reporting provides the accurate and current financial information necessary for public finance management and decision-making. However, since the reports contain information only on cash expenditure, they do not enable a full picture of how the long-term financial stability and efficiency of policy measures are ensured. It also is worth mentioning that National Public Sector Financial Reporting Standards consistent with the International Public Sector Accounting Standards (IPSAS) are not yet in place. Their use would enable presenting to the reader information on transactions effected in the public sector and existing assets and liabilities in a comprehensible, transparent, and consistent manner. Regular information of this quality would enable tracking the use of resources and would facilitate identification of problems and gaps in the budget under execution. Mainly, there is a lack of public reports on the allocation of budget resources between the Government entities providing services to the population, especially on how these resources have been spent by these entities. Certainly, the lack of public reports reduces the effectiveness of planning and managing public services, and limits the extent of the necessary data for effective auditing.

Recent progress achieved in external scrutiny and audit provided an enabling environment to develop a strong external audit system to oversee maintaining budget discipline, allocating resources strategically in line with policy objectives, and ensuring effectiveness in service provision. It also is noteworthy that despite the fact that the Chamber of Control was governed by INTOSAI standards in its activities, in some cases this was limited in scope.

(iii) Prospects for reform planning and implementation

We recognize that, irrespective of current achievements, the PFM system still has weaknesses that do not allow a more efficient and transparent use of public financial resources, thus reducing the outcomes expected from the implementation of state policies. Therefore, the Government is planning to further and deepen reform implementation in budget planning, the treasury system, state procurement, and audit. The Republic of Armenia will take the leadership of implementing these reforms, with the support of international donors. Past ex-

perience shows good prospects for reforms in the areas specified. Because there is a clear determination by the country's political leadership to carry out these reforms, the necessary institutional bases for reform implementation and willingness on the donor side to support them also are there.

SECTION 1.

INTRODUCTION

Objective: It is known that the Government of the Republic of Armenia (ROA) views lasting sustainable economic growth and poverty reduction in the country as priority strategic goals. The existence of a comprehensive, robust, transparent, and controllable public finance management (PFM) system is a key guarantee for achieving these objectives. An efficient PFM system is critical for supporting economic development and implementing poverty reduction policies.

The Ministry of Finance, (MOF) with support from the World Bank, has initiated the PFM system performance assessment. The ultimate objective of this assessment is to get a true picture of the quality of the current PFM system and lay the foundations for monitoring system performance.

A similar PFM assessment exercise, although narrower in scope, was carried out in the country with the World Bank support in 2002. That assessment laid the groundwork for the budgeting process reform measures taken to date. However, an assessment of the PFM environment clearly cannot be limited to a study of public expenditure management. The current exercise represents a first attempt to use the various indicators that characterize the PFM system.

The current assessment's findings also will form a basis for risk analyses by international donor organizations and foreign countries in designing their projects to be implemented in the Republic.

Methodology

The current assessment was prepared as a result of the joint cooperation among the specialists of the Ministry of Finance, the State Tax Service and State Customs Committee in the Government of the Republic of Armenia, the Chamber of Control and the Standing Committee on Financial, Credit and Budget Issues in the National Assembly under the general coordination of the ROA Ministry of Finance. This assessment, as opposed to the assessment exercise carried out in 2002, covers the full PFM framework and was performed based on the Public Expenditure and Financial Accountability (PEFA)² Performance Measurement methodology. Budget execution reports and findings of surveys among relevant

² PEFA is a partnership among the World Bank, European Commission, UK Department for International Development, Swiss State Secretariat for Economic Affairs, French Ministry of Foreign Affairs, Royal Norwegian Ministry of Foreign Affairs, and International Monetary Fund. PEFA supports integrated and harmonized approaches to assessment and reform in the field of public expenditure, procurement, and financial accountability(www.pefa.org).

specialists were also used for the preparation of this report. The preliminary draft of the assessment report was discussed with experts from the World Bank, PEFA Secretariat, IMF, and a number of other international organizations. The ROA Ministry of Finance would like to express gratitude to all experts who participated in discussions of the preliminary draft of the assessment report, with special thanks to Roberto Taliercio from the World Bank, who liaised closely with the MOF during the entire period of the preparation of this report.

Scope of Assessment

The ROA PFM performance assessment was carried out at the central Government level.

SECTION 2.

BACKGROUND ON THE REPUBLIC OF ARMENIA

This section contains information on the Republic of Armenia and its economic context to help understand the main features of the country's PFM system.

2.1. Description of Country Economic Situation

The Republic of Armenia is a country in the South Caucasus with a population of 3.2 million, which was declared an independent and sovereign state in 1991. Due to the economic blockade imposed on the country by a neighboring state during the first years of independence and as a result of the collapse of the Soviet economic system, Armenia faced a major economic crisis. This crisis led to a sharp decline in the living standards of the population and the level of social protection. However, large-scale economic reforms in the Republic supported by the international community enabled containing the crisis in a relatively short time and subsequently showing trends of sustainable economic growth.

In particular, since 1994, continuous economic growth was registered that averaged 8.9 percent annually from 1994 to 2006. The economic growth in 2002–06 was in double digits. The average growth in 2005–07 was 13.6 percent. In 2007 the real annual GDP growth rate also was high, at 13.7 percent.

Inflation was maintained at a manageable level. Average annual inflation was 2.9 percent in 2006 and 4.4 percent in 2007.

In 2006-07 the positive developments of recent years and indicators describing economic activity improved further. Namely, employment (of the economically active population) in 2006 increased by approximately 0.7 percentage points compared to 2005. In 2007, it increased an additional 0.4 percentage points.

The increased economic activity had a positive effect on the share of monetary income and expenses of the population. The increases in monetary income and expenses in 2006, compared to 2005, were 19.2 percent and 18.3 percent, respectively, resulting in income exceeding expenses by approximately 71.6 billion drams. The increases in monetary income and expenses of the population in 2007 compared to 2006 equaled 25.7 percent and 23.6 percent, respectively, with income exceeding the expenses by approximately 123.4 billion drams.

Macroeconomic developments also positively affected poverty indicators. According to the findings of the integrated household living standards survey, poverty incidence in 2006 was 26.5 percent, compared to 29.8 percent in 2005. Extreme poverty in 2006 was 4.1 percent compared to 4.6 percent in 2005. (In

2004 the poverty incidence was 34.6 percent and extreme poverty was 6.4 percent.)

Disparities in both consumption and income indicators also started to decline after the adoption of the Poverty Reduction Strategy Paper (PRSP). Inequality indicators measured by the Gini coefficient indicate that the polarization of Armenia's population is deeper according to the income indicator versus the consumption indicator. The Gini consumption coefficient in 2006 remained almost unchanged compared to 2004, whereas the Gini coefficient by income in 2006 declined by 0.026 units to 0.369, compared to 0.395 in 2004.

The financial capacities of the country continue to improve. Since 2001, there has been a steady increase in tax revenues and clear trends of maintaining the state budget deficit/GDP ratio within 3 percent.

The economic reform agenda covers measures in Armenia's entire PFM system, including budget planning, treasury, internal audit, accounting, and activities for organizing state procurement. However, there is a special focus on PFM reforms to improve budget discipline, efficient resource allocation, and increased efficiency in public service delivery by the state.

The existence of an open and regulated PFM system enables:

- Exerting effective controls over aggregate budget data and managing fiscal risks, which contributes to the overall budget discipline
- Planning and executing the budget in line with Government-defined priorities, which contributes to the achievement of the Government's objectives
- Managing the use of budget funds, which contributes to effective service delivery and value for money.

2.2 Description of Budget Outcomes

Recent years in ROA were characterized by maintaining the overall budget discipline at a good level. In 2005–07 the state budget deficit ranged from 1.9 percent to 1.5 percent of GDP, respectively (table 1). The level of actual deficit also was maintained at the planned level of 1.23 percent of GDP in 2007.

Table 1. State budget expenditure in nominal GDP, 2005–07 (%)

	2005	2006	2007
Total revenue	16.7	16.6	18.7
· <i>Own revenue</i>	16.2	16.0	18.0
· <i>Grants</i>	0.5	0.6	0.8
Total expenditure	18.6	18.1	20.2
· <i>Noninterest expenditure</i>	18.2	17.8	19.9
· <i>Interest expenditure</i>	0.4	0.3	0.3
Total deficit (including grants)	1.9	1.5	1.5
Net financing	1.9	1.5	1.5
· <i>Foreign</i>	0.6	1.0	1.8
· <i>Domestic</i>	1.3	0.5	-0.3
Primary deficit	1.5	1.2	1.2

The priorities of the ROA government include the social sectors directly related to human capital development, which received one-third of total state budget allocations in 2005–07; and defense, public order, and national security, which received more than 20 percent of total allocations (table 2).

Table 2. Percentage of state budget expenditure in total annual expenditure, 2005–07 (%)

	2005	2006	2007
Total expenditure	100.0	100.0	100.0
Includes			
01 General public services	10.6	10.4	9.8
02 Defense	15.4	16.3	15.1
03 Public order, national security, and judiciary	8.4	8.5	8.2
04 Education and science	14.6	15.0	15.0
05 Health	7.4	8.2	7.4
06 Social insurance and social security	10.6	10.9	9.9
07 Culture, information, sports, and religion	2.5	2.8	2.6
08 Housing and utilities	5.4	4.6	3.5

09 Fuel and energy	0.9	1.1	4.6
10 Agriculture, forest and water management, fish-breeding	3.2	3.8	4.3
11 Industry, minerals (except fuel), construction, and environment protection	1.1	1.5	1.2
12 Transport, roads, and communications	5.0	6.5	7.6
13 Other economic services	0.7	0.8	0.6
14 Other expenditure	14.2	9.7	10.2

In 2005–07 state budgets, the bulk—an annual average of 72.8 percent—of budget allocations was current expenditure (table 3). The average capital expenditure share was 23.7 percent.

Table 3. Shares and Ratios of Current and Capital Spending, 2005-2007

	2005	2006	2007
Total expenditure	100.0	100.0	100.0
· Current expenditure	78.8	74.1	65.5
· Capital expenditure	18.0	22.2	30.9
· Lending less repayment	3.1	3.1	3.7
Ratio of current and capital expenditure	4.4	3.3	2.1

External public debt accounts for the bulk of public debt. As of December 31, 2007, external public debt accounted for US\$ 1,448,9 million and domestic public debt for AMD 75,429,8 million. While the annual external public debt is growing in nominal terms, the Republic has a sustainable position. In 2007 the relative indicators for rating external public debt ranked ROA among less indebted countries.

2.3. Description of Legal and Institutional Framework for PFM

The legal bases for PFM regulation are set forth in the ROA Constitution:

- In the Republic of Armenia, comprised of provinces (*marzes*) and communities, state and local self-governance shall be exercised.
- The President of the Republic of Armenia is the Head of the State, who ensures that the ROA Constitution is adhered to and ensures the normal

operation of the legislative, executive, and judicial branches.

- The legislative power is exercised by the National Assembly. As prescribed by the Constitution, among other authorities that rest with the National Assembly, it approves the state budget, oversees the state budget execution and the use of borrowings and loans from foreign countries and international organizations, and discusses and approves the annual state budget execution report with the opinion of the Chamber of Control.

The government develops and implements the domestic policy in the ROA and the foreign policy in conjunction with the ROA President. As provided for in the Constitution, among its duties, the ROA government submits its program and the state budget proposal to the National Assembly for approval; ensures the execution of the state budget and submits an execution report to the National Assembly; manages state property; implements a uniform state financial, economic, credit, and tax policy; and implements state policies in science, education, culture, health, social security, and environmental protection. The Government also ensures implementation of defense, national security, and foreign policies; ensures maintenance of public order; and exercises other functions and authorities provided for in the Constitution and other laws.

- State governance in marzes is exercised by the ROA Government through regional administrative bodies reporting to it (marz administrations).
- Local governance is exercised in communities, and the right of communities to local self-governance is exercised through local governments. The communities formulate their budgets independently; the sources of budget revenues are defined by law.
- Oversight of budget resources and use of state and community property are carried out by the independent Chamber of Control. The Activity Program of the Chamber of Control is approved by the National Assembly, and the Chamber submits a report on the findings of its oversight activities to the National Assembly.

The legal act that specifies the deadline for submission of the budget proposal to the National Assembly, procedure for state budget execution in the following year if the state budget is not approved by the beginning of the budget year, and procedure for discussion of the state budget proposal and report in the National Assembly are defined by the Constitution.

Based on Constitutional provisions, a number of laws were adopted in the Republic to regulate the PFM area. The area encompasses Republic of Armenia laws on the Budget System, Treasury System, Local Self-Governance, By-laws of the

National Assembly, Taxes, Procurement, Financial Equalization, Chamber of Control, and Central Bank of Republic of Armenia. The area also encompasses secondary legislation that clarifies the players in the PFM process and provides details on the roles, powers, and responsibilities of state and local authorities.

The state and community budgets are executed through the Treasury System, which ensures proper ongoing control over budget execution and the legitimacy of executing budget expenditures and managing cash flows. The State Budget includes the current and capital expenditures from financial resources received from sources specified by law that are managed by the government and are necessary for exercising the authorities that rest with it under the Constitution and laws, including state aid to local self-governments. A large portion of capital investment projects are funded by international organizations and through loans and grants provided by foreign states. However, these receipts and outlays are fully reflected in the state budget. Since 2008, the funds previously collected in the ROA social insurance budget (compulsory social insurance contributions) and the expenditures made from that budget (pensions, unemployment, and other types of benefits) also have been included in the State Budget. The responsibility to execute the Compulsory Social Insurance Budget, which used to be the only extrabudgetary fund in the Republic, rests with the ROA Government. In addition, the proposal for said budget and its execution report are approved by the National Assembly.

The procurement process for state needs is regulated and applies to both state budgetary and noncommercial organizations.

The functions of planning the state budget and organizing its execution rest with the MOF. The central Treasury operates within the staff of the ministry, separately from other units.

As stipulated by Law, the state budget planning process is comprised of two phases: (a) preparation of the medium-term expenditure framework (MTEF) covering three years and (b) preparation of the budget proposal for the upcoming year.

SECTION 3.

Brief Assessment of the Public Finance Management (PFM) Systems, Relevant Processes, and Institutions

This section provides an assessment of the key elements of the PFM system as captured by the indicators, and progress made in improving those indicators.

3.1. Credibility of the Budget

PI 1. Aggregate expenditure outturn compared to original approved budget

Dimensions to be assessed (Scoring Method M1):

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (that is, excluding debt service charges but also excluding externally financed project expenditure).

The figures from the original budget approved by the National Assembly were used for the assessment of this indicator. The actual expenditure in the ROA 2005–07 state budgets deviated from the original approved budgets (excluding debt service charges and earmarked donor-funded projects and including budget support, that is, general loans and grants) by 6.7 percent, 4.9 percent, and 7.4 percent, respectively (table 4).³

³ See Annex 2 for more disaggregated data on budgeted and actual revenue and expenditure for the period 2005-2007.

Table 4. Aggregate expenditure outturn compared to approved budget, 2005-2007 (bn drams)

	2005 approved budget	2005 actual expenditure	2006 approved budget	2006 actual expenditure	2007 approved budget	2007 actual expenditure
Total expenditure excluding interest payments and earmarked donor-funded loans and grants	345.4	368.6	413.4	433.5	496.5	533.2
Variance in the expenditure outturn compared to the approved numbers	-	23.2	-	20.1	-	36.7
Same in %	-	6.7	-	4.9	-	7.4

Source: Annual State Budget execution reports, 2005-2007

Higher-than-budgeted revenues contributed to the expenditure deviation described above. The deviation was allowed within the powers provided to the government by law, and in 2007 the deviation also was the result of the amendment to the state budget law for that year. In addition, in 2005–07, due to exceeding targeted revenues (without donor-provided grants), deviations from the originally approved budget were 4.2 percent, 11.5 percent, and 13.7 percent, respectively.

Although the state budget expenditure outturn in all the years in the 2005–07 period (excluding debt service charges and earmarked donor-funded projects, and including general loans and grants) exceeded budgeted expenditure approved by the National Assembly by less than 10 percent, however in 2005 and 2007 (or in 2 out of the last 3 years) the deviation was more than 5 percent.

Indicator	Brief explanation	Rating
Aggregate expenditure outturn compared to original approved budget	In no more than 1 of the last 3 years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 percent of budgeted expenditure. However, for 2 years, the deviation was more than 5 percent.	B

PI-2. Composition of expenditure outturn compared to original approved budget

Dimensions to be assessed (Scoring Method M1):

- (i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years.

This indicator was assessed according to the elements of the functional classification. In 2005–07 state budgets, variance in primary expenditure composition exceeded overall deviation in primary expenditure by 2.9 percent, 2.6 percent, and 3.4 percent respectively (table 5). In terms of the indicator, variance in expenditure composition exceeded deviation in primary expenditure by no more than 5 percentage points in these years.

