

**Democratic Development, Decentralisation and Good Governance in  
Armenia – Phase II, ID 3140**

## **Peer Review report**

# **Inter-Municipal Co-operation and Cross- Border Co-operation for Local Economic Development**

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The project “*Democratic Development, Decentralisation and Good Governance in Armenia – Phase II*” aims to support the adoption of revised legislative framework for local self-government in line with European standards to reflect the new territorial-administrative map of Armenia and develop the capacities of local authorities of newly enlarged communities to ensure they to fulfil the competences and deliver the services entrusted to them under the decentralisation strategy. It also seeks to further raise awareness of good governance principles and promote cross-border co-operation, inter-municipal co-operation and economic development at local level.

Thanks to the project, Armenian citizens will benefit from more inclusive, effective, and resilient institutional structures at local level, which are capable of delivering improved public service and promoting sustainable economic development as a result of an improved legislative framework.

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**Disclaimer:**

The opinions expressed in this work are the responsibility of the author and do not necessarily reflect the official policy of the Council of Europe.

## List of abbreviations

|                 |                                                                                                                |
|-----------------|----------------------------------------------------------------------------------------------------------------|
| <b>AML</b>      | Area Metropolitana de Lisboa (Lisbon Metropolitan Area)                                                        |
| <b>AMP</b>      | Area Metropolitana do Porto (Porto Metropolitan Area)                                                          |
| <b>ATENPRO</b>  | Telephone Service for Care and Protection for Victims of Gender Violence (Spain)                               |
| <b>BSW</b>      | Badische Stahlwerke (Baden Steelworks, a steel plant in Kehl am Rhein)                                         |
| <b>CBC</b>      | Cross-Border Co-operation                                                                                      |
| <b>CEMG</b>     | Centre of Expertise for Multilevel Governance                                                                  |
| <b>CFOA</b>     | Communities Finance Officers Association                                                                       |
| <b>CoE</b>      | Council of Europe                                                                                              |
| <b>Congress</b> | Congress of Local and Regional Authorities                                                                     |
| <b>CSO</b>      | Civil Society Organisation                                                                                     |
| <b>ECC</b>      | European Consumer Centre                                                                                       |
| <b>ECG</b>      | Euroregional Co-operation Grouping                                                                             |
| <b>EMS</b>      | Strasbourg Eurometropole                                                                                       |
| <b>EU</b>       | European Union                                                                                                 |
| <b>FEMP</b>     | Spanish Federation of Municipalities and Provinces                                                             |
| <b>GIZ</b>      | Deutsche Gesellschaft für Internationale Zusammenarbeit<br>(German Corporation for International Co-operation) |
| <b>ICU</b>      | Inter-Community Union                                                                                          |
| <b>IMC</b>      | Inter-Municipal Co-operation<br>Inter-Municipal Community                                                      |
| <b>ISDTC</b>    | Information Systems Development and Training Centre                                                            |
| <b>ISCTE</b>    | University Institute of Lisbon                                                                                 |
| <b>ISLA</b>     | Higher Institute of Languages and Administration (Portugal)                                                    |

|                    |                                                                                 |
|--------------------|---------------------------------------------------------------------------------|
| <b>LDA Armenia</b> | Local Democracy Agency, Armenia                                                 |
| <b>LED</b>         | Local Economic Development                                                      |
| <b>LRBRL</b>       | Law Regulating the Bases of the Local Regime (Spain)                            |
| <b>LSG</b>         | Local Self-Government                                                           |
| <b>MPALSG</b>      | Ministry of Public Administration and Local Self-Government, Republic of Serbia |
| <b>MTAI</b>        | Ministry of Territorial Administration and Infrastructure, Republic of Armenia  |
| <b>NGO</b>         | Non-Governmental Organisation                                                   |
| <b>PPP</b>         | Public-private partnership                                                      |
| <b>RoA</b>         | Republic of Armenia                                                             |
| <b>SALAR</b>       | Swedish Association of Local Authorities and Regions                            |
| <b>SCTM</b>        | Standing Conference of Towns and Municipalities, Serbia                         |
| <b>TARA</b>        | Territorial-Administrative Reform in Armenia                                    |
| <b>UCA</b>         | Union of Communities of Armenia                                                 |
| <b>UFSD</b>        | Urban Foundation for Sustainable Development                                    |
| <b>UNDP</b>        | United Nations Development Programme                                            |

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## Executive summary

At the request of the Armenian authorities, in February 2025 a Peer Review was conducted on the themes of Inter-Municipal Co-operation (IMC) and Cross-Border Co-operation (CBC) for Local Economic Development (LED), in the context of Armenia's ongoing decentralisation reforms.