Indicator	Brief explanation	Rating
Composition of expenditure outturn compared to original approved budget	Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last 3 years.	A

Table 5. Composition of expenditure outturn to approved budget, 2005-2007 (bn drams)

	2005 approved budget	2005 actual expenditure	2006 approved budget	2006 actual expenditure	2007 approved budget	2007 actual expenditure
Total expenditures	345,4	368,6	413,4	433,5	496,5	533,2
Including						
General public services	38,3	41,2	46,2	45,4	53,1	57,1
Defense	61,0	64,4	74,1	78,3	100,4	95,8
Public order, national security, and judiciary	29,1	29,9	36,0	35,9	45,5	45,8
Education and science	58,5	58,0	71,6	70,4	88,4	87,1
Health	30,6	30,4	36,0	35,9	44,5	44,5
Social insurance and social security	45,4	43,9	54,5	52,0	63,9	62,2
Culture, information, sports, and religion	10,5	10,4	13,6	13,6	15,5	16,7

	2005 approved budget	2005 actual expenditure	2006 approved budget	2006 actual expenditure	2007 approved budget	2007 actual expenditure
Housing and utilities	15,1	13,0	15,6	16,0	12,8	16,0
Fuel and energy	1,5	1,4	1,5	1,5	1,5	1,5
Agriculture, forest and water management, fish-breeding	8,7	9,9	11,5	10,8	13,3	15,3
Industry, minerals (except fuel), construction, and environment protection	1,5	3,2	3,7	4,8	4,1	5,7
Transport, roads, and communications	21,3	20,7	24,8	30,2	26,2	38,9
Other economic services	3,0	3,0	3,7	3,6	3,8	3,2
Other expenditure	21,0	39,2	20,6	35,0	23,6	43,7

Source: Annual State Budget execution reports, 2005-2007

The following expenditure categories represented the largest deviations:

- In 2005, other expenditure (54.9 percent of the deviation) due to increased reserve fund and defense expenditures (10.3 percent of deviation);
- In 2006, other expenditure (71.3 percent of the deviation) due to increased reserve fund, transport, road management and communications sector expenditures (27 percent of deviation) and defense expenditures (20.6 percent of deviation);
- In 2007, other expenditure , which includes inter-governmental transfers, interest payments, the Government reserve fund designated for funding budget contingencies and a number of categories of other expenditures, (54.8 percent of deviation) due to increased Government reserve fund, transport, road management and communications sector expenditures (34.6 percent of deviation).

Indicator	Brief explanation	Rating
Composition of expenditure outturn compared to original approved budget	Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.	A

PI-3. Aggregate revenue outturn compared to original approved budget

Dimensions to be assessed (Scoring Method M1):

- (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget.

Figures reflected in the annual ROA State Budget execution report for relevant years were used to calculate these indicators. In general, actual domestic revenue performance in the 2005–07 ROA State Budgets (revenues defined by ROA legislation, excluding official grants) exceeded 100 percent and amounted to 104.5 percent, 110.5 percent, and 113.3 percent, respectively (table 6).⁴

Table 6. Aggregate revenue outturn compared to approved budget, 2005-2007

	Performance (%)		
	2005	2006	2007
State budget revenues (excluding transfers)	104.5	110.5	113.3
· Taxes and stamp duties	101.1	103.6	107.4
· Non-tax revenues	126.9	290.9	217.3
· Revenues from capital transactions	223.6	440.3	463.5

Source: *Annual State Budget execution reports, 2005-2007*

⁴ These revenue amounts do not include actual extrabudgetary account revenues and revenues from taxes funded from the ROA State budget without limitation and expenditures for payment of stamp duties in cases specified by ROA legislation included in the actual revenue performance of the ROA State Budget. Revenues funded from the state budget without limitation are defined in annual budget laws. In particular, Art. 11-3 of the 2008 State Budget Law of the Republic of Armenia specifies 5 types of revenues (2 types of taxes and 3 types of stamp duties), the state budget expenditures and received revenues are added to the relevant target and reflected in the state budget execution. They include:

- a. Stamp duty payable by state authorities for referring to court
- b. Payments of additional tax and customs liabilities identified by audits
- c. Stamp duties payable for reorganization of state institutions into SNCOs
- d. VAT payable to the supplier by the state institution for separating assets against the reduction of state ownership in the authorized capital of commercial organizations
- e. Stamp duties payable by disabled people who received vehicles from social security authorities at preferential terms.

Non-tax and capital revenues contributed significantly to high revenue performance due to the amounts received according to the privatization agreement with Zangezur Copper and Molybdenum Plant cjsc (for non-tax revenues) and unprecedented degree of alienation of land in the City of Yerevan (capital revenues). The 2005–07 state budget performance of the tax revenue and stamp duties amounted to 101.1 percent, 103.6 percent, 107.4 percent, respectively.

ROA state budget revenue forecasting is based on the fiscal principles and macroeconomic projections underlying MTEFs. In addition, the trends of collection of individual types of revenues are taken into account. The higher-than-budgeted revenue was due to conservative macroeconomic projections made for those years.

Since the assessment method for PI-3 does not discuss a case of exceeding revenues targets, the indicator was not scored.

Indicator	Brief description	Rating
Aggregate revenue outturn compared to original approved budget	Actual domestic revenue in 2005–07 exceeded budgeted expenditures.	A

PI-4. Stock and monitoring of expenditure payment arrears

Dimensions to be assessed (Scoring Method M1):

- (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding FY) and any recent change in the stock.
- (ii) Availability of data for monitoring the stock of expenditure payment arrears.
- (i) Currently, no expenditure arrears are accumulated.⁵ In particular, this is indicated by an insignificant number of lawsuits filed with courts to satisfy the claims of businesses and amounts claimed against services provided, goods delivered, and works performed for the Government. Arrears management was also enhanced by both high revenue performance during recent years and the existence of clearly defined legal conditions for taking expenditure commitments (with failure to meet those conditions resulting in cancellation of any taken commitment).
- (ii) Data on the stock of arrears, however, are not provided. Reports filed with the Ministry of Finance contain data on only the *flow of arrears*, that is,

⁵ An arrear is a liability that came due but was not paid.

data on arrears arising in the reporting period. In actuality, secondary managers of budget allocations have information on the *stock of arrears*. Information on the stock of accounts payable is provided, which does not contain a breakdown of arrears,⁶ and there is no information on the age profile of arrears. Information on the stock of arrears is filed with MOF by state bodies (except for SNCOs) according to the budget classifications.

Indicator	Brief description	Rating
Stock and monitoring of expenditure payment arrears	(i) Expenditure arrears are not accumulated (A) (ii) Data on the stock of arrears is generated annually, but are not complete for SNCOs (B)	B+

3.2 Comprehensiveness and transparency

PI-5. Classification of the budget

Dimensions to be assessed (Scoring Method M1):

- (i) The classification system used to formulate, execute, and report the central Government's budget.

Since 2000, the budget classification used in the Republic conforms to the GFS 1986 classification. Before 2008, both the state and community budget formulation and execution in ROA conformed to GFS 1986 standards based on functional (including subfunctional), economic, and administrative classification. Expenditures of 14 pilot state bodies also are presented in the program classification format in a separate appendix to the state budget law. From 2008 the state budget formulation will follow GFS-2001 standards, and from 2009 it will be applied to community budgets.

There are no limitations or weaknesses with regard to the administrative classification of the budget. Where necessary, the administrative classification can be modified in the manner defined. Currently, there are 11 sections (functional classification) and 71 categories (subfunctional classification) in the functional classification of the budget.

In addition, public sector accounting standards have not been introduced nor the accounting policy developed yet. Therefore, the GFS 2001 classification reflects budget receipts and outlays only; the codes for assets, liabilities, and equity are not used yet.

⁶ Accounts payable are not the same as arrears. Accounts payable are recorded at the moment that a liability arises, whereas the arrear is a liability the payment of which is past due.

Indicator	Brief explanation	Rating
Classification of the budget	Budget formulation is based on GFS standards using functional (including subfunctional), economic, and administrative classification. Expenditures of several pilot bodies are presented in program classification format in a separate appendix to the state budget law.	A

PI-6. Comprehensiveness of information included in budget documentation

Dimensions to be assessed (Scoring Method M1):

- (i) Share of the above-listed information in the budget documentation most recently issued by the central Government. (To count in the assessment, the full specification of the information benchmark must be met.)

According to the requirements of Article 16 in the Republic of Armenia Law on the Budget System, the budget proposals include the Budget Message of the ROA Government and the draft state budget law. The latter includes:

1. Macroeconomic assumptions, including estimates of aggregate growth, inflation, and exchange rate.
2. Deficit, defined according to GFS.
3. Deficit financing describing anticipated composition.
4. Debt stock, including details for the beginning of the current year.
5. Financial assets, including details at least for the beginning of the current year on the available state budget funds, receipts from the repayment of loans to economic entities provided previously, credit repayment, acquiring or disposal of interest in the capital of legal entities.
6. Prior year's budget outturn, presented in the same format as the budget proposal.
7. Current year's budget, presented in the same format as the budget proposal.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years.
9. Explanation of budget implications of major new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

(Implications of new policy measures are analyzed in terms of both individual types of revenue and individual types of expenditure.)

These documents submitted to the National Assembly constitute a part of the state budget proposal and meet the aforementioned legal requirements.

Indicator	Brief explanation	Rating
Comprehensiveness of information included in budget documentation	Published state budget documentation fully meet the 9 information benchmarks required in the methodology.	A

PI-7. Extent of unreported Government operations

Dimensions to be assessed (Scoring Method M1):

- (i) The level of extrabudgetary expenditure (other than donor-funded projects) that is unreported, that is, not included in fiscal reports.
- (ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.

The level of unreported extrabudgetary expenditure is insignificant.⁷ Moreover, complete income/expenditure information for most (more than 90 percent) (value) of donor-funded projects is included in fiscal reports, except in-kind inputs, which are insignificant.

Indicator	Brief description	Rating
Extent of unreported Government operations	(i) Level of unreported extrabudgetary expenditure (other than donor-funded projects) is insignificant (below 1 percent of total expenditure). (A) (ii) Complete income/expenditure information for most (more than 90 percent) (value) of donor-funded projects is included in fiscal reports, except in-kind inputs, which are insignificant (below 1 percent of total expenditure). (A)	A

PI-8. Transparency of inter-Governmental fiscal relations

Dimensions to be assessed (Scoring Method M2):

- (i) Transparent and rules-based systems in the horizontal allocation among subnational (SN) Governments of unconditional and conditional transfers from central Government (both budgeted and actual allocations)

⁷ This score does not take into account receipt of funds (without proper legal bases) from the Russian Federation in 2006 in relation to the increase of imported gas tariffs. With incorporation of the above circumstance the score for this dimension would become a "B."

- (ii) Timeliness of reliable information to SN Governments on their allocations from central Government for the coming year
- (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general Government according to sectoral categories

Fiscal relations between the state and communities are regulated by primary and secondary legislation, namely, the ROA Budget System Law, Law on Local Self-Governance, and the Financial Equalization Law.

According to ROA Budget System Law, to ensure the well-balanced development of communities, the following are planned in state budget expenditures:

- a. *Financial equalization subsidies.* Permanent and non-repayable funds provided to community budgets based on the financial equalization principle to cover the current expenditures of communities. These subsidies are funded in line with the budget law and proportions for a particular year, in equal monthly amounts and in the same 10-day period of the month.
 - b. *Other subsidies.* Permanent and non-repayable funds provided to community budgets to support the funding of recurrent expenditures of the community budget and not tied to any particular type of expenditure. These subsidies are funded in the amount and within the dates specified by the legal act (state budget law for a given year, Government decree) that verifies the allocation.
 - c. *Subventions.* Individual conditional subventions by the community. Community subventions are permanent and non-repayable funds provided for individual earmarked expenditures. Community subventions are funded in the amount and within the dates specified by the legal act (state budget law for a given year, Government decree) that verifies the allocation, according to the provisions and requirements of the contract and other supporting documents.
- (iii) Allocations from the ROA State Budget to community budgets in 2005, 2006, and 2007—88.8 percent, 88.9 percent, and 86.3 percent, respectively—were made according to formulas defined by law (subsidies provided on the basis of the principle of financial equalization and subsidies provided to cover revenue losses incurred from enforcement of laws). Rules-based subventions envisioned in legal acts and provided in the amounts established by the State Budget Law, accounted for 10.8 percent, 8.3 percent, and 12.9 percent of state budget allocations to community budgets in 2005, 2006, and 2007. Thus, the horizontal allocation of almost all

transfers (more than 90 percent by value) from the ROA Government in those years was made by transparent and rules-based systems. The criteria for allocation of subventions are based on the priority expenditures for a particular year and usually are made community specific in the preparation stage of the budget proposal.

- (iv) The budget process in the communities starts with the ROA Prime Minister’s Decree, which announces the beginning of the budget preparation process. In practice, the budget preparation process for the coming year starts from June preceding the budget year. During this period, the communities receive methodological guidance from the Ministry of Finance on community budget preparation. Within 10 days after the State Budget is approved, communities, through marz administrations, are provided information on the amounts made available to them based on the principle of financial equalization and information on covering revenue losses incurred by community budgets due to enforcement of laws, with corresponding explanations. In addition, local governments are authorized to approve their community budgets both before and after the state budget is approved, and to make corresponding adjustments to community budgets after the latter’s approval. The community budget (fiscal) year starts on January 1 and ends on December 31 of the same year.
- (v) Actual fiscal data are collected from local Treasury branches on 100 percent of said expenditures. These data are consolidated as 1 number in the annual reports within 4 months of the end of the FY (that is, not according to sectoral and economic classification categories). The consolidated budget revenue and expenditure are aggregated and included in the annual state budget execution report for information within four months of the FY.

Indicator	Brief explanation	Rating
Transparency of inter-Governmental fiscal relations	(i) The horizontal allocation of almost all transfers (at least 90 percent by value) from central Government is determined by transparent and rules-based systems. (A) (ii) SN Governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes. (A) (iii) No general Government (including communities) sector-based consolidated fiscal report is produced. (D)	B

PI-9. Oversight of aggregate fiscal risk from other public sector entities

Dimensions to be assessed (Scoring Method M1):

- (i) Extent of central Government monitoring of AGAs and PEs.
- (ii) Extent of central Government monitoring of SN Governments' fiscal position.

Only the extent of central Government control and monitoring of SNCOs by the central Government was assessed based on dimension (i). Based on the assessment, the current reporting by SNCOs corresponds to score C, since, in each quarter, all SNCOs furnish cash flow statements and summary balance sheets to authorized state bodies (ASBs) in charge of SNCO governance,⁸ which ASBs aggregate by categories (subcategories) of functional classification, and submit these aggregated reports to MOF. Subsequently, after MOF aggregates the reports and summary balance sheets,⁹ the agency provides them to the Treasury Department to consolidate general Government sector financial data.

In addition, once a year, SNCOs submit to MOF through the ASBs an overall summary report. It includes 47 key indicators of the financial position of SNCOs from balance sheets and other forms of financial statements of SNCOs as spending units. These indicators were used to first compile the database of SNCOs, which now is updated regularly. With the development and introduction of SNCO monitoring methodology, these indicators would be used to analyze financial and economic activities of SNCOs.

In the meantime, it is necessary to note that the subject indicator could not be scored B as this score requires that submitted statements be audited. However, the auditing is rather segmented and incomplete because as yet there are no legal requirements for auditing SNCO statements.

To date, the main problems and challenges related to reporting by SNCOs were delays in submission and submissions with various deficiencies. To improve the SNCO reporting framework, ROA Government Decree No. 163-N on approving the Procedure for Ensuring the Reporting Discipline of SNCOs by Authorized Bodies was passed on January 12, 2006. This decree defines:

⁸ According to ROA Government Decree No. 1648 dated November 27, 2003 on Approving the Procedure for Preparing, Submitting and Summarizing Planned Indicators on Financial and Economic Activities by SNCOs and Limiting Loan Operations by SNCOs.

⁹ To meet the requirements of para. 3, section 2, of the Order of ROA Minister of Finance and Economy N868-L dated November 2, 2003.

- Annual targets for the financial and economic performance of SNCOs
- Liability measures for failure to comply with the procedure or the deadlines for preparation and submission of reports and balance sheets defined by ROA legislation on the performance of targets to ASBs
- Procedure for publishing information on the applied liability measures.

Thus, through enforcement of this decree, the problems and challenges referred and their negative implications have been moderated. Other challenges include gaps and weaknesses in the reporting forms. Active processes are underway for addressing those. Expected reform measures will develop and introduce the SNCO monitoring methodology referred to above and amend the Finance and Economy Minister’s Order No. 955-N dated December 29, 2003 on the Enforcement of the Republic of Armenia Government Decree NO. 1648-N of November 27 (particularly, the reporting forms).

(ii) No annual monitoring of SN Governments’ fiscal position by the central Government takes place.

Indicator	Brief explanation	Rating
Oversight of aggregate fiscal risk from other public sector entities	<p>(i) Each quarter all SNCOs furnish cash flow statements and summary balance sheets to authorized state bodies in charge of SNCO governance. The ASBs aggregate these documents by categories/subcategories of functional classification and submit these aggregated reports to the MOF. After MOF aggregates the reports and summary balance sheets according to the requirements of the Order of ROA Minister of Finance, the aggregates are provided to the Treasury section to consolidate general governance sector financial data.</p> <p>In addition, once a year, SNCOs submit to MOF through ASBs an overall report that contains summary information and includes 47 key indicators on the financial position of SNCOs from balance sheets and other forms of SNCO financial statements as spending units.</p> <p>Auditing of the submitted reports is done in a highly segmented and partial manner, as currently there are no legal requirements for auditing SNCO reports. (C)</p> <p>(ii) No annual monitoring of SN Governments’ fiscal position by central Government takes place. (D)</p>	D+

PI-10. Public access to key fiscal information

Dimensions to be assessed (Scoring Method M1):

- (i) Number of the above-listed elements of public access to information that are fulfilled. To count in the assessment, the full specification of the information benchmark must be met.

A complete set of documents can be obtained by the public through appropriate means once the set has been submitted to the legislature.¹⁰ According to the requirements of the Law, within three days of submission of the draft ROA State Budget to the National Assembly, the summary draft state budget law is published in the mass media (normally, in the *Hayastani Hanrapetutium*). At the same time, the full draft state budget law is posted on the official websites of the National Assembly and MOF (www.mfe.am).

The ROA Government prepares video clips in which the specific features of the state budget proposal for the upcoming year are presented. Upon the approval of the State Budget by the National Assembly, MOF publishes the summary guidelines for that State Budget and disseminates them to the public free of charge.

- a. *In-year budget execution reports*. These reports routinely are made available to the public through appropriate means (websites and the press) within one month of their preparation.
- b. *Year-end financial statements*. The statements are made available to the public through appropriate means within six months of completed audit.
- c. *External audit reports*. All reports on central Government consolidated operations are made available to the public through appropriate means (websites and the press). According to ROA legislation, the government submits the annual state budget execution report for each year by May 1 of the following year. It is then discussed in a National Assembly session by the second Wednesday of June. The annual report is discussed in the National Assembly only if the ROA Chamber of Control has issued an opinion on it. Thus, the opinion of the ROA Chamber of Control is submitted to the ROA National Assembly within six months of completion of the audit. The opinion and the budget execution report are covered by mass media. The ROA Chamber of Control's opinions on reports are posted on its official website (www.coc.am).

¹⁰ "Complete" means that the documents made publicly available contain the all of the information listed under indicator PI-6, to the extent this information exists.

- d. *Contract awards.* According to ROA Law on Procurement, clients are required to publish an announcement on awarded contracts above the procurement threshold (AMD 1 million) in the Official Procurement Bulletin. In the listing, the names of the client¹¹ and contractor, contract award date, price, subject, and type of procurement are indicated. The same contracts also are listed on the official procurement website. According to the contract to publish the Official Procurement Bulletin, the Bulletin is sold by the publisher at least in 5 outlets in Yerevan and at least 1 in each marz. The bulletin also is posted on the official procurement system website (www.procurement.am or www.gnumner.am).

It is noteworthy that in practice, for the most part, the above legal provision is observed. In other words, in case of awarding contracts above the procurement threshold, the clients submit the announcement of the awarded contract to the Authorized Body (the Ministry of Finance) to be published in the Official Procurement Bulletin and posted on the official website.

Concerning the timeliness of the publishing process, ROA law does not specify timelines for the frequency of publishing the official procurement bulletin. Rather, it is published once sufficient information is collected for publication. On average, the bulletin is released every 20 to 25 days.

- e. *Service delivery units.* Information on resources from the state budget available to primary service units usually is not available to the public.

Indicator	Brief description	Rating
Public access to key Pfiscal information	Five of 6 items on the list of information required to be made available to the public according to the methodology are made available to the public by ROA Government.	A

3.3. Policy-Based Budgeting

PI-11. Orderliness and participation in the annual budget process

Dimensions to be assessed (Scoring Method M2):

- (i) Existence of and adherence to a fixed budget calendar

¹¹ In Article 2 of the Law on Procurement, “client” is defined as “the state and local Government authorities prescribed by the Constitution and ROA Laws, state or community institutions, the Central Bank of Armenia, state or community non-commercial organizations and organizations with more than 50 percent of state or community ownership.”

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)

(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)

(i) The budget year starts on January 1. The budget process for the next year starts the Prime Minister's decision to commence it. In particular, the referred decision specifies the calendar for state bodies to implement the activities to prepare the MTEF and their state budget proposals. Normally, this decision is made separately for each of these two phases, in December and in June. The main deadlines in the calendars are to provide guidance on preparing and furnishing budget submissions developed by MOF for state bodies, and to submit draft MTEF and state budget proposals to the ROA Government and National Assembly. For the most part, these deadlines are adhered to. According to a Constitutional requirement, the state budget proposal for the following year should be submitted by the ROA Government to the National Assembly by October 3. According to the calendar, the state bodies should make budget submissions to the MOF in August (according to the 2007 calendar for the budget process by August 1). Additionally, the methodological guidance developed by MOF on preparation of budget submissions normally should be provided to state bodies at least 1.5 months in advance of the due date of submissions, that is, in June. (According to the 2007 budget calendar, it was provided by June 14). The state budget proposal is submitted to the government for discussion in September.

(ii) Budget preparation and submission guidance sent to state bodies for the following year reflects, among other things, the priorities of the policy for the upcoming year, and indicative financing ceilings for allocation under the ROA MTEF approved by the ROA Government.

(iii) During the last three years, the legislature has approved the upcoming budgets before the start of the next budget year; namely, the 2006 budget was approved on November 11, 2005; the 2007 budget on November 29, 2006; and the 2008 budget on November 28, 2007.

Indicator	Brief explanation	Rating
Orderliness and participation in the annual budget process	(i) A clear annual budget calendar exists, is generally adhered to, and allows ministries, departments, and agencies (MDAs) enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. (A) (ii) A comprehensive and clear budget circular	A

is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs. (A)
(iii) The legislature has, during the last three years, approved the budget before the start of the FY. (A)

PI-12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting

Dimensions to be assessed (Scoring Method M2):

- (i) Preparation of multi-year fiscal forecasts and functional allocations
 - (ii) Scope and frequency of debt sustainability analysis
 - (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure
 - (iv) Linkages between investment budgets and forward expenditure estimates.
- (i) According to the legal requirement, the ROA MTEF is approved annually for the upcoming three years. In the framework projections of aggregate fiscal indicators are presented (based on the main categories of economic and functional classification). In addition, in the year following the year of approval of the MTEF, the third year is added on a rolling basis. Discrepancies may occur between the state budget indicators planned under the MTEF and the draft state budget for the following year. According to law, these discrepancies and their underlying causes are subject to disclosure in the draft state budget. The longer-term Poverty Reduction Strategy Paper (PRSP) developed and approved by the government in 2003 contains annual long-term projections of key fiscal indicators along with diverse information and targets through 2015 and in the paper currently being updated, through 2020.
- (ii) The analysis of external and domestic debt to determine debt sustainability is undertaken annually by the MOF. The World Bank and International Monetary Fund perform similar debt sustainability analyses (DSAs) that are discussed jointly.
- (iii) Sector strategies (strategies approved by the government for a particular sector, which subsequently form the basis for preparation of both long- and medium-term programs) either do not fully cover that sector or do not contain a complete longer-term costing of investment and recurring expenditures. Currently, the full costing of state expenditures is performed only for the short and medium terms.

(iv) Most important investments are selected based on appropriate sector strategies, but their impact on recurring expenditures during the preparation of budget proposals is not always accounted for. The economic and financial evaluation of public investments is performed by the state body in charge of a particular sector. MOF acts in the capacity of the Government body that reviews how justified the cost estimates are and submits its opinion to the government.

Indicator	Brief explanation	Rating
Multi-year perspective in fiscal planning, expenditure policy, and budgeting	<p>(i) Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained. (A)</p> <p>(ii) DSA for external and domestic debt is undertaken annually. (A)</p> <p>(iii) Sector strategies may have been prepared for some sectors, but none of them has substantially complete costing of investments and recurrent expenditure. (D)</p> <p>(iv) Many investment decisions have weak links to sector strategies, and their recurrent cost implications are included in forward budget estimates in only a few (but major) cases. (C)</p>	B

3.4. Predictability and Control in Budget Execution

PI-13. Transparency of Taxpayer Obligations and Liabilities

Dimensions to be assessed (Scoring Method M2):

- (i) Clarity and comprehensiveness of tax liabilities
- (ii) Taxpayer access to information on tax liabilities and administrative procedures.
- (iii) Existence and functioning of a tax appeals mechanism.
- (i) All taxes in the ROA are clearly defined by legislation (law), and their procedures are largely comprehensive and clear, despite the fact that the uniform tax code is not yet effective. Activities are underway for the latter in conjunction with the Ministry of Finance. The General Part of the Code was submitted to the National Assembly.

In addition to the planned measures, tax inspectorates already have taken some steps to improve taxpayer service quality and the process of accepting tax estimates and returns filed by taxpayers.¹² Administrative and legal issues on VAT refunds are under discussion with the Ministry of Finance. It has already been planned to pilot automated VAT refund software.¹³

- (ii) Taxpayer rights and obligations are set out in the ROA Laws on Taxes and Organizing and Implementing Inspections, as well as in individual provisions of the ROA Law on the Tax Service. Taxpayers also can access the website of the State Tax Service to obtain some information. However, the website cannot fully meet taxpayer needs as the information posted on it is not updated regularly. In addition, manuals and brochures regularly are published with support from both international organizations (WB, IMF) and the State Tax Service. The publications are intended to inform taxpayers about the latest amendments to the tax legislation. A hotline is in place at headquarters to clarify issues of concern to taxpayers, but it cannot address specific cases of tax assessment. A dedicated taxpayer communication and education unit was established at the headquarters to increase awareness among taxpayers. In addition, a taxpayer education program was developed for individual groups of taxpayers. The State Tax Service press secretary is responsible for disseminating press releases and information to the mass media.
- (iii) According to ROA legislation, a clear tax appeals system against actions by the tax authority is in place. In addition, the taxpayer is authorized to appeal to the tax appeals committee set up in the tax headquarters or court within 30 days. The procedure to appeal the actions of the tax body and officers, dates, composition, and method of operations of the appeals committee are clearly defined in the ROA Law on the Tax Service. In case of disagreement with the appeals committee, taxpayers may use their right to appeals in the court. However, the system of collection and publication of appeals decisions is not fully functional, as a result of which the current system is not adequately transparent. Since July 1, 2008 a new tax appeals system has been in place with significantly improved procedures and transparency. The procedures to nominate members of the appeals committee have been significantly changed to prevent the membership of assessors of tax liabilities in the committee (C).

¹² Order of the ROA STS head 1-06/283-A dated June 28, 2008.

¹³ Tax Administration Strategy for 2008–2011, Goal 5, policy 5.3, measure 66) (B).

Indicator	Brief description	Rating
Transparency of taxpayer obligations and liabilities	<p>(i) All taxes in the ROA are clearly defined by legislation (law). Their procedures are mainly comprehensive and clear, with fairly limited discretionary powers of the Government entities involved. (B)</p> <p>(ii) Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due to coverage of selected taxes only, lack of comprehensiveness, and/or being out of date. (C)</p> <p>(iii) A tax appeals system of transparent administrative procedures is completely set up and functional. However, it is either too early to assess its effectiveness, or some issues relating to access, efficiency, fairness, or effective follow-up on its decisions need to be addressed. (C)</p>	C+

PI-14. Effectiveness of measures for taxpayer registration and tax assessment

Dimensions to be assessed (Scoring Method M2):

- (i) Controls in the taxpayer registration system
 - (ii) Effectiveness of penalties for noncompliance with registration and declaration obligations
 - (iii) Planning and monitoring of tax audit and fraud investigation programs
-
- (i) The ROA Law on Tax Registration and Deregistration of Organizations and Natural Persons is effective for an efficient operation and control of taxpayer registration. This law clearly regulates taxpayer registration with the tax body, deregistration, issuance of a registration number, and managing a single tax registry of organizations and natural persons and other relations. According to the law above, organizations and natural persons shall be issued taxpayer identification numbers and certificates at the latest by the next business day after receipt of the necessary documents. A complete database of taxpayer registration is in place in the tax body, which is matched with the information received from the state registry, MOF, and Customs (B).
 - (ii) A three-level liability system is in place for non-compliance with registration and declaration obligations, including:

- a) *Financial (fine, penalty)*. Imposed for all types of legal violations of the tax legislation
- b) *Administrative*. Stipulating sanctions for individual types of legal violations
- c) *Criminal*. Provided under the Criminal Code. In addition, the law stipulates cases, amounts, due dates, and consequences for penalties. Correspondingly, failure to register with tax bodies and late registration results in tax, administrative, and criminal liability. Criminal liability shall be applied if the loss inflicted on the state amounts to AMD 1 million and higher, irrespective of whether the taxpayer is registered in the tax system.

Failure to file tax returns and late filings entail application of fine or penalty, from both a tax and an administrative liability perspective.

The Tax Administration Strategy for 2008–2011 envisions different levels of monitoring for identification of applied liability standards and assessment of effectiveness (goal 5, policy 5.5, and measure 62). Based on the legislative package already developed on the basis of existing assessments and analyses, it was proposed to increase the penalties for undocumented transactions (B).

(iii) Tax audits and reviews are performed on the basis of the National Plan. The National Plan of Tax Audits is in place in the tax system and specifies the general procedure for organizing audits. Activities are underway for developing risk-based selection criteria for organizations subject to audit. As a step to preparing the latter, cameral studies (internal desk reviews) were initiated and are in place in the tax body based on law. The findings of audits and reviews are summarized regularly (C).

Indicator	Brief description	Rating
Effectiveness of measures for taxpayer registration and tax assessment	<p>(i) Taxpayers are registered in a complete database system with some linkages to other relevant Government registration systems and financial sector regulations. (B)</p> <p>(ii) Penalties for noncompliance exist for most relevant areas but are not always effective due to insufficient scale and/or inconsistent administration. (B)</p> <p>(iii) There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria. (C)</p>	B

PI-15. Effectiveness in collection of tax payments

Dimensions to be assessed (Scoring Method M1):

- (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a FY, which was collected during that FY (average of the last two FYs)
 - (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration
 - (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury
- (i) The average debt collection ratio in the 2 most recent FYs was 75 percent–90 percent, and the total amount of tax arrears is significant.

For purposes of calculation of the debt collection ratio, the amounts of arrears of state-owned entities or entities with large state ownership have been left out of the calculation, and AMD 12.8 billion in written-off arrears through bankrupt entities were not included in the calculated ratio (B).

(ii) Tax revenues in the ROA are collected through the banking system and transferred directly to the Treasury to accounts designated for each type of tax. Transfers to the Treasury are made daily.

Data on payments made to the budget during each banking day are grouped in the General Treasury by the recipients of information, including tax inspectorates. The next business day after the ending day, tax inspectorates receive information on the payments made to the state budget printed and sealed by the General Treasury (A).

(iii) Information on state budget payments are entered in the computer database at tax inspectorates and recorded in taxpayer personal account cards daily. The payment of state budget debts is recorded based on it.

Reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least monthly within 10 days of the end of the month and includes:

- a. Assessments by tax inspectorates are reconciled with the information received from the Treasury.
- b. Data on state budget tax arrears are aggregated at the end of the last day of the month and compared with relevant data from the last day of the previous month and arrears at the beginning of the year (A).

Indicator	Brief explanation	Rating
Effectiveness in collection of tax payments	(i) The average debt collection ratio in the 2 most recent FYs was 75 percent–90 percent, and the total amount of tax arrears is significant. (B) (ii) Tax revenues in the ROA are collected through the banking system and transferred daily directly to the Treasury to accounts designated for each type of tax. (A) (iii) Reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least monthly within one month of end of month. (A)	B+

PI-16. Predictability in the availability of funds for commitment of expenditures

Dimensions to be assessed (Scoring Method M1):

- (i) Extent to which cash flows are forecast and monitored.
 - (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment
 - (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.
- (i) Quarterly, annual, weekly, and often also daily cash flow forecasts are made in the ROA MOF during the budget year. The forecasts are prepared for the FY and updated monthly on the basis of actual cash inflows and outflows. Meetings of the Committee on Budget Issues takes place in the Ministry of Finance each Thursday and representatives from interested departments of the Central Bank, State Tax Service, State Customs Committee, and Ministries of Social Security and Finance participate in these meetings. Weekly cash management plans are discussed during the meetings. In particular, the Treasury single account flows from the previous month are reviewed, and the participants present their observations on the projections for the flows of the next months. This dimension is scored A.
 - (ii) ROA ministries and services and councils at the government may plan expenditures and commit expenditures at least six months in advance, in line with appropriations planned in the budget. This dimension is scored A.
 - (iii) Significant in-year adjustments to budget allocations take place a few times in a year based on decision made above the level of MDAs management transparently and predictably. Normally, the adjustments (reallocations between programs within 3 percent of total budgeted expenditure or disposition of received revenues above the level planned in the state bud-

get) are made by the decision of the government within the scope of the given authority on request from line bodies. In rare cases, such adjustments also will be made on recommendation of the government by a law amending the state budget law for a particular year). Legal acts on the amendments referred to above are published according to the procedure defined by law. This dimension is scored A.

Indicator	Brief explanation	Rating
Predictability in the availability of funds for commitment of expenditures	(i) The forecast is prepared for the FY, and are updated monthly on the basis of actual cash inflows and outflows. (A) (ii) MDAs are able to plan and commit expenditure for at least 6 months in advance in accordance with the budgeted appropriations. (A) (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in transparently and predictably.(A)	A

PI-17. Recording and management of cash balances, debt, and guarantees

Dimensions to be assessed (Scoring Method M2):

- (i) Quality of debt data recording and reporting
 - (ii) Extent of consolidation of the Government’s cash balances
 - (iii) Systems for contracting loans and issuance of guarantees
- (i) Preliminary information on loan allocations from external sources is recorded when the MOF approves corresponding loan withdrawal applications. Subsequently, according to defined procedures, lenders approve or reject submitted withdrawal applications and provide relevant information to the MOF, which is aggregated and summarized on a monthly basis. The World Bank Client Connection (World Bank loans represent the largest part of Armenia’s external public debt portfolio) and a similar Asian Development Bank tool allow borrowers tracking the approval of applications sent promptly, within 3-4 days.

Other creditors provide allocation information only in paper form, within 20-45 days from the following allocation. Records on monthly allocations are aggregated on the basis of information received from creditors in a document form. Thus, the information on external public debt can be provided within 30 days and in some cases, within a maximum of 45 days.

Information on the structure of domestic debt, total volume of treasury bonds in circulation and the breakdown of individual types of bonds by volume, treasury bond operations in a given budget year (issuance, placing, return, redemption, service, deficit financing), portfolios of owners with some concentration of treasury bonds and their proportions can be provided daily, weekly, monthly, quarterly, semiannually and annually.

Quarterly profiles are also provided annually on placed bonds, received revenues, redemptions, service charges, and deficit financing each quarter.

The quality of debt data recording and reporting is scored A, since domestic and external debt recording is largely complete. Comprehensive management and statistical reports are produced at least quarterly.

- (ii) Government’s cash balances are calculated daily and consolidated (including all extrabudgetary accounts). Daily calculation and consolidation of cash balances are done through the single Treasury account, which includes all state budget, extrabudgetary, deposit, and monetization accounts.