In particular, the Peer Review was designed to provide constructive, experience-based advice to the Government of the Republic of Armenia, and to share relevant European good practices. The Peer Review took place in the context of the support provided by the Centre of Expertise for Multilevel Governance to the broader legislative reform process in Armenia, which includes the drafting of a revised Law on Local Self-Government. In particular, the Peer Review was conducted to provide valuable expertise for the local experts and to the working group established by the Government of Armenia concerning draft Chapter 7 *Community Property and Economic Activities* and Chapter 12 *Inter-Community and Cross-Border Co-operation* of the revised Law on Local Self-Government.

The Peer Review process combined desk research with an on-site visit to Armenia from 19 to 21 February 2025. During the visit, European experts conducted moderated discussions, bilateral interviews, and a public roundtable engaging stakeholders from local and central government, civil society, and development partners. The process aimed to facilitate open, confidential, and solution-oriented exchanges grounded in mutual learning.

At the conclusion of the visit, the experts presented a set of preliminary findings, which were subsequently refined into the final recommendations included in this report.

### **Key Recommendations**

- **Reinforcing Local Autonomy:** The scope of municipal competences may be reconsidered in the future to strengthen local self-government. In line with European standards, this should be coupled with further fiscal decentralisation to ensure municipalities have the capacity and resources to carry out their responsibilities effectively.
- **Legal Framework for Local Economic Initiatives:** If Armenian municipalities are authorised to engage in entrepreneurial activities to generate additional revenues, these should remain ancillary to their core service delivery role. Such activities engaged by local communities must be fiscally neutral and avoid distorting local market competition.
- **Revising the Legal Basis for IMC:** The current Law on Inter-Community Unions should be updated to include a set of legally pre-defined yet adaptable forms of inter-municipal co-operation. Flexibility is essential to foster meaningful partnerships and innovative LED initiatives, especially those that span multiple sectors.

- **Supporting Municipal Choice and Performance:** In accordance with the subsidiarity principle, municipalities should be empowered to choose the areas in which they wish to co-operate. The central government may facilitate this process by disseminating good practice and considering performance-based incentives for municipalities open to engaging in Inter-Municipal Co-operation.
- **Ensuring Democratic Governance of IMC:** Steering and co-ordination mechanisms for IMC initiatives, especially when it comes to the set-up of IMC governing bodies, must remain transparent and subject to public oversight, preserving democratic legitimacy and accountability towards residents of the involved communities.
- **Clarifying the Role of IMC in LED:** If there is an intention to achieve or support LED through IMC, it must be understood that any IMC form is an enabler rather than a real driver of LED. IMC initiatives can help to create a pro-development environment, but strategies, managerial approach, capability to build cross-sectoral partnerships, and initial investments (including financial inputs) are crucial at this point and should be initiated by local authorities.
- **Addressing Challenges in Cross-Border Co-operation:** CBC along the Armenian-Georgian border has been limited and complex due to administrative, legal, and linguistic barriers. European experience demonstrates that trust is the foundation of effective CBC, and that national frameworks should provide flexible yet well-regulated conditions for local-level co-operation.
- **Leveraging European Legal Standards:** Protocol No. 3 to the European Outline Convention on Transfrontier Co-operation, concerning Euroregional Co-operation Groupings (ECGs), can be applicable in Armenia. However, before application of its provisions, it is necessary to take into consideration that the current geo-political situation is suitable just for co-operation initiatives between entities from Armenia and Georgia.

The Peer Review process contributed to refining Armenia's decentralisation reform by offering practical recommendations grounded in European experience. The findings highlight the importance of legal clarity, institutional flexibility, fiscal autonomy, and inclusive governance in advancing inter-municipal and cross-border co-operation for sustainable local development.

## Context

The [Centre of Expertise for Multilevel Governance](#) (CEMG) at the [Congress of Local and Regional Authorities \(Congress\)](#) of the Council of Europe is contributing to the revision of the legislative framework of the Republic of Armenia (RoA) for local self-government in line with European standards, by offering legal and policy advice based on European standards and by organising consultation meetings with municipal stakeholders. The revised legislative framework for local self-government will help consolidate the Territorial Administrative Reform in Armenia (TARA) through effective decentralisation that will facilitate proportionate territorial development.