The single Treasury account is a dram-denominated account opened in the Central Bank in the name of the Central Treasury. In this bank all funds under the disposal of the Republic of Armenia and communities are deposited, and all payments of the Republic of Armenia and communities are made. It is scored A.

- (iii) The central Government’s contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets. The Republic of Armenia government’s contracting and recording of loans and guarantees are performed by the MOF, according to the procedures established by the ROA government. The score is A.

Indicator	Brief explanation	Rating
Recording and management of cash balances, debt, and guarantees	(i) Domestic and foreign debt records are complete, updated, and reconciled monthly with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock, and operations) are produced at least quarterly. (A) (ii) All cash balances are calculated daily and consolidated. (A) (iii) Central Government’s contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible Government entity. (A)	A

PI-18. Effectiveness of payroll controls

Dimensions to be assessed (Scoring Method M1):

- (i) Degree of integration and reconciliation between personnel records and payroll data
 - (ii) Timeliness of changes to personnel records and the payroll
 - (iii) Internal controls of changes to personnel records and the payroll
 - (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers
- (i) In terms of activities for the *Effectiveness of payroll controls* indicator, wages in Government entities are calculated by a uniform scale in the ROA Law on Civil Service Remuneration, based on the defined coefficient for the position held and work experience. (A)

The list of civil service positions in the said entities is agreed with the ROA Civil Service Council and approved according to that law, in a uniform manner, by the head of the corresponding entity. In local governments, according to the ROA Law on Municipal Service, the size of remuneration of municipal servants, and changes to it are approved by the council of elders of the community upon the recommendation of the head of community. In special services—defense, national security, police, tax, customs, rescue service in the republican executive bodies, and payrolls for diplomatic and other services provided for by laws—staff lists are prepared and wages defined according to relevant laws on these entities.

The direct linkage between the personnel database and payroll operates as follows. The personnel database, which is called the staff list, is approved by the minister's order. The document includes the posts and respective rates for posts by structural units (departments and divisions) that are calculated on the basis of a uniform scale established under the ROA Law of Civil Service Remuneration by a coefficient based on the position held and years of experience. The staff list is managed by the Personnel Management Department, which is responsible for making corresponding changes to it. The Law on Remuneration of Civil Servants provides that civil servant salaries should be paid only in non-cash form through the banking system. Consequently, after approval, the staff list is provided to the Accounting Department in the ministry, which then calculates the wages based on the actual work hours each month and transfers the salaries to respective bank accounts. The Accounting Department makes the calculations via computers using the Armenian Software accounting package, the use of which rules out

any arbitrary approaches or methodological differences. Since these are not different roles, in this case, automatic reconciliation is not necessary. Rather, the Personnel Management Department's list is provided to the Accounting Department and is the same list that is used for the calculations by the Accounting Department.

According to the ROA Law on Civil Service, the staff lists of state bodies are subject to approval within 15 days of the approval (change) in the respective lists of civil service posts. According to the law, the list of civil service posts is approved and changed by the Civil Service Council.

The salaries in all state bodies, with the exception of special services, civil service salaries are calculated on the basis of a uniform scale established under the ROA Law of Civil Service Remuneration by a coefficient based on the position held and years of experience.

Different payscales are not used within the civil service.

In special services, that is, executive bodies in the areas of defense, national security, police, tax, customs, and rescue service and in the diplomatic service and other services provided by laws, the staff lists are prepared and salaries specified by laws passed on these bodies. However, the staff working in these bodies and deemed civil servants also are paid salaries in the manner defined by the ROA Law on Civil Service Remuneration.

According to the ROA Law on the Municipal Service, the size of municipal servants' pay and changes to it are approved by the Council of Elders on the recommendation of the head of the community.

With regard to this comment, please note that the personnel database is not decentralized. On the contrary, throughout the civil service, as mentioned above, there is a uniform procedure for the approval of the list of posts, approval of the staff lists based on the list of posts, and provision to the Accounting Department.

Although the state budget resources are allocated to SNCOs (including for payment of salaries to their staff) under the item *Goods and Services*, numerous audits by the Internal Audit Assessment and Financial Supervision Department have shown that salaries approved by ASBs based on SNCO estimates are planned and paid under the item, *Salaries*.

The structure of personnel records and payroll is not complicated. The personnel and payroll records are made entirely through the same processes, that is, the procedure established by the Law on the Civil Service and Civil Service Remuneration.

(ii) The procedure for registration, keeping the log, and filing hiring and firing orders (decision, instruction, and order) was defined by Government Decree No. 875 of June 16, 2006. This decree clearly specifies responsibilities with respect to registration, keeping the log, and filing hiring and firing orders for the staff of Government entities and local self- governments.

Changes to records are updated immediately upon opening and filling a new vacancy; that is, updates in records could take place daily, weekly, and monthly (A).

(iii) Changes to personnel in Government and local self-government entities are recorded regularly (immediately after the relevant act becomes effective) irrespective of the fact that, in some places, this issue is addressed by internal regulations, while in others, it is based on written instructions of officials in managerial capacity for such issues. (B)

(vi) Concerning identification of ghost workers, a corresponding database of staff attendance is kept by all Government entities. In some Government entities, the said system is more reliable since staff registration is handled by a card (electronic) system. In fact, the risk of “collusion’ between a staff member and supervisor is ruled out. (A)

There is no electronic system in place in local self-governments, and staff attendance is based largely on the human factor.

According to the Procedure for Performing Internal Audit in the Republic of Armenia, Government entities and local self-governments and institutions within their jurisdiction (approved by Order No. 934-N of ROA MOF, in each unit categorized as financial and accounting services), comprehensive audits are performed once in a FY, and in institutions within the jurisdiction of these entities, not less than once every three years. During the comprehensive audit of both the staff in Government entities and local self-government bodies the efficiency of wage bill spending is given special attention.

Within the framework of Government measures to identify “ghost employees,” the most efficient method is workers’ attendance registration by card or electronic system. It enables discovery during audits of the difference between the attendance of and benefits received by employees. But this system has not been introduced in every government institution. It is present in almost all of the central government bodies. However, in local self governance bodies and SNCOs attendance is still checked by keeping an attendance record journal, which prevents unreasonable attendance problems and provides close management review.

Indicator	Brief description	Rating
Effectiveness of payroll controls	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation. (A) (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in maximum 3 percent of salary payments). (A) (iii) Authority and basis for changes to personnel records and the payroll are clear. (B) (iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise). (B)	B+

PI-19. Competition, value for money and controls in procurement
Dimensions to be assessed (Scoring Method M2):

- (i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)
- (ii) Extent of justification for use of less competitive procurement methods
- (iii) Existence and operation of a procurement complaints mechanism
- (i) In 2007 the procurement of goods, works, and services for state needs amounted to approximately AMD 281.6 billion (excluding procurement deemed state and official secret), 115.0 billion of which through open competitive procurement (or approximately 90.8 percent of the total value of procurement AMD126.7 billion), and approximately AMD 11.7 billion through sole source procurement (does not include sole source procurement on the basis of monopolies)). The rest is sole source procurement on the basis of monopolies, including health, education, electricity, communication, and water.

According to ROA procurement legislation, in the case of procurement for state needs in excess of AMD 1 billion drams, including sole source, the protocol of procurement procedure is submitted to the Ministry of Finance. The MOF reviews that document and compares the information contained in it with the requirements of the ROA legislation. In case of compliance, the client is provided with the procurement procedure, contract, and an opinion by the authorized body confirming that the contract meets the requirements of the legal acts regulating

procurement-related relations. The existence of the opinion is a condition for performing the rights and obligations under the contract, which also forces state bodies to perform sole source procurement in line with the ROA legislation. It is worth mentioning that government entities strictly adhere to the legal requirements in this area.

As for the nature of sole source procurement based on monopolies, the terms for using sole source procurement are specifically defined in the ROA Procurement Law, Article 23 and Order No. 426-N of the Minister of Finance and Economy.

(ii) Procurement methods are clearly defined in the ROA Law on Procurement, including less competitive methods of procurement and terms for using them. Furthermore, in practice, the use of these methods meets the requirements of the law. Otherwise, MOF would not issue the opinion specified under dimension (i).

Meanwhile, according to the ROA Law on Procurement, competition is viewed as the preferable method of procurement, since it ensures that the procurement process is organized most competitively, effectively, transparently, publicly, and without discrimination; and that it expands the scope of participants and encourages competition among them for awarding a contract.

(iii) The rules for filing complaints, consideration, decision-making, and dates are defined in section 7 of the law. Accordingly, the authorized body (MOF) has a right to suspend the procurement procedure before a decision is made on the appeal. The authorized body shall make a decision no later than 20 days after and no sooner than 10 business days after receipt of the complaint. Consideration of the complaint is done publicly. Then, an announcement of the filed complaint is published in the newspaper, enabling entities with similar complaints to file complaints. Lastly, the complaint and the decision are posted on the official procurement website.

According to the ROA Laws on the Budget System and the Chamber of Control, the chamber may oversee the complaint consideration and decision-making process as part of budget execution, both during and after the completion of the process.

Indicator	Brief explanation	Rating
Competition, value for money, and controls in procurement	(i) Accurate data on the method used to award public contracts exists and shows that more than 75 percent of contracts above the threshold are awarded on the basis of open competition. (A) (ii) Other less competitive methods when used are justified in accordance with clear regulatory requirements. (A)	A

(iii) Process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny. (A)

PI-20. Effectiveness of internal controls for nonsalary expenditure

Dimensions to be assessed (Scoring Method M1):

- (i) Effectiveness of expenditure commitment controls
- (ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures
- (iii) Degree of compliance with rules for processing and recording transactions

(i) The Treasury performs advance control of budget execution, as a result of which before withdrawal of funds from its accounts, the Treasury assesses the compliance of financial operations by entities with the requirement of the legislation regulating the budget execution process. Where inconsistencies are identified, the payment for commitments is suspended until they are corrected.

(ii) The financial management and control system constituting part of the internal control system, including the organizational structure, methods, and procedures, are defined by ROA legislation and include a set of comprehensive controls. However, an internal audit system in line with international internal audit standards is not yet in place. (C)

(iii) Transaction recording is performed in line with ROA legislation. (A)

Indicator	Brief explanation	Rating
Effectiveness of internal controls for non-salary expenditure (Scoring Method M1)	<p>(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised). (A)</p> <p>(ii) Other internal control rules and procedures consist of a basic set of rules, understood by those directly involved in their application, for processing and recording transactions. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. (C)</p> <p>(iii) Compliance with rules is very high, and any misuse of simplified and emergency procedures is insignificant. (A)</p>	C+

PI-21. Effectiveness of internal audit

Dimensions to be assessed (Scoring Method M1):

- (i) Coverage and quality of the internal audit function
- (ii) Frequency and distribution of reports
- (iii) Extent of management response to internal audit findings

(i) Introducing and improving the internal audit system in Government entities and local self-governments continued during 2007. Of 49 Government entities, 47 urban communities, and 12 district communities in Yerevan and 22 courts, 103 have annual internal audit plans duly approved and agreed with MOF. On this basis, 864 entities should be audited (in most rural communities the internal audit system has not yet been developed).

Although the internal audit system has been in place in ROA state and local self-governments since 2003, it does not conform to international standards. In addition, there is a lack of internal audit manuals that meet professional standards and internal auditors who lack knowledge and skills in this area (D).

(ii) In 2007 these entities furnished relevant reports to the MOF on audits performed, which included approximately 387 entities, compared to 260 the previous year. Despite the existence of approved and agreed programs, some Government entities have not furnished any reports whatsoever.

As for the submission of reports to the ROA Chamber of Control, this is not a required norm under the legislation. However, according to the strategy on internal audit system development in ROA Government entities and self-governments, institutions within their jurisdiction, and Government entities and community noncommercial organizations: Government entities must submit relevant audit reports if so requested by the ROA Chamber of Control. (C)

(iii) The chief auditor prepares the final audit report and, together with respective opinions and recommendations, submits the report to the chief financial officer for consideration.¹⁴ The final report should reflect the objections and explanations provided by the audited entity on the earlier draft of the report (or a note on the absence thereof), as well as full information about the discussion of objections and explanations and discussion results.

Upon receipt of the final report, the chief financial officer should review it; and, based on it, within one week, issue respective written instructions on correction of violations, weaknesses, and shortcomings identified during the audit (B).

¹⁴ This procedure follows Order No. 934-N of the Minister of Finance and Economy of December 30, 2002.

These instructions are an integral part of the audit report and are attached to the latter. (B).

Indicator	Brief explanation	Rating
Effectiveness of internal audit	(i) There is little or no internal audit focused on systems monitoring. (D) (ii) Reports are issued regularly for most Government entities but may not be submitted to the MOF and the SAI. (C) (iii) Prompt and comprehensive action is taken by many (but not all) managers. (B)	D+

3.5. Accounting, Recording, and Reporting

PI-22. Timeliness and regularity of accounts reconciliation

Dimensions to be assessed (Scoring Method M2):

- (i) Regularity of bank reconciliations
- (ii) Regularity of reconciliation and clearance of suspense accounts and advances
 - (i) Reconciliation of the single Treasury account with the ROA Central Bank and the relevant account in the Central Treasury at aggregate and detailed levels is performed daily.
 - (ii) Reconciliation of extrabudgetary accounts in the ROA Central Bank is performed daily. Budgetary institutions submit weekly reports to local Treasury branches on the cash expenses made. As for advance payments for business trips, the staff member of the budgetary institution submits a report to the institution on the advance payment after the end of the business trip.

Indicator	Brief explanation	Rating
Timeliness and regularity of accounts reconciliation	(i) Bank reconciliation for all central Government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. (A) (ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. (A)	A

PI-23. Availability of information on resources received by service delivery units

Dimensions to be assessed (Scoring Method M1):

(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of Government is responsible for the operation and funding of these units.

Information on funds allocated to service delivery units from the State Budget is collected daily (online). Information on other funds transferred to SNCO accounts in commercial banks is contained in annual reports. The majority of service delivery units are schools of general education with SNCO status and hospitals and polyclinics with company status. Data on budgetary resources provided to individual hospitals and polyclinics are published on the State Health Agency website. No similar reports are published for schools and thus are not accessible to the public. Under current legislation, there are no requirements for auditing SNCO statements and information on receipt and use of funds is thus not effectively verified.

Indicator	Brief explanation	Rating
Availability of information on resources received by service delivery units	(i) Special surveys covering a significant part of the country and undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics; OR by primary service delivery units at local community level in several other sectors.	C

PI-24. Quality and timeliness of in-year budget reports

Dimensions to be assessed (Scoring Method M1):

- (i) Scope of reports in terms of coverage and compatibility with budget estimates
- (ii) Timeliness of the issue of reports
- (iii) Quality of information

(i) Data in reports are presented according to economic, functional, and administrative classification, that are in line with the budget. The statements on expenditures include information on commitments, funded and spent resources that are recorded by the MOF, while summary reports contain only data on cash

expenditures.

(ii) The reports are prepared on a quarterly, annual, and monthly basis. Preliminary monthly reports are issued within 1 month of the end of the period, quarterly reports within 45 days of the end of period and annual reports after approval by the National Assembly.

(iii) There are some concerns about the accuracy of some data, especially for funds outside the Treasury system (loans and grants provided by donors and SNCO funds), but in general it does not have a significant impact on the reliability of the report.

Indicator	Brief explanation	Rating
Quality and timeliness of in-year budget reports	(i) Classification of data enables direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (A) (ii) Reports are prepared quarterly or more frequently, and issued within 6 weeks of end of period. (B) (iii) There are some concerns about the accuracy of information that may not always be highlighted in the reports. However, such omissions do not fundamentally undermine the reports' usefulness. (C)	C+

PI-25. Quality and timeliness of annual financial statements

Dimensions to be assessed (Scoring Method M1):

(i) Completeness of the financial statements

(ii) Timeliness of submission of the financial statements

(iii) Accounting standards used

(i) A consolidated Government statement on budget execution (which does not include the budget execution reports for communities) is prepared annually. Information on revenue, expenditure, and bank account balances may not always be complete, but the omissions are not significant.

(ii) Within five months of the end of the FY, the government's consolidated statement is submitted for external audit simultaneously to the Chamber of Control and the National Assembly.

(iii) Statements are presented in a consistent format over time, but they do not conform to IPSAS international standards or corresponding national standards.

Indicator	Brief explanation	Rating
Quality and timeliness of annual financial statements	(i) A consolidated Government statement is prepared annually. Information on revenue, expenditure, and bank account balances may not always be complete, but the omissions are not significant. (C) (ii) The statement is submitted for external audit within 5 months of the end of the FY. (A) (iii) Statements are presented in a consistent format over time but the accounting standards are not disclosed. (D)	D+

3.6. External Scrutiny and Audit

PI-26. Scope, nature, and follow-up of external audit

Dimensions to be assessed (Scoring Method M1):

- (i) Scope/nature of audit performed (including adherence to auditing standards)
- (ii) Timeliness of submission of audit reports to legislature
- (iii) Evidence of follow up on audit recommendations

There were 46 items in the 2006 annual program of activities (approved by the National Assembly) of the Chamber of Control of the National Assembly. Of these, 32 directly referred to control of funds allocated to budgetary institutions. Of the expenditure allocated to budgetary institutions, 54.6 percent was audited according to the 2006 annual program of activities just mentioned.

Control mainly took the forms of reviews and, in some cases, brief analyses. Financial and compliance types of control activities were carried out.

The NA Chamber of Control was guided by International Organization of Supreme Audit Institutions (INTOSAI) standards in its control activities, but the application of the standards was limited. (C).

Specifically, in the reporting period, the Chamber of Control was guided by INTOSAI standards in most cases. However, there were major exceptions:

- The independence of the Chamber of Control was absolutely not ensured, as it used to be the control body of the National Assembly. The annual program of the activities of the Chamber of Control used to be approved by the ROA National Assembly. The NA had made the Chamber of Control subject to the NA. The reason was that the legislative body

was choosing the targets of audits implemented by the Chamber, planning the audit activities, and in general managing its resources.

- The annual budget of the Chamber of Control was subject to resource limitations depending on the government's position. This limitation used to affect the activities of the Chamber.
- The Chamber of Control did not have the right to immediately inform the relevant law-enforcement bodies of any criminal and legal violations identified by its control activities.
- No official auditing standards were developed in line with the internationally accepted and recognized standards and best practice. The ROA Chamber of Control of the National Assembly did use audit practices, procedures, and rules containing some elements of INTOSAI standards.
- The ROA Law on the Chamber of Control of the National Assembly did not fully meet international standards. For example, there were no provisions regarding the knowledge or identification of personal and external impairments. Furthermore, arrangements for regular training and continuing development were absent.
- Contravening best international practice, only financial and compliance audits were performed, with some significant exceptions. The authority to carry out performance audit was lacking.

(ii) The 2006 annual program of the Chamber of Control covered the 2005 activities of controlled entities.

According to ROA Legislation, upon approval by the board of the Chamber of Control, the annual report is submitted to the ROA National Assembly no later than 3 months after the end of the budget year. Thus, reports on audits performed in 2006 were submitted to the legislature within 15 months of the end of the 2005 period covered by 2006 control activities.

Concerning the opinion of the Chamber of Control on the Government's state budget execution report, the government's annual report on the execution of the program on privatization and denationalization of public enterprises, and unfinished construction facilities, on average it is submitted by the NA Chamber of Control within 20 days of receipt.¹⁵ *In addition, drafts of these reports are unofficially furnished to the Chamber of Control 20–25 days before the due date prescribed by law.*

¹⁵ Based on Articles 87, 103, and 109 of the ROA Law *Bylaws of the National Assembly*.

(iii) After discussing the Chamber of Control reports in due manner as defined by the Prime Minister’s Decree No. 507-A dated July 8, 2005,¹⁶ the government provides official information to the Chamber of Control on follow-up measures taken to correct identified violations.

In particular, there were no cases of late submission of information. However, there were cases in which NA Chamber of Control recommendations *were not appropriately responded to*.

Indicator	Brief explanation	Rating
Scope, nature, and follow-up of external audit	<p>(i) Central Government entities representing at least 50 percent of total expenditures are audited annually. Audits comprise predominately transaction-level testing, but reports also identify significant issues. Audit standards may be disclosed to a limited extent only. (D)</p> <p>(ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors). (D)</p> <p>(iii) A formal response is made in a timely manner, but there is little evidence of systematic follow-up. (B)</p>	D+

PI-27. Legislative scrutiny of the annual budget law

Dimensions to be assessed (Scoring Method M1):

- (i) Scope of the legislature’s scrutiny.
 - (ii) Extent to which the legislature’s procedures are well-established and respected.
 - (iii) Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).
 - (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.
-
- (i) According to the Republic of Armenia Budget System Law, the state budget proposal submitted to the NA for approval together with budget revenue and expenditure also contains documents that reflect the fiscal policy de-

¹⁶ On the Procedure for Discussion of Reports by the Republic of Armenia Chamber of Control of the National Assembly

tails and medium-term priorities discussed in standing sectoral committee meetings. They are not documented. Nevertheless, they have a direct impact on the development of the views of the Committee members and the opinion of the Committee presented by the Committee representative in the NA session.¹⁷ Members of the Parliament also make recommendations and observations during these debates.

In the meantime, improvement in the program budgeting due to implementation of reforms is expected to significantly increase the effectiveness of the above-mentioned scrutiny. Nevertheless, the first dimension is scored A.

- (ii) Article 90 of the Republic of Armenia Constitution and Article 79 of the By-laws of the National Assembly state that the Government should submit the state budget proposal to the Government at least 90 days before the beginning of the budget year. This requirement has been strictly adhered to in recent years. Preliminary discussions of the state budget proposal are held in separate and joint meetings of the 12 standing sectoral committees of the NA according to the schedule approved by the NA Chair. The state budget proposal is approved within two days of its receipt, after consultation with the Prime Minister and discussion of the issue in the consultation in the National Assembly, and includes the dates for submission of recommendations and revisions by the Government.

The discussion of the draft state budget law by the NA starts no later than the first four-day session in November preceding the budget year. At the end of the first the exchange of ideas and discussion in the session are over, a break of at least four days is announced, after which the debates are resumed. Members of Parliament (MP), factions, and MP groups submit recommendations. Within 24 hours of the break in the budget proposal discussion, standing committees submit their recommendations and opinions officially and electronically, or through electronic mail, to the Staff of the National Assembly. One hour after the submission deadline, the NA staff forwards them to the government. Thus, the second dimension is scored A.

- (iii) Article 90 of the Republic of Armenia Constitution and Article 79 of the National Assembly By-laws state that the government should submit the state budget proposal to the Government at least 90 days before the start of the budget year. These articles also stipulate that discussions in the National Assembly session start no later than the first four-day session in

¹⁷ According to the procedure defined in Article 81 of the Republic of Armenia Law, "Bylaws of the Republic of Armenia."

November of the year preceding the budget year. Theoretically, the defined deadlines enable reviewing budget proposals for two or more months. In this case, the third dimension can be scored A.

- (iv) The Government’s right to make in-year amendments to the budget without prior approval by the legislature is fully regulated by Article 23 of the ROA Law on the Budget System. In particular, it is clearly defined that in budget execution, the head of the relevant state body may do internal reallocations among the items of the economic classification in amounts not exceeding 15 percent of the total allocation for each program implemented by each program. During the execution of the state budget, the Government may make reallocations in expenditure programs defined by the state budget law of a particular year within 3 percent of the total allocation according to the defined procedure. In addition, reallocations among programs should not reduce the annual amount of financial equalization subsidies allocated to communities (unless otherwise provided for in the budget of that particular year). It also is defined that if there is a risk of underperformance of annual budget revenues, which might cause up to 10 percent underperformance on approved budget allocation, it is possible for the Government, through its decision, to reduce these allocations in the said proportion. It is obvious that the legislature defines the rules of the game and participates in the reallocation. Thus, dimension (iv) also is scored A.

Indicator	Brief explanation	Rating
Legislative scrutiny of the annual budget law	<p>(i) In line with the defined procedures and powers reserved to the National Assembly, the reviews in 12 standing committees cover fiscal policies, medium-term fiscal framework, and medium-term priorities as well as details of expenditure and revenue. (A)</p> <p>(ii) Theoretically, the legislation enables reviewing budget proposals in the National Assembly in at least two months. (A)</p> <p>(iii) The ROA Law on the Budget System clearly sets the rules and limitations for in-year budget amendments by the executive, which are consistently respected. (A)</p> <p>(iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected. (A)</p>	A

PI-28. Legislative scrutiny of external audit reports

Dimensions to be assessed (Scoring Method M1):

- (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)
 - (ii) Extent of hearings on key findings undertaken by the legislature
 - (iii) Issuance of recommended actions by the legislature and implementation by the executive
- (i) The legislation clearly regulates the process and mechanisms of state budget execution during the year. In particular, the Government submits the annual state budget execution report for each year by May 1 of the following year. The report is then discussed and approved with an opinion from the ROA Chamber of Control by the second Wednesday in June following the reporting year. The ROA Chamber of Control also performs external state audit of budget funds and the use of state and community property under the ROA Law on the Republic of Armenia Chamber of Control. The Chamber operates on the basis of the annual program of the Chamber of Control, the proposed draft of which is submitted to the National Assembly for discussion 60 days before the start of the new budget year.¹⁸ The report on execution of the Program approved by the National Assembly covers ongoing reports on all items of the program.¹⁹ The execution report is submitted to the NA for discussion no later than three months after the end of the budget year. This report is then discussed in the NA by the end of a given regular session (by the second Thursday in December) without passing any document. In fact, the legislature's reviews take place within three months of receipt of reports. Thus, dimension (i) is rated A.
- (ii) According to the established procedure, if the opinion of the ROA Chamber of Control is issued, preliminary discussions of the annual state budget execution report take place in standing committees in line with the approved schedule by the NA Chair, with the participation of members of the Government and persons authorized by the Prime Minister. Within 40 days of the end of each quarter, the NA receives information from the Government on the progress of state budget execution. Article 32 of the Republic of Armenia Law on Bylaws of the National Assembly enables the committee organizing Parliamentary hearings to do so at least once in each next session, including on the key issues above. For example, hearings were orga-

¹⁸ According to Article 15 of the Law of the Republic of Armenia Chamber of Control and Article 100 of the Law on By-Laws of the National Assembly.

¹⁹ In line with Articles 17 and 101 of the afore-mentioned Laws, respectively,

nized on inflation, dram appreciation and economic situation, and fiscal and monetary policies. Dimension (ii) is rated A.

- (iii) Article 5 of the Republic of Armenia Constitution clearly states that state bodies and officials are enabled to perform only such actions that are authorized by legislation. Since the legislation does not enable providing recommendations on the annual budget execution report, the legislature is not authorized to perform such actions. Nevertheless, the MPs, standing committees, factions, and MP groups, can informally make recommendations to the representatives of the executive branch during the discussions on additional improvements in individual programs. These informal recommendations are not required to be acted upon. Thus, dimension (iii) is rated D.

Indicator	Brief explanation	Rating
Legislative scrutiny of external audit reports	(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports. (A) (ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. (A) (iii) No recommendations are being issued by the legislature. (D)	D+

3.7. Donor Practices

D-1. Predictability of direct budget support

Dimensions to be assessed (Scoring Method M1):

- (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the Government's submitting its budget proposals to the legislature (or equivalent approving body).
- (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

All direct budget support, according to the information received from donors (in individual cases, the preliminary information) is planned in the medium-term expenditure framework in the revenues envisaged under the state budget proposal. Normally, no dates that tie them to the level of implementation of individual mutually agreed reform measures are specified for allocation of the direct budget support in agreements signed between donors and the Government. Cur-

rent practices do not enable the accurate planning of the periods of disbursement of direct budget support from donors during the year, which causes deviations between planned revenues and actual budget outturn. Thus, in 2005–07 the actual budget outturn was 49.6 percent, 118.8 percent, and 252.8 percent of planned revenues, respectively. In other words, the deviation equaled 50.4 percent, 18.8 percent, and 152.8 percent, respectively. Dimension (i) is scored C. As donor disbursements do not meet compliance with aggregate quarterly estimates, dimension (ii) is rated D.

Indicator	Brief explanation	Rating
D-1. Predictability of direct budget support	(i) In no more than 1 of the last 3 years has direct budget support outturn fallen short of the forecast by more than 15 percent. (C) (ii) The requirements for the C (or higher score) are not met. (D)	D+

D-2. Financial information provided by donors for budgeting and reporting on project and program aid

Dimensions to be assessed (Scoring Method M1):

- (i) Completeness and timeliness of budget estimates by donors for project support
 - (ii) Frequency and coverage of reporting by donors on actual donor flows for project support
- (i) Project implementing agencies, together with budget submissions of ministries coordinating the relevant sector, provide budget estimates for their projects at stages consistent with the Government’s budget calendar and with a breakdown consistent with the Government’s budget classification. There are no issues related to making project data consistent with budget classification. Sectors receiving the largest support for earmarked projects include water management, road management, energy, and agriculture. There were no problems in terms of data consistency of the donor support provided to these sectors for earmarked projects.
- (ii) Most project implementing agencies (more than 85 percent) submit monthly reports on project implementation but not consistent with the Government’s budget classification, which does not impede bringing submitted reports into conformity with the budget classification.

Indicator	Brief explanation	Rating
Financial information provided by donors for budgeting and reporting on project and program aid	(i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the Government's budget calendar and with a breakdown consistent with the Government's budget classification. (A) (ii) Donors provide quarterly reports within one month of end of quarter on all disbursements made for at least 85 percent of the externally financed project estimates in the budget, with a break-down consistent with the Government budget classification. (A)	A

D-3. Proportion of aid managed by use of national procedures

Dimensions to be assessed (Scoring Method M1):

- (i) Overall proportion of aid funds to central Government that are managed through national procedures.

This proportion should be arrived at as an average of the proportion of donor funds that use national systems for each of the four areas of procurement, payment/accounting, audit, and reporting, respectively.

Reports on grants are submitted to MOF.²⁰ However, most of the procurements from donor funding do not follow national procedures. National procedures were used for organizing procurement, payment/accounting, and auditing and managing 19.3 percent of aid funds in 2007.

Agreements governing relations with regard to provision of funds by donors may contain rules other than those in the ROA Procurement Law. In this case, procurement processes are organized, and payments against these agreements made, under the rules defined in these agreements. Alternatively, these processes are organized according to the rules of the ROA Law on Procurement. As part of control over budget execution, the audit of the use of these proceeds is performed according to the rules of national procedures. The use of the said amounts is subject to independent audit if such requirement is provided for in the agreement.

²⁰ According to the procedure established by ROA Government Decree No. 32 of January 16, 2003 on the Procedure for Accounting State Grants and Preparing and Issuing Reports and the Order No. 449 of the Minister of Finance and Economy of May 21, 2003 on The Sample Forms, the Procedure for Preparation and Submission of Reports on Grants Provided to the Republic of Armenia by Foreign States, International Organizations, as well as Grants and Commodity Loans Provided by other Persons.

Indicator	Brief explanation	Rating
Proportion of aid that is managed by use of national procedures	(i) In 2007 less than 50 percent of aid funds to central government were managed through national procedures. (D)	D

SECTION 4.

GOVERNMENT-IMPLEMENTED REFORM PROCESS FOR PFM

4.1 Recent and Ongoing Reforms

Budget Planning

Since 2000, the ROA Government has initiated implementation of medium-term expenditure frameworks (MTEFs). In addition, since 2003, all Government entities have been involved in the development of the MTEF. The Poverty Reduction Strategy Paper (PRSP) prepared by the Government through wider public involvement defines the strategic priorities and action plan until 2015. The PRSP contributed considerably to the MTEF. In the meantime, steps were taken to build the public medium-term expenditure planning process on legislative bases. In April 2003, Government ambitions to improve the transparency of the budgeting process and build the budget based on programs led to passing amendments to the Republic of Armenia Budget System Law. The law secures the activities for developing, approval and issuing medium-term frameworks as a separate component in the budgeting process. The law defines the said framework as the basis for development of the state budget proposal, expanding the budget calendar and making it more flexible, defining the composition of public MTEF, and other related provisions.

In recent years, to make the budget process more effective by giving it a new qualitative focus, the Government initiated measures to deepen program budgeting. In prior years, the indicators of requested, allocated, and spent inputs had underlain the assessment of the public expenditure management system (although, more recently, a number of non-financial indicators started to be used in parallel). Such indicators and their comparisons could not provide full information to the analyst nor to political decision-makers on program goals, proposed ways to achieve them, expected outcomes, or the economic and social effectiveness of the program. Thus, to increase the efficiency of public expenditure management and improve the quality of strategic decisions based on it, *a transition from considering the input indicators of spending financial (budget) resources to looking at the performance under the program and received outputs is paramount.* The said budgeting reform usefully and logically complements MTEF reforms by increasing the level of transparency and accountability of programs, and thus the budget preparation and execution processes.

In 2001, the ROA Government embarked on preparations to ensure that the necessary conditions are in place to make a gradual shift from input budgeting (resources used for service delivery) to output budgeting. As a result, by 2007, 14 Government entities were involved in this process. The new program structures of these entities were published both in MTEFs and in state budget laws for relevant years. The 2008 Government State Budget message, a component of the state budget proposal, includes performance indicators (outputs) for programs implemented at the agency level. Deepening the function of having the performance indicators as separate documents for each agency is under consideration. Agency documents will be designed to provide a detailed description of strategic goals of the agency and planned performance indicators (outputs) as part of implemented programs. Discussions are underway on revamping the state budget format in line with program budgeting requirements.

State Procurement

As part of improving the procurement system:

- Legal acts for enforcing the ROA Law on Procurement, which became effective on January 1, 2005, were developed and submitted to the Government for discussion.
- The strategy to introduce the electronic procurement system was designed and approved by Government Decree No. 137-N dated January 26, 2006. Under the measures envisioned under this document, with the World Bank support, the software technical specifications were developed. A tender was announced to procure the software.

In 2007 the volume of competition-based procurement for state needs not containing state or official secrets (non-confidential) increased by 220 percent. In 2006 procurement through open competition accounted for approximately 52 billion drams and in 2007 for approximately 115 billion drams. In 2007 the State Procurement Agency organized 1,391 competitions, compared to 826 in 2006. In the same year, the single source procurement for state needs declined by 50 percent for procurement not comprising state or official secrets to around 11.7 billion drams in 2007 and to around 10 billion in 2006. In 2007, the volume of single source procurement compared to competition-based procurement accounted for around 10.2 percent compared to approximately 19.5 percent in 2006.

To increase the publicity and transparency of procurement processes, a new official website was designed that provides comprehensive information on the procurement system.

The Treasury

Implementation of the ROA public sector accounting and second-generation Treasury reforms approved by the Government was ensured with a view to improve the Treasury system. In particular:

1. The new budget revenue and expenditure classification and detailed implementing instructions were approved in line with the requirements of GFS 2001.
2. To develop a uniform system to ensure the necessary professional capabilities of persons responsible for public finance management, the Strategy for the Introduction of a System of Training, Continued Development and Qualification of Public Finance Management Specialists in the ROA was developed and submitted to the Government for approval. The document was developed on the basis of international experience in collaboration with the WB.
3. The following are planned to be implemented with World Bank support to assist the ROA public sector accounting reforms:
 - Assess the differences in the currently used accounting and accrual accounting methods
 - Develop public sector accounting standards and an accounting manual
 - Pilot the accounting standards in the ministries. Based on pilot results, develop a strategy for implementing International Public Sector Accounting Standards (IPSAS)
 - Develop the relevant legal framework.
4. To approve the conceptual and technical structure, including functional requirements of the Government Finance Management Information System (GFMIS), the Corporate Solution Company was developed. MOF accepted the *Designing GFMIS* assessment, design, and introduction reports.
5. As part of the second-generation Treasury reforms, it is planned to implement the following with Bank support to assist with the introduction of GFMIS:
 - Prepare a strategy to introduce and plan GFMIS. The strategy would include developing a detailed technical specification and updating the strategy based on it.
 - Strengthen the capacities of persons involved in GFMIS through trainings and seminars.