This Peer Review is conducted in the context of Armenia's ongoing decentralisation reforms, which have been actively supported by the Democratic Development, Decentralisation, and Good Governance in Armenia (DDDGA) – Phase II project with the generous contribution of the Austrian Development Agency.

In the context of this legal component, the Armenian authorities requested to carry out a [Peer Review](#) on the subject of *Inter-Municipal Co-Operation, Trans-border Co-operation for Local Economic Development*. Via information sharing, exchange of experience and best practices among Member States, a leading expert and five peers provided constructive advice to the RoA government regarding several draft provisions of the new/revised Law on Local Self-Government.

The Peer Review Team was composed of senior officials from member States who each have particular expertise or experience of similar reforms and who sought to share experience and good (or not so good) practice. They met with senior officials from the Ministry of Territorial Administration and Infrastructure, representatives of consolidated municipalities, relevant stakeholders and civil society organisations, and officials from other international donor-funded projects in Armenia. The Peer Review exercise took place over three full days and included a public roundtable discussion open to all stakeholders.

## Purpose, objective and scope of the document

The Armenian authorities requested a Peer Review on the subject of *Inter-Municipal Co-Operation and Trans-border Co-operation for Local Economic Development*. The main task of the Peer Review Team was to provide constructive advice to the Ministry of Territorial Administration and Infrastructure, and to share relevant international experience and good practice.

The Peer Review process was conducted in the context of the overall support to the drafting of the newly revised law on local self-government, serving as an additional mechanism to refine and further develop these reforms through comparative insights from European experiences.

The set of the findings listed in this report is mainly based on expectations and questions formulated during the on-site visit in Armenia. The recommendations presented in this report, along with international examples of good practice, should be regarded as a set of potential policy options and opportunities for further reflection by the relevant authorities. They are not intended to serve as a definitive solution or as the sole correct path for the future development of the local government system in Armenia within the scope of the areas analysed.

This report is intended to serve as friendly policy advice, it is based on international experience, and it offers possible ways on how to deal with the selected issues.

In addition to the provisions of the [European Charter of Local Self-Government](#), the report takes several other standards or principles of the Council of Europe into account, in particular:

- [A contemporary commentary by the Congress on the explanatory report to the European Charter of Local Self-Government](#), Art. 9;
- [Recommendation CM/Rec\(2022\)2 of the Committee of Ministers to member States on democratic accountability of elected representatives and elected bodies at local and regional level](#)
- [Recommendation Rec\(2004\)1 of the Committee of Ministers to member states on financial and budgetary management at local and regional levels](#) ; here after [CM/Rec\(2004\)1](#)
- [Recommendation Rec\(2005\)1 of the Committee of Ministers to member states on the financial resources of local and regional authorities](#); here after [CM Rec\(2005\)1](#)
- [Recommendation Rec\(2007\)12 of the Committee of Ministers to member states on capacity building at local and regional level](#);
- [Recommendation Rec\(2011\)11 of the Committee of Ministers to member states on the funding by higher-level authorities of new competences for local authorities](#);
- [Recommendation Rec\(2018\)4 of the Committee of Ministers to member States on the participation of citizens in local public life](#);

- [Recommendation Rec\(2019\)3 of the Committee of Ministers to member states on the supervision of local authorities activities;](#)
- [Recommendation Rec\(2023\)5 of the Committee of Ministers on the principles of good democratic governance.](#)

## Methodology

The preparation of this Peer Review Report was based on international expertise and experience, shared by a group of Peers of four Council of Europe Member States, namely France, Portugal, Serbia and Spain.

The Peer Review Team was composed of senior officials from Member States with particular expertise or experience of similar reforms:

Véronique BERTHOLLE, France, Deputy Mayor of the city of Strasbourg, in charge of European, International and Cross-Border Relations

Ignacio F. GIL OSES, Spain, Senior Adviser at the International Relations Department of the Ministry of Territorial Policy and Democratic Memory

Jovan KNEŽEVIĆ, Serbia, Acting Assistant Minister in the Sector for Registers and Local Self-Government in the Ministry of Public Administration and Local Self-Government

Tânia MOURATO, Portugal, Deputy Director of the General Directorate of Local Authorities and Head of the Department for Co-operation and Financial Affairs

Nikola TARBUK, Serbia, Secretary General of the Standing Conference of Towns and Municipalities

This report was drafted by the leading expert Daniel KLIMOVSKÝ, Slovakia, Comenius University in Bratislava who provided an additional insight of the Slovak experience.