Internal Audit

The ROA Government approved the Strategy for Development of Internal Audit in State and Local Self-Governments, Institutions under their Jurisdiction, and State and Community Non-commercial Organizations (SNCOs). This strategy was designed address the problems existing in internal audit within 3 years (2005–08) by bringing it into conformity with international internal auditing standards. As part of implementation of this strategy, the Law on Internal Audit was drafted, approved by the Government, and submitted to the ROA National Assembly. By the approval, a uniform and comprehensive system of evaluation of financial performance will be put in place in state and local self-governments and in state and community noncommercial organizations, and the functions of internal audit will be implemented.

To assist with the internal audit reforms, the following activities have started with World Bank support:

1. Developing and introducing internal auditing standards in the public sector
2. Developing internal audit manuals
3. Preparing training manuals and training programs for auditors.

Tax and Customs

The main directions of tax reforms are to:

1. Streamline tax legislation and clarify the requirements through correcting ambiguous issues in current legislation
2. Expand the tax base and equal distribution of the tax burden. This will be achieved mainly by reducing the shadow and informal sectors of economic activity.
3. Reduce tax holidays completely. Rule out all types of tax holidays for individual sectors, types of activities, and enterprises.
4. Improve taxation by removing legal loopholes enabling taxation avoidance and by streamlining and clarifying legal norms
5. Expand the use of self-assessment in taxation, protect taxpayer interests, and provide quality service to them.
6. Replace the alternative taxation systems defined for individual types of activities by one general system of taxation
7. Continue to improve tax administration.

To achieve these reforms, the Government plans to submit the tax code of the Republic of Armenia to the National Assembly for discussion.

The Government plans to achieve the necessary level of tax revenues particularly through improved tax administration. Thus, importance will be attached to measures to reduce shadow economic activity, thus ensuring a level playing field. This reduction will be achieved through increasing audit effectiveness, strengthening measures taken in the direction of revealing shadow economic activities, and consistently enforcing more stringent liability arrangements.

The Government plans to introduce an electronic filing system to reduce the direct interface between tax officials and businesses.

Necessary activities will be implemented to improve taxpayer refunds, especially VAT refunds to exporters.

The primary reform areas in customs are to:

1. Streamline customs legislation and procedures
2. Expand control of compliance with customs legislation requirements
3. Expand the use of self-declaration in customs and implementation of related measures, developing the capacities of customs houses, and improving the means of customs control.

The Government will make tax and customs better equipped technically. The ROA also will improve the arrangements for exchange of information between these bodies by introducing a functional information system for exercising efficient control over economic entities.

Financial Management of State Non-Commercial Organizations

The legal and institutional framework for the activities of State Non-Commercial Organizations (SNCOs) and their reporting on financial and economic activities are regulated by multiple laws, decrees, and orders.²¹

In recent years, the provisions of the Law played a significant regulatory role by clarifying the legal status and institutional framework for SNCOs; providing legislative solutions to issues related to their establishment, reorganization, and

²¹ ROA Law on State Non-Commercial Organizations (hereinafter, the Law), adopted on October 23, 2001; ROA Government Decree No. 1648 dated November 27, 2003 on Approving the Procedure for Preparing, Submitting and Summarizing Planned Indicators on Financial and Economic Activities by SNCOs and Limiting Loan Operations by SNCOs; and MOF orders No. 868-L of November 26, 2003 and 955-N of December 29, 2003.

liquidation; and clarifying relations with state bodies. The Government Decree and the Ministerial orders (fn. 20 below) defined some norms and respective procedures for ensuring the legal regulation of SNCOs as spending units of budget resources, and accountability of financial and economic activities.

However, a number of problems were identified in the previous period of enforcement of the Law, the said decree, and MOF orders. These problems highlighted the imperative to:

1. Make some of the fundamental provisions set out in the Law more specific and correct
2. Improve the legislative bases for the full operation of the SNCO institutional management system
3. Introduce a comprehensive system of monitoring financial and economic activities of SNCOs.

These problems include setting forth the preconditions for establishing (reorganizing) SNCOs, clarifying the sectors of their planned activities, segregating and clarifying the authorities of managing institutional bodies, and improving the accountability system. The existing legislation does not clearly define SNCOs and does not specify mechanisms for monitoring them fully.

One of the first steps taken to improve the SNCO accountability framework was ROA Government Decree No. 163-N of January 12, 2006 on Approving the Procedure for Ensuring the Reporting Discipline of SNCOs by authorized bodies. This decree established annual targets for the financial and economic performance of SNCOs, liability measures for failure to comply with the procedure or the deadlines for preparation and submission of reports and balance sheets defined by ROA legislation on the performance of targets to Authorized Bodies, and the procedure for publishing information on the applied liability measures.

Additional practical issues arose during the six years of operation of SNCOs with respect to the need for clearer approaches in defining the criteria for establishing or reorganizing SNCOs. Hence, the need for significant improvements to SNCO legislation necessitated the process of amending the Law. An item on the then-current agenda--the draft law on amendments to the Republic of Armenia Law on State Non-Commercial Organizations--was developed and after numerous discussions was submitted to the ROA National Assembly.

Activities are underway to introduce a system for comprehensive monitoring of financial and monitoring activities of SNCOs and to draft the package to improve the legal framework necessary for achieving that objective (with support from

the World Bank). Once these activities are completed and the system introduced, it is expected that opportunities to improve PFM of SNCOs will be considerably expanded.

4.2. Conclusion: Institutional Factors Supporting Reform Planning and Implementation

The government-implemented PFM reforms referred to above and their progress, and the support from the country's political leadership for implementation, enables concluding that, in furthering this policy line, the Government has the role of the initiator and driver of these reforms and will continue to have it in future. One guarantee of the sustainability of these reforms is the increasing involvement of the Parliament and Chamber of Control in them. A second guarantee is continued cooperation with international financial organizations and international experts to become familiar with PFM best practice, and given the specific features of the Republic, analyze and adapt best practice to local needs to improve the capacities of public servants in the system.

Annex 1. Summary Assessment Matrix

Brief Assessment of Public Finance Management (PFM) Systems, Relevant Processes and Institutions

NN	Indicator	Rating	Brief explanation
A. PFM OUTTURNS. Credibility of budget			
1. PL-1	Aggregate expenditure outturn compared to original approved budget (Scoring Method M1)	B	
	Difference between actual primary expenditure and originally budgeted primary expenditure (i.e., excluding debt service charges but also excluding externally financed project expenditure)	B	(i) In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure. However, for 2 years, deviation was more than 5%.
2. PL-2	Composition of expenditure outturn compared to original approved budget (Scoring Method M1)	A	
	Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PL-1) during last 3 years	A	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5% in any of last 3 years.
3. PL-3	Aggregate revenue outturn compared to original approved budget (Scoring Method M1)	A	
	Aggregate revenue outturn compared to original approved budget	A	(i) Actual domestic revenue in 2005-07 (including grants not tied to specific expenditures) exceeded budgeted expenditures.
4. PL-4	Stock and monitoring of expenditure payment arrears (Scoring Method M1)	B+	
	(i) Stock of expenditure payment arrears (as % of actual total expenditure for corresponding FY) and any recent change in stock	A	(i) Expenditure arrears are not accumulated

NN	Indicator	Rating	Brief explanation
	(ii) Availability of data for monitoring stock of expenditure payment arrears	B	(ii) Data on stock of arrears are generated annually but are not complete for SNCOs.
	B KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
5.	Pl-5 Classification of budget (Scoring Method M1)	A	
	(i) Classification system used for formulation, execution, and reporting of central government's budget	A	(i) Budget formulation is based on GFS standards using functional (including subfunctional), economic, and administrative classification. Currently, expenditures of several pilot bodies are presented in program classification format in a separate appendix to state budget law.
6.	Pl-6 Comprehensiveness of information included in budget documentation (Scoring Method M1)	A	
	(i) Share of information listed in methodology in budget documentation most recently issued by central government (To count in assessment, full specification of information benchmark must be met)	A	(i) State budget documentation issued fully meets 9 information benchmarks required in methodology.
7.	Pl-7 Extent of unreported government operations (Scoring Method M1)	A	
	(i) Level of extrabudgetary expenditure (other than donor-funded projects) that is unreported, i.e., not included in fiscal reports	A	(i) Level of unreported extrabudgetary expenditure (other than donor-funded projects) is insignificant (below 1% of total expenditure).
	(ii) Income/expenditure information on donor-funded projects that is included in fiscal reports	A	(ii) Complete income/expenditure information for most (more than 90% by value) donor-funded projects is included in fiscal reports, except in-kind inputs, which are insignificant (below 1% of total expenditure).
8.	Pl-8 Transparency of intergovernmental fiscal relations	B	

NN	Indicator	Rating	Brief explanation
	(Scoring Method M2)		
	(i) Transparent and rules-based systems in horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	A	(i) Horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent, rules-based systems.
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for coming year	A	(ii) SN governments are provided reliable information on allocations to be transferred to them before their detailed budgeting processes begin.
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories	D	(iii) No general government (including communities) consolidated fiscal report is produced
9. Pl-9	Oversight of aggregate fiscal risk from other public sector entities (Scoring Method M1)	D+	
	(i) Extent of central government monitoring of AGAs and PEs	C	(i) Each quarter, all SNCOs furnish cash flow statements and summary balance sheets to ASBs in charge of SNCO governance. ASBs aggregate these by categories/subcategories of functional classification and submit the aggregated reports to MOF. Subsequently, after MOF aggregates these aggregated reports and summary balance sheets according to requirements of Order of ROA, MOF provide the reports to Treasury, which consolidates general governance sector financial data. In addition, once a year, SNCOs submit to MOF through ASBs an overall report that contains summary information and includes 47 key indicators on financial position of SNCOs from balance sheets and other forms of financial statements of SNCO as spending units.

NN	Indicator	Rating	Brief explanation
	(ii) Extent of central government monitoring of SN governments' fiscal position	D	Auditing of the submitted reports is done in a highly segmented and partial manner, as currently there are no legal requirements for auditing SNCO reports. (ii) No annual monitoring of SN governments' fiscal position takes place.
10.	Pl-10 Public Access to key fiscal information (Scoring Method M1)	A	
	(i) Number of above-listed elements of public access to information that is fulfilled (in order to count in assessment, full specification of information benchmark must be met)	A	Five of 6 items on list of information required by the methodology are made available to the public by ROA Government.
C BUDGET CYCLE			
C (i) Policy-Based Budgeting			
11.	Pl-11 Orderliness and participation in annual budget process (Scoring Method M2)	A	
	(i) Existence of and adherence to a fixed budget calendar	A	(i) A clear annual budget calendar exists, is generally adhered to, and allows MDAs enough time (and at least 6 weeks from receipt of budget circular) to meaningfully complete their detailed estimates on time.
	(ii) Clarity/comprehensiveness of, and political involvement in, guidance on preparation of budget submissions (budget circular or equivalent)	A	(ii) A comprehensive and clear budget circular is issued to MDAs that reflects ceilings approved by Cabinet (or equivalent) prior to circular's distribution to MDAs.
	(iii) Timely budget approval by legislature or similarly mandated body (within last 3 years)	A	(iii) During the last 3 years, budget was approved before start of FY.

NN	Indicator	Rating	Brief explanation
12.	<p>Pl-12 Multi-year perspective in fiscal planning, expenditure policy, and budgeting (Scoring Method M2)</p>	B	(i) Forecasts of fiscal aggregates (based on main categories of economic and functional/sector classification) are prepared for at least 3 years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.
	(i) Preparation of multi-year fiscal forecasts and functional allocations	A	(ii) DSA for external and domestic debt is undertaken annually.
	(ii) Scope and frequency of debt sustainability analysis	A	(iii) Sector strategies may have been prepared for some sectors, but none of them has substantially complete costing of investments and recurrent expenditure.
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	D	(iv) Many investment decisions have weak links to sector strategies. Their recurrent cost implications are included in forward budget estimates in only a few (although major) cases.
	(iv) Linkages between investment budgets and forward expenditure estimates	C	
13.	<p>Pl-13 Transparency of taxpayer obligations and liabilities (Scoring Method M2)</p>	C+	
	(i) Clarity and comprehensiveness of tax liabilities	B	(i) All taxes in ROA are clearly defined by legislation (law). Most of their procedures are comprehensive and clear, and involve fairly limited discretionary powers of the government entities involved.
	(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	(ii) Taxpayers have access to some information on tax liabilities and administrative procedures.

NN	Indicator	Rating	Brief explanation
	(iii) Existence and functioning of a tax appeals mechanism	C	Usefulness of information is limited due coverage of selected taxes only, lack of comprehensiveness, and/or not being up-to-date. (iii) A tax appeals system of transparent administrative procedures is completely set up and functional. Either it is too early to assess its effectiveness; or issues of access, efficiency, equity, or effective follow-up on its decisions need to be addressed.
14.	Pl-14 Effectiveness of measures for taxpayer registration and tax assessment (Scoring Method M2)	B	
	(i) Controls in taxpayer registration system	B	(i) Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.
	(ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	B	(ii) Penalties for noncompliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.
	(iii) Planning and monitoring of tax audit and fraud investigation programs	C	(iii) There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.
15.	Pl-15 Effectiveness in collection of tax payments (Scoring Method M1)	B+	
	(i) Collection ratio for gross tax arrears, being percentage of tax arrears at beginning of a FY, which was collected during that FY (average of last two FYs)	B	(i) Debt collection ratio in 2 most recent FYs was 75-90%. Total amount of tax arrears is significant.

NN	Indicator	Rating	Brief explanation
	(i) Effectiveness of transfer of tax collections to Treasury by revenue administration	A	(ii) ROA tax revenues are collected through banking system and daily transferred directly to Treasury accounts designated for each type of tax.
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by Treasury	A	(iii) Reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least monthly within 30 days of end of month.
16. Pl-16	Predictability in availability of funds for commitment of expenditures Dimensions to be assessed (Scoring Method M1)	A	
	(i) Extent to which cash flows are forecast and monitored	A	(i) Forecast is prepared for FY, and is updated monthly based on actual cash inflows and outflows.
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	(ii) MDAs are able to plan and commit expenditure for at least 6 months in advance in accordance with budgeted appropriations.
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above level of management of MDA	A	(iii) Significant in-year adjustments to budget allocations occur only once or twice in a year and are done with transparency and predictability.
17. Pl-17	Recording and management of cash balances, debt, and guarantees (Scoring Method M2)	A	
	(i) Quality of debt data-recording and reporting	A	(i) Domestic and foreign debt records are complete, updated, and reconciled monthly; data considered of high integrity. Comprehensive management and statistical reports (on debt service, stock, and operations) are produced at least quarterly.
	(ii) Extent of consolidation of government's cash balances	A	(ii) All cash balances are calculated daily and consolidated.

NN	Indicator	Rating	Brief explanation
	(iii) Systems for contracting loans and issuance of guarantees	A	(iii) Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets. They are always approved by a single responsible government entity
18. PL-18	Effectiveness of payroll controls (Scoring Method M1)	B+	
	(i) Degree of integration and reconciliation between personnel records and payroll data	A	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.
	(ii) Timeliness of changes to personnel records and payroll	A	(ii) Required changes to personnel records and payroll are updated monthly, generally in time for following month's payments. Retroactive adjustments are rare. (If reliable data exist, they show maximum corrections of 3% of salary payments.)
	(iii) Internal controls of changes to personnel records and payroll	B	(iii) Authority and basis for changes to personnel records and payroll are clear.
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	(iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).
19. PL-19	Competition, value for money, and controls in procurement (Scoring Method M2)	A	
	(i) Evidence on use of open competition for award of contracts that exceed nationally established monetary threshold for small purchases (% of number of contract awards that are above threshold)	A	(i) Accurate data on method used to award public contracts exist. They show that more than 75% of contracts above threshold are awarded based on open competition.
	(ii) Extent of justification for use of less competitive procurement methods	A	(ii) Use of other less competitive methods is justified in accordance with clear regulatory requirements.

NN	Indicator	Rating	Brief explanation
	(ii) Existence and operation of a procurement complaints mechanism	A	(iii) Process (defined by legislation) for submission and timely resolution of procurement complaints is operative and subject to oversight of an external body. Data on resolution of complaints are accessible to public scrutiny
20.	Pl-20 Effectiveness of internal controls for nonsalary expenditure (Scoring Method M1)	C+	
	(i) Effectiveness of expenditure commitment controls	A	(i) Comprehensive expenditure commitment controls are in place. They effectively limit commitments to actual cash availability and approved budget allocations (as revised).
	(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures	C	(ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those applying them. Some rules and procedures may be excessive, and controls may be deficient in areas of minor importance.
	(iii) Degree of compliance with rules for processing and recording transactions	A	(iii) Compliance with rules is very high; any misuse of simplified and emergency procedures is insignificant.
21.	Pl-21 Effectiveness of internal audit (Scoring Method M1)	D+	
	(i) Coverage and quality of internal audit function	D	(i) There is little or no internal audit focused on systems monitoring.
	(ii) Frequency and distribution of reports	C	(ii) Reports are issued regularly for most government entities, but may not be submitted to MOF and SAI.
	(iii) Extent of management response to internal audit findings	B	(iii) Prompt and comprehensive action is taken by many (but not all) managers.

NN	Indicator	Rating	Brief explanation
C (iii) Accounting, Recording, and Reporting			
22. Pl-22	Timeliness and regularity of accounts reconciliation (Scoring Method M2)	A	
	(i) Regularity of bank reconciliations	A	(i) Bank reconciliation for all central government bank accounts takes place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances	A	(ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within 1 month from end of period and with few balances brought forward.
23. Pl-23	Availability of information on resources received by service delivery units (Scoring Method M1)	C	
	(i) Collection and processing of information to demonstrate resources that were actually received (in cash and kind) by most common front-line service delivery units (focus on primary schools and primary health clinics) re: overall resources made available to sector(s), irrespective of which level of government is responsible for operating and funding these units	C	(i)) Special surveys undertaken within last 3 years have demonstrated level of resources received in cash and in kind either by primary schools or primary health clinics covering a significant part of country; OR by primary service delivery units at local community level in several other sectors.
24. Pl-24	Quality and timeliness of in-year budget reports (Scoring Method M1)	C+	
	(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	(i) Classification of data enables direct comparison to original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.
	(ii) Timeliness of issue of reports	B	(ii) Reports are prepared quarterly or more frequently, and issued within 6 weeks of end of period.

NN	Indicator	Rating	Brief explanation
	(iii) Quality of information	C	(iii) There are some concerns about inaccurate information. It may not always be highlighted in reports but does not fundamentally undermine their basic usefulness.
25.	Pl-25 Quality and timeliness of annual financial statements (Scoring Method M1)	D+	
	(i) Completeness of financial statements	C	(i) Consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but omissions are not significant
	(ii) Timeliness of submission of financial statements	A	(ii) Statement is submitted for external audit within 5 months of end of FY.
	(iii) Accounting standards used	D	(iii) Statements are presented in a consistent format over time, but accounting standards are not disclosed.
	C (iv) External scrutiny and audit		
26.	Pl-26 Scope, nature, and follow-up of external audit (Scoring Method M1)	D+	
	(i) Scope/nature of audit performed (including adherence to auditing standards)	D	(i) Central government entities representing at least 50% of total expenditures are audited annually. In transaction-level testing, audits predominate, but reports identify significant issues. Audit standards may be disclosed only to a limited extent.
	(ii) Timeliness of submission of audit reports to legislature	D	(ii) Audit reports are submitted to legislature more than 12 months from end of period covered (for audit of financial statements from their receipt by auditors).

NN	Indicator	Rating	Brief explanation
	(iii) Evidence of follow-up on audit recommendations	B	(iii) Formal response is made in a timely manner, but there is little evidence of systematic follow-up.
27. Pl-27	Legislative scrutiny of annual budget law (Scoring Method M1)	A	
	(i) Scope of legislature's scrutiny	A	(i) Legislature's review covers fiscal policies, medium-term fiscal framework, and medium-term priorities as well as details of expenditure and revenue.
	(ii) Extent to which legislature's procedures are well-established and respected	A	(ii) Legislature's budget review procedures are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.
	(iii) Adequacy of time for the legislature to provide a response to budget proposals--both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	A	(iii) Legislature has at least two months to review budget proposals.
	(iv) Rules for in-year amendments to budget without prior approval by legislature	A	(iv) Clear rules exist for in-year budget amendments by executive, set strict limits on extent and nature of amendments, and are consistently respected.
28. Pl-28	Legislative scrutiny of external audit reports (Scoring Method M1)	D+	
	(i) Timeliness of examination of audit reports by legislature (for reports received within last 3 years)	A	(i) Scrutiny of audit reports is usually completed by legislature within 3 months from receipt of reports.

NN	Indicator	Rating	Brief explanation
	(ii) Extent of hearings on key findings undertaken by legislature	A	(ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.
	(iii) Issuance of recommended actions by legislature and implementation by executive	D	(iii) No recommendations are being issued by legislature.
	D DONOR PRACTICES		
29. D-1	Predictability of direct budget support (Scoring Method M1)	D+	
	(i) Annual deviation of actual budget support from forecast provided by donor agencies at least 6 weeks prior to government's submitting its budget proposals to legislature (or equivalent approving body)	C	(i) In only 1 of the last 3 years has direct budget support outturn fallen short of forecast by more than 15%.
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	(ii) Requirements for C (or higher score) are not met.
30. D-2	Financial information provided by donors for budgeting and reporting on project and program aid (Scoring Method M1)	A	
	(i) Completeness and timeliness of donors' budget estimates for project support	A	(i) All donors (with possible exception of a few donors that provide insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with government's budget calendar and with a breakdown consistent with government's budget classification.

NN	Indicator	Rating	Brief explanation
	(i) Frequency and coverage of reporting by donors on actual donor flows for project support	A	(i) Donors provide quarterly reports within 1 month of end of quarter on all disbursements made for at least 85% of externally financed project estimates in budget, with a breakdown consistent with government budget classification.
31. D-3	Proportion of aid that is managed by using national procedures (Scoring Method M1)	D	
	(i) Proportion of aid that is managed by using national procedures	D	(i) Less than 50% of aid funds to central government are managed through national procedures.

Annex 2. Budgeted and Actual Revenue and Expenditure, 2005-2007

STATEMENT ON THE REPUBLIC OF ARMENIA STATE BUDGET REVENUES, 2005 (In thousands of drams)

Target	Actual	%	Deviation	
STATE BUDGET REVENUES AND OFFICIAL TRANSFERS	342,218,407.8	356,617,730.0	104.2%	14,399,322.2
including				
I. TOTAL REVENUE	333,293,038.0	347,109,447.3	104.1%	13,816,409.3
o/w				
A. CURRENT REVENUE	327,763,452.0	334,807,573.3	102.1%	7,044,121.3
including	310,000,000.0	313,357,617.3	101.1%	3,357,617.3
1. Tax Revenues	292,419,032.0	296,494,255.7	101.4%	4,075,223.7
2. Stamp Duties	17,580,968.0	16,863,361.6	95.9%	(717,606.4)
3. Non-tax Revenues	17,763,452.0	21,449,956.0	120.8%	3,686,504.0
B. REVENUE FROM CAPITAL TRANSACTIONS	5,529,586.0	12,301,874.0	222.5%	6,772,288.0
including alienation of state-owned land located in the City of Yerevan	5,234,285.0	10,842,027.0	207.1%	5,607,742.0
C. OFFICIAL TRANSFERS	8,925,369.8	9,508,282.7	106.5%	582,912.9

The Republic of Armenia State Budget Expenditure, 2005
(by functional classification)
(In thousands of drams)

Category	Sub-category	Target	Actual	Deviation	Absolute deviation ¥1□	Absolute deviation ¥2□
	TOTAL EXPENDITURE	345,437,427.7	368,628,903.0	23,191,475.3	33,206,023.3	36,823,458.9
	including					
01	GENERAL PUBLIC SERVICES	38,266,883.6	41,230,594.9	2,963,711.3	2,963,711.3	3,290,821.1
	including					
01	Legislature, state governance	7,830,098.7	7,787,402.4	(42,696.3)	42,696.3	42,696.3
02	Public financial management	8,432,987.0	9,090,286.2	657,299.2	657,299.2	657,299.2
03	External political activities	8,408,536.6	9,474,286.1	1,065,749.5	1,065,749.5	1,065,749.5
04	External economic assistance	11,566,491.7	12,970,709.2	1,404,217.5	1,404,217.5	1,404,217.5
05	General legal activities	761,625.1	731,389.3	(30,235.8)	30,235.8	30,235.8
06	Elections and referenda	309,859.1	303,295.6	(6,563.5)	6,563.5	6,563.5
07	Other general public services	957,285.4	873,226.1	(84,059.3)	84,059.3	84,059.3
02	DEFENSE	61,004,602.1	64,414,051.3	3,409,449.2	3,409,449.2	3,554,086.0
	including					
01	Military needs	57,219,357.9	60,701,125.5	3,481,767.6	3,481,767.6	3,481,767.6
03	Other Defense Expenditure	3,785,244.2	3,712,925.8	(72,318.4)	72,318.4	72,318.4
03	PUBLIC ORDER, NATIONAL SECURITY AND JUDICIARY	29,128,331.3	29,859,200.6	730,869.3	730,869.3	730,869.3
	including					
01	Public order	18,186,108.1	18,647,634.9	461,526.8	461,526.8	461,526.8
02	National security	7,624,595.8	7,870,347.3	245,751.5	245,751.5	245,751.5
03	Judiciary	3,317,627.4	3,341,218.4	23,591.0	23,591.0	23,591.0
04	EDUCATION AND SCIENCE	58,510,372.4	57,997,968.9	(512,403.4)	512,403.4	691,417.9
	including					
01	State governance in education and science	194,933.5	249,439.6	54,506.1	54,506.1	54,506.1

Category	Sub-category	Target	Actual	Deviation	Absolute deviation ¥1□	Absolute deviation ¥2□
	03	41,880,739.1	41,738,692.8	(142,046.3)	142,046.3	142,046.3
	04	3,481,567.6	3,430,537.1	(51,030.5)	51,030.5	51,030.5
	05	1,844,477.3	1,501,721.5	(342,755.8)	342,755.8	342,755.8
	06	669,612.3	669,357.3	(255.0)	255.0	255.0
	07	1,454,468.4	1,439,294.3	(15,174.1)	15,174.1	15,174.1
	08	4,305,532.3	4,318,235.0	12,702.7	12,702.7	12,702.7
	09	576,419.8	525,770.8	(50,649.0)	50,649.0	50,649.0
	10	4,102,622.1	4,124,920.5	22,298.4	22,298.4	22,298.4
05	HEALTH including	30,556,917.7	30,392,542.6	(164,375.1)	164,375.1	742,491.5
	01	510,701.6	483,719.7	(26,981.9)	26,981.9	26,981.9
	02	13,994,289.8	14,283,348.0	289,058.2	289,058.2	289,058.2
	03	12,442,517.7	12,093,307.9	(349,209.8)	349,209.8	349,209.8
	04	1,440,000.0	1,440,000.0	-	-	-
	05	2,169,408.6	2,092,167.0	(77,241.6)	77,241.6	77,241.6
06	SOCIAL INSURANCE AND SOCIAL SECURITY including	45,431,952.4	43,927,463.8	(1,504,488.6)	1,504,488.6	1,972,600.5
	01	695,800.6	832,543.8	136,743.2	136,743.2	136,743.2
	02	15,461,024.5	14,359,895.9	(1,101,128.6)	1,101,128.6	1,101,128.6
	03	22,267,779.6	22,025,531.4	(242,248.2)	242,248.2	242,248.2
	04	3,792,683.3	3,889,996.0	97,312.7	97,312.7	97,312.7
	05	3,214,664.4	2,819,496.6	(395,167.8)	395,167.8	395,167.8
07	CULTURE, INFORMATION, SPORTS AND RELIGION including	10,465,550.1	10,406,582.0	(58,968.1)	58,968.1	190,981.9
	01	414,045.2	419,411.6	5,366.4	5,366.4	5,366.4
	02	601,336.9	601,322.3	(14.6)	14.6	14.6
	03	1,106,770.8	1,135,292.5	28,521.7	28,521.7	28,521.7
	04	114,401.4	96,782.1	(17,619.3)	17,619.3	17,619.3
	05	311,988.0	301,888.0	(10,100.0)	10,100.0	10,100.0
06	Art	1,680,891.3	1,676,132.5	(4,758.8)	4,758.8	4,758.8

Category	Sub-category	Target	Actual	Deviation	Absolute deviation ¥1□	Absolute deviation ¥2□
	07 Cinematography	447,628.5	447,628.5	-	-	-
	08 Reconstruction and conservation of monuments and cultural values	603,299.7	527,314.2	(75,985.5)	75,985.5	75,985.5
	09 Sport	1,089,274.3	1,083,276.3	(5,998.1)	5,998.1	5,998.1
	10 TV and Radio Programs	3,097,305.7	3,108,705.6	11,399.9	11,399.9	11,399.9
	11 Publishing houses, Editorial offices	479,967.4	500,686.3	20,718.9	20,718.9	20,718.9
	12 Obtaining information	50,793.0	50,793.0	-	-	-
	14 Youth programs	279,925.6	279,587.2	(338.4)	338.4	338.4
	15 Political parties, NGO-s, trade unions	187,922.3	177,761.9	(10,160.4)	10,160.4	10,160.4
08	HOUSING AND UTILITIES	15,120,819.1	13,013,857.9	(2,106,961.2)	2,106,961.2	2,106,961.2
	including					
	02 Housing and house-building	7,325,329.6	5,711,653.7	(1,613,675.9)	1,613,675.9	1,613,675.9
	03 Waste removal, waste recycling and street cleaning	17,041.0	17,041.0	-	-	-
	04 Water supply and operation of sanitation systems	3,725,728.5	3,383,040.3	(342,688.2)	342,688.2	342,688.2
	05 Other programs	4,052,720.0	3,902,122.9	(150,597.1)	150,597.1	150,597.1
09	FUEL AND ENERGY	1,457,471.2	1,445,966.1	(11,505.2)	11,505.2	11,505.2
	including					
	01 State governance in fuel and energy	477,214.2	465,872.7	(11,341.5)	11,341.5	11,341.5
	02 Electricity	125,457.0	125,293.4	(163.6)	163.6	163.6
	03 Nuclear Energy	854,800.0	854,800.0	(0.1)	0.1	0.1
10	AGRICULTURE, FORESTRY AND WATER ECONOMY, FISH BREEDING	8,665,671.6	9,897,202.8	1,231,531.2	1,231,531.2	1,937,491.2
	including					
	01 State governance in agriculture	296,393.6	328,917.9	32,524.3	32,524.3	32,524.3
	02 Land improvement activities	991,228.5	970,630.0	(20,598.5)	20,598.5	20,598.5
	03 Fish breeding and water economy	623,968.5	536,577.1	(87,391.4)	87,391.4	87,391.4
	04 Plant protection	272,714.0	136,933.2	(135,780.8)	135,780.8	135,780.8
	05 Veterinary and anti-epidemic measures	1,354,880.0	1,245,670.7	(109,209.3)	109,209.3	109,209.3
	06 Forestry	400,000.0	458,518.5	58,518.5	58,518.5	58,518.5
	07 Pedigree breeding, seed breeding and other programs	4,726,487.0	6,219,955.4	1,493,468.4	1,493,468.4	1,493,468.4
11	INDUSTRY, MINERAL RESOURCES, (excluding fuel), CONSTRUCTION					

Category	Sub-category	Target	Actual	Deviation	Absolute deviation ¥1□	Absolute deviation ¥2□
	AND ENVIRONMENT PROTECTION	1,552,330.1	3,170,334.5	1,618,004.4	1,618,004.4	1,700,376.8
	including					
	01 State governance in industry, mineral resources, construction and environment protection	1,131,258.5	1,096,205.9	(35,052.6)	35,052.6	35,052.6
	02 Mining and geological surveying	27,000.0	26,999.8	(0.2)	0.2	0.2
	04 Design and surveying	1,120,400.0	1,302,083.9	181,683.9	181,683.9	181,683.9
	05 Protected areas	241,778.0	236,489.6	(5,288.4)	5,288.4	5,288.4
	06 Other environmental activities	273,480.4	272,635.4	(845.0)	845.0	845.0
	07 Other programs	(1,241,586.8)	235,919.9	1,477,506.7	1,477,506.7	1,477,506.7
12	TRANSPORT, ROADS AND COMMUNICATIONS	21,260,431.3	20,686,430.2	(574,001.1)	574,001.1	1,574,101.1
	including					
	01 State governance in transport and communication	303,491.9	241,285.7	(62,206.2)	62,206.2	62,206.2
	02 Motor and city electric transport	842,000.0	842,000.0	-	-	-
	05 Air transport	(500,050.0)	-	500,050.0	500,050.0	500,050.0
	07 Roads	20,614,989.4	19,603,144.5	(1,011,844.9)	1,011,844.9	1,011,844.9
13	OTHER ECONOMIC ACTIVITIES	3,024,606.9	2,950,035.6	(74,571.3)	74,571.3	74,571.3
	including					
	01 State governance in trade, services, supply activities and general economic services	273,206.9	272,692.2	(514.7)	514.7	514.7
	03 Developing and preserving state reserves of material resources	2,218,350.0	2,217,929.3	(420.7)	420.7	420.7
	04 Tourism	20,000.0	19,952.5	(47.5)	47.5	47.5
	05 Services	513,050.0	439,461.6	(73,588.4)	73,588.4	73,588.4
14	OTHER EXPENDITURE	20,991,487.9	39,236,671.8	18,245,183.9	18,245,183.9	18,245,183.9
	including					
	01 Transactions with public debt obligations				-	-
	02 Transfers paid from the state budget to community budgets	13,762,694.2	13,762,694.2	-	-	-
	06 Other programs	7,228,793.7	25,473,977.6	18,245,183.9	18,245,183.9	18,245,183.9

STATEMENT ON
The Republic of Armenia State Budget Revenues, 2006
(In thousands of drams)

	Target	Actual	%	Deviation
STATE BUDGET REVENUES AND OFFICIAL TRANSFERS	383,350,538.0	427,298,757.1	111.5%	43,948,219.1
including				
I. TOTAL REVENUE	375,176,688.0	416,041,285.0	110.9%	40,864,597.0
o/w				
CURRENT REVENUE	371,543,413.6	400,171,389.3	107.7%	28,627,975.7
o/w	364,275,383.6	382,470,311.8	105.0%	18,194,928.2
1. Tax Revenues	345,816,483.6	363,899,342.5	105.2%	18,082,858.9
2. Stamp Duties	18,458,900.0	18,570,969.2	100.6%	112,069.2
3. Non-tax Revenues	7,268,030.0	17,701,077.5	243.5%	10,433,047.5
B. REVENUE FROM CAPITAL TRANSACTIONS	3,633,274.4	15,869,895.7	436.8%	12,236,621.3
including				
Alienation of state-owned land located in the City of Yerevan	3,500,000.0	14,377,835.3	410.8%	10,877,835.3
C. OFFICIAL TRANSFERS	8,173,850.0	11,257,472.1	137.7%	3,083,622.1

**Statement on
The Republic of Armenia State Budget Expenditure, 2006
(by functional classification)
(In thousands of drams)**

Category	Sub-category	Target	Actual	Deviation
	TOTAL EXPENDITURE	413,402,098.8	433,492,415.9	20,090,317.1
	including			
01	GENERAL PUBLIC SERVICES	46,202,830.8	45,417,110.9	(785,719.9)
	including			
	01 Legislature, state governance	10,069,501.5	9,897,986.6	(171,514.9)
	02 Public financial management	9,478,351.4	9,429,226.2	(49,125.2)
	03 External political activities	7,953,214.6	7,746,928.4	(206,286.2)
	04 External economic assistance	15,739,762.8	15,758,785.2	19,022.4
	05 General legal activities	1,180,314.1	1,045,996.6	(134,317.5)
	06 Elections and referenda	317,502.6	310,277.2	(7,225.4)
	07 Other general public services	1,464,183.8	1,227,910.7	(236,273.1)
02	DEFENSE	74,125,561.1	78,264,387.0	4,138,825.9
	including			
	01 Military needs	70,348,668.0	74,540,589.0	4,191,921.0
	03 Other Defense Expenditure	3,776,893.1	3,723,798.0	(53,095.1)
03	PUBLIC ORDER, NATIONAL SECURITY AND JUDICIARY	35,955,590.6	35,909,172.6	(46,418.0)
	including			
	01 Public order	22,791,263.6	22,785,677.7	(5,585.9)
	02 National security	8,844,442.1	8,843,929.3	(512.8)
	03 Judiciary	4,319,884.9	4,279,565.6	(40,319.3)
04	EDUCATION AND SCIENCE	71,581,986.3	70,418,305.2	(1,163,681.1)
	including			
	01 State governance in education and science	396,218.3	380,975.3	(15,243.0)
	03 General primary, basic and secondary education	51,036,083.6	50,252,398.2	(783,685.4)
	04 Special general education	4,335,049.8	4,244,667.4	(90,382.4)
	05 Extracurricular activities	2,477,118.5	2,306,942.9	(170,175.6)
	06 Primary vocational education	1,014,485.6	965,424.2	(49,061.4)
	07 Intermediate vocational education	1,827,555.9	1,813,087.2	(14,468.8)
	08 Higher and post-graduate education	5,302,409.3	5,294,684.1	(7,725.2)
	10 Science	5,193,065.3	5,160,126.0	(32,939.3)
05	HEALTH	35,950,673.3	35,945,624.6	(5,048.7)
	including			
	01 State governance in health	730,536.9	718,541.3	(11,995.6)
	02 Hospital care	14,611,092.8	15,164,788.7	553,695.9
	03 Primary health care (outpatient - polyclinic)	14,344,646.4	13,862,386.0	(482,260.4)
	04 Hygiene and anti-epidemic services	1,959,555.0	2,059,991.2	100,436.2
	05 Other medical services	2,902,494.3	2,902,415.3	(79.0)
	06 Other health services and programs	1,402,347.9	1,237,502.1	(164,845.8)
06	SOCIAL INSURANCE AND SOCIAL SECURITY	54,529,315.5	51,981,908.1	(2,547,407.4)
	including			
	01 State governance in social insurance and social security	1,169,195.7	1,185,826.7	16,631.0

Category	Sub-category	Target	Actual	Deviation
	02 Pensions	17,052,335.2	16,648,063.9	(404,271.3)
	03 State benefits for the population	27,034,364.7	25,471,727.9	(1,562,636.8)
	04 Social security activities	4,719,605.0	4,757,648.9	38,043.9
	05 Other social programs	4,553,814.9	3,918,640.8	(635,174.1)
07	CULTURE, INFORMATION, SPORTS AND RELIGION	13,597,676.6	13,592,996.0	(4,680.6)
	including			
	01 State governance in culture, information, sports and religion	546,550.1	529,172.1	(17,378.0)
	02 Libraries	757,268.7	757,253.7	(15.0)
	03 Museums and exhibitions	1,880,613.6	1,879,769.6	(844.0)
	04 Culture houses, clubs, centers	18,862.7	18,862.7	-
	05 Other cultural institutions	605,960.8	611,360.1	5,399.3
	06 Art	2,989,747.7	2,998,479.1	8,731.4
	07 Cinematography	482,928.0	482,928.0	-
	08 Reconstruction and conservation of monuments and cultural values	782,198.5	775,606.9	(6,591.6)
	09 Sport	1,175,367.1	1,177,486.9	2,119.8
	10 TV and Radio Programs	3,184,496.7	3,184,496.6	(0.1)
	11 Publishing houses, Editorial offices	621,467.1	625,384.8	3,917.7
	12 Obtaining information	55,769.9	55,769.9	-
	14 Youth programs	316,223.4	316,223.4	-
	15 Political parties, NGO-s, trade unions	180,222.3	180,202.3	(20.0)
08	HOUSING AND UTILITIES	15,569,424.5	16,036,957.7	467,533.2
	including			
	02 Housing and house-building	8,238,725.7	9,141,254.9	902,529.2
	03 Waste removal, waste recycling and street cleaning	31,197.0	31,197.0	-
	04 Water supply and operation of sanitation systems	2,703,286.3	2,462,593.9	(240,692.4)
	05 Other programs	4,596,215.5	4,401,911.9	(194,303.6)
09	FUEL AND ENERGY	1,547,959.3	1,542,264.1	(5,695.2)
	including			
	01 State governance in fuel and energy	562,959.3	553,649.8	(9,309.5)
	02 Electricity	25,000.0	28,626.3	3,626.3
	03 Nuclear Energy	854,800.0	854,800.0	-
	05 Other activities in energy	105,200.0	105,188.0	(12.0)
10	AGRICULTURE, FORESTRY AND WATER ECONOMY, FISH BREEDING	11,522,840.3	10,790,023.9	(732,816.4)
	including			
	01 State governance in agriculture	574,250.5	550,444.0	(23,806.5)
	02 Land improvement activities	1,372,329.5	1,203,854.8	(168,474.7)
	03 Fish breeding and water economy	1,729,139.4	1,450,721.9	(278,417.5)
	04 Plant protection	471,374.0	384,216.8	(87,157.2)
	05 Veterinary and anti-epidemic measures	1,464,329.4	1,399,668.9	(64,660.5)
	06 Forestry	1,137,304.0	1,164,022.2	26,718.2
	07 Pedigree breeding, seed breeding and other programs	4,774,113.5	4,637,095.3	(137,018.2)
11	INDUSTRY, MINERAL RESOURCES, (excluding fuel), CONSTRUCTION AND ENVIRONMENT PROTECTION	3,727,630.3	4,803,728.4	1,076,098.1
	including			
	01 State governance in industry, mineral resources, construction and environment protection	1,775,713.7	1,670,837.3	(104,876.4)

Category	Sub-category	Target	Actual	Deviation
	02 Mining and geological surveying	44,092.0	39,642.0	(4,450.0)
	04 Design and surveying	1,069,715.0	2,079,749.8	1,010,034.8
	05 Protected areas	511,721.1	510,527.3	(1,193.8)
	06 Other environmental activities	383,886.2	365,236.4	(18,649.8)
	07 Other programs	(57,497.7)	137,735.6	195,233.3
12	TRANSPORT, ROADS AND COMMUNICATIONS	24,763,975.9	30,190,909.7	5,426,933.8
	including			
	01 State governance in transport and communication	387,387.9	365,833.3	(21,554.6)
	02 Motor and city electric transport	1,646,400.0	2,759,400.0	1,113,000.0
	07 Roads	22,580,688.0	26,917,999.2	4,337,311.2
	08 Communications	149,500.0	147,677.2	(1,822.8)
13	OTHER ECONOMIC ACTIVITIES	3,682,576.2	3,622,842.8	(59,733.4)
	including			
	01 State governance in trade, services, supply activities and general economic services	298,472.2	298,472.2	-
	03 Developing and preserving state reserves of material resources	2,220,270.0	2,218,200.1	(2,069.9)
	04 Tourism	305,400.0	269,686.0	(35,714.0)
	05 Services	858,434.0	836,484.5	(21,949.5)
14	OTHER EXPENDITURE	20,644,058.1	34,976,184.9	14,332,126.8
	including			
	01 Transactions with public debt obligations			
	02 Transfers paid from the state budget to community budgets	14,697,945.1	14,697,945.1	-
	06 Other programs	5,946,113.0	20,278,239.8	14,332,126.8

STATEMENT ON
The Republic of Armenia State Budget Revenues, 2007
(In thousands of drams)

	Target	Actual	%	Deviation
STATE BUDGET REVENUES AND OFFICAL TRANSFERS	481,711,808.9	547,517,944.0	113.7%	65,806,135.1
o/w				
I. TOTAL REVENUE	475,080,650.9	542,130,422.4	114.1%	67,049,771.5
o/w				
A. CURRENT REVENUE	471,009,598.9	524,223,868.6	111.3%	53,214,269.7
including				
1. Tax Revenues	439,742,935.4	474,564,698.1	107.9%	34,821,762.7
2. Stamp Duties	19,086,635.0	21,128,481.3	110.7%	2,041,846.3
3. Non-tax Revenues	12,180,028.5	28,530,689.2	234.2%	16,350,660.7
B. REVENUE FROM CAPITAL TRANSACTIONS	4,071,052.0	17,906,553.8	439.9%	13,835,501.8
C. OFFICIAL TRANSFERS	6,631,158.0	5,387,521.6	81.2%	(1,243,636.4)

**Statement on
The Republic of Armenia State Budget Expenditure, 2007
(by functional classification)
(In thousands of drams)**

Category	Sub-category	Target	Actual	Deviation
	TOTAL EXPENDITURE	496,498,967.9	533,185,152.6	36,686,184.7
	including			
01	GENERAL PUBLIC SERVICES	53,058,246.7	57,052,625.5	3,994,378.8
	01 Legislature, state governance	11,514,080.7	11,017,626.3	(496,454.4)
	02 Public financial management	10,489,238.7	14,229,472.4	3,740,233.7
	03 External political activities	7,972,240.1	8,508,174.4	535,934.3
	04 External economic assistance	19,518,357.3	19,518,356.8	(0.5)
	05 General legal activities	1,354,913.6	1,356,570.7	1,657.1
	06 Elections and referenda	677,021.2	910,717.5	233,696.3
	07 Other general public services	1,532,395.1	1,511,707.4	(20,687.7)
02	DEFENSE	100,435,685.7	95,792,757.6	(4,642,928.1)
	01 Military needs	96,590,859.5	91,977,750.5	-4,613,109.0
	03 Other Defense Expenditure	3,844,826.2	3,815,007.1	(29,819.1)
03	PUBLIC ORDER, NATIONAL SECURITY AND JUDICIARY	45,465,829.3	45,754,982.9	289,153.6
	01 Public order	27,759,162.5	28,360,585.0	601,422.5
	02 National security	11,375,069.0	11,429,971.3	54,902.3
	03 Judiciary	6,331,597.8	5,964,426.6	(367,171.2)
04	EDUCATION AND SCIENCE	88,398,171.9	87,100,087.0	(1,298,084.9)
	01 State governance in education and science	436,379.3	490,888.5	54,509.2
	03 General primary, basic and secondary education	65,569,325.5	65,073,972.8	(495,352.7)
	04 Special general education	5,173,301.5	4,634,061.3	(539,240.2)
	05 Extracurricular activities	2,015,294.5	2,037,266.5	21,972.0
	06 Primary vocational education	1,467,698.2	1,292,177.1	(175,521.1)
	07 Intermediate vocational education	2,274,506.2	2,216,663.3	(57,842.9)
	08 Higher and post-graduate education	5,626,450.1	5,498,406.1	(128,044.0)
	10 Science	5,835,216.6	5,856,651.4	21,434.8
05	HEALTH	44,511,608.4	44,252,289.9	(259,318.5)
	01 State governance in health	844,105.4	840,308.7	(3,796.7)
	02 Hospital care	16,877,667.6	17,646,474.7	768,807.1
	03 Primary health care (outpatient - polyclinic)	16,766,318.6	15,872,971.3	(893,347.3)
	04 Hygiene and anti-epidemic services	2,406,129.9	2,345,381.2	(60,748.7)
#	05 Other medical services	6,005,740.6	5,942,538.7	(63,201.9)
#	06 Other health services and programs	1,611,646.3	1,604,615.3	(7,031.0)
06	SOCIAL INSURANCE AND SOCIAL SECURITY	63,868,260.7	62,217,460.0	(1,650,800.7)
	01 State governance in social insurance and social security	1,381,729.2	1,357,918.9	(23,810.3)
	02 Pensions	18,298,169.7	17,479,048.1	(819,121.6)
	03 State benefits for the population	28,064,871.1	27,554,935.8	(509,935.3)

Category	Sub-category	Target	Actual	Deviation
	04 Social security activities	5,841,613.5	5,925,912.3	84,298.8
	05 Other social programs	10,281,877.2	9,899,644.9	(382,232.4)
07	CULTURE, INFORMATION, SPORTS AND RELIGION	15,462,834.0	16,680,561.2	1,217,727.2
	01 State governance in culture, information, sports and religion	639,882.4	617,614.0	(22,268.4)
	02 Libraries	918,014.7	961,871.5	43,856.8
	03 Museums and exhibitions	1,347,632.0	1,431,779.0	84,147.0
	04 Culture houses, clubs, centers	1,305,987.8	1,336,360.3	30,372.5
	05 Other cultural institutions	506,661.5	572,732.7	66,071.2
	06 Art	3,334,759.3	4,308,787.3	974,028.0
	07 Cinematography	653,739.8	587,363.2	(66,376.6)
	08 Reconstruction and conservation of monuments and cultural values	715,553.2	749,674.8	34,121.6
	09 Sport	1,504,685.1	1,549,371.4	44,686.3
	10 TV and Radio Programs	3,189,689.5	3,175,883.8	(13,805.7)
	11 Publishing houses, Editorial offices	767,390.9	790,285.6	22,894.7
	12 Obtaining information	55,769.9	55,769.9	-
	14 Youth programs	342,845.6	342,845.3	(0.3)
	15 Political parties, NGO-s, trade unions	180,222.3	200,222.3	20,000.0
08	HOUSING AND UTILITIES	12,760,871.5	16,019,672.4	3,258,800.9
	02 Housing and house-building	4,438,659.8	7,299,189.6	2,860,529.8
	03 Waste removal, waste recycling and street cleaning	20,856.1	20,856.1	-
	04 Water supply and operation of sanitation systems	2,828,255.6	2,195,690.2	(632,565.4)
	05 Other programs	5,473,100.0	6,503,936.5	1,030,836.5
09	FUEL AND ENERGY	1,518,526.8	1,478,582.8	(39,944.0)
	01 State governance in fuel and energy	648,785.8	631,918.0	(16,867.8)
	02 Electricity	151,869.0	128,792.8	(23,076.2)
	03 Nuclear Energy	717,872.0	717,872.0	-
10	AGRICULTURE, FORESTRY AND WATER ECONOMY, FISH BREEDING	13,273,555.4	15,299,139.5	2,025,584.1
	01 State governance in agriculture	670,310.9	741,130.1	70,819.2
	02 Land improvement activities	1,175,278.0	1,942,210.2	766,932.2
	03 Fish breeding and water economy	1,124,312.7	1,254,339.5	130,026.8
	04 Plant protection	389,011.0	377,001.1	(12,009.9)
	05 Veterinary and anti-epidemic measures	1,892,012.0	1,715,503.7	(176,508.3)
	06 Forestry	1,342,267.0	1,339,520.4	(2,746.6)
	07 Pedigree breeding, seed breeding and other programs	6,680,363.8	7,929,434.5	1,249,070.7
11	INDUSTRY, MINERAL RESOURCES, (excluding fuel), CONSTRUCTION AND ENVIRONMENT PROTECTION	4,109,069.3	5,706,753.2	1,597,683.9
	01 State governance in industry, mineral resources, construction and environment protection	2,065,532.9	2,001,907.8	(63,625.1)
	02 Mining and geological surveying	99,074.8	96,868.8	(2,206.0)
	04 Design and surveying	994,983.3	2,664,224.2	1,669,240.9
	05 Protected areas	519,666.4	513,683.8	(5,982.6)
	06 Other environmental activities	441,091.5	438,482.9	(2,608.6)
	07 Other programs	(11,279.6)	(8,414.3)	2,865.3
12	TRANSPORT, ROADS AND COMMUNICATIONS	26,218,310.1	38,900,260.2	12,681,950.1
	01 State governance in transport and communication	599,503.1	578,484.5	(21,018.6)

Category	Sub-category	Target	Actual	Deviation
	02 Motor and city electric transport	1,185,400.0	2,246,399.9	1,060,999.9
	04 Rail transport		3,817.7	3,817.7
	05 Air transport		167,297.6	167,297.6
	07 Roads	23,963,407.0	35,331,403.3	11,367,996.3
	08 Communications	470,000.0	572,857.2	102,857.2
13	OTHER ECONOMIC ACTIVITIES	3,856,931.5	3,184,048.6	(672,882.9)
	01 State governance in trade, services, supply activities and general economic services	377,015.2	408,039.0	31,023.8
	03 Developing and preserving state reserves of material resources	2,238,291.2	1,637,957.7	(600,333.5)
	04 Tourism	250,000.0	241,922.5	(8,077.5)
	05 Services	991,625.1	896,129.4	(95,495.7)
14	OTHER EXPENDITURE	23,561,066.6	43,745,931.7	20,184,865.1
	01 Transactions with public debt obligations			
	02 Transfers paid from the state budget to community budgets	18,139,481.9	18,139,479.9	(2.0)
	06 Other programs	5,421,584.7	25,606,451.8	20,184,867.1