They were supported by a local consultant, Armine TUKHIKYAN, and the CEMG Team, which included:

Roberta BATTISTA, Project Manager

Ani DALLAKYAN, Senior Project Officer

Anna DARBINYAN, Project Assistant

The experts employed both desk research focused on suitable examples from their own countries and a set of moderated discussions, individual meetings (interviews), as well as public roundtable discussion open to all stakeholders. Both the discussions and interviews were organised within the Peer Review on-site visit, which was held from 19 February till 21 February 2025 in Armenia. At the end of the on-site visit, the experts suggested a list of preliminary findings, and afterwards, these findings were discussed and adjusted to a list of final findings and recommendations.

The agenda of the Peer- Review is presented in Annex I.

The MTAI submitted the following list of questions and sub-questions in three fields, namely local economic development, inter-municipal co-operation, and cross-border co-operation:

Priority Area 1: Local economic development: economic activities of communities

1. From the point of view of legal possibilities of organising and implementing economic activities by communities, does the community have the opportunity to carry out economic activities on its own initiative, which is not aimed at the implementation of its powers defined by law, but simply implies free entrepreneurial activity, as a result of which it generates additional own income for the community?

1.1 Can communities **engage in economic activities** even if this is not strictly related to the implementation of their **functions**?

1.2 Are municipalities allowed to **carry out independent entrepreneurial activities** to generate **additional local revenue** to the benefits of the communities?

1.3 What legal **barriers or enabling mechanisms** exist in European best practices?

Priority Area II: Inter-municipal co-operation

2. Are the inter-municipal co-operation and the forms of inter-municipal co-operation defined by the laws "On Local Self-Government" and "On Inter-community Co-operation" or are there any other forms defined by civil legislation in addition to those forms implying inter-municipal co-operation?

The laws "**On Local Self-Government**" and "**On Inter-community Co-operation**" define certain forms of **municipal partnerships in Armenia**, but:

2.1 Are there **alternative co-operation mechanisms** for inter-municipal co-operation not strictly defined by the law **other** that can be used in your countries?

2.2 How can inter-municipal collaboration be **expanded to enhance service delivery and economic development**?

Priority Area III. Cross-border co-operation

3. By the decision of which local self-government body a cross-border co-operation can be approved?

3.1 Which **local self-government body** has the power to **approve cross-border co-operation agreements**?

3.2 What governance structures should be in place to **ensure legal clarity and accountability** in cross-border partnerships?

4. What is the role of the central government in cross-border co-operation between communities of two different countries?

4.1 While municipalities are the primary actors, what is the **role of the central government** in:

- **Facilitating international agreements?**
- **Providing financial or technical support** for cross-border projects?

The preliminary findings were presented on 21 February 2025, and representatives of the Armenian side did not raise any substantive comments on them. However, on 10 March 2025, during an online working meeting, the Armenian side asked to include some relevant practices on entrepreneurial activities of municipalities into this report. The contents of the report are based on the mentioned preliminary findings. These have been further developed by the invited experts, and the present version of the report also includes a few examples of good or bad practice from various European countries.

## Overview of international experience and practices

The [European Charter of Local Self-Government](#) in its Article 10 stipulates that local authorities are entitled, in exercising their powers, to co-operate and, within the framework of the law, to form consortia with other local authorities in order to carry out tasks of common interest (CoE, 1985, Art. 10).

European countries have different regulations in the field of Local economic development. There is a group of countries where municipalities can broadly engage in economic activities. For example, municipalities can act beyond the competencies prescribed by the law to operate in the field of LED in France, Slovakia or Spain. On the other hand, there are countries, for example, Serbia and Portugal, where such an extra economic activity of municipalities is not allowed by law. In this second case, this means that municipalities have to strictly focus on performance of competences listed in relevant laws and cannot go beyond them regardless of their available capacities or interests.

At this stage, it is important to emphasise that even in the first group of countries the primary responsibility of municipalities is to ensure a proper delivery of public services. Any economic activity undertaken to generate additional income must not become the municipality's core function. More specifically, municipalities do not seek to position themselves as direct economic competitors; rather, their efforts are primarily directed toward supporting and fostering local economic activity.

LED is organised and co-ordinated through various trans-sectoral co-operation forms, including not only collaboration of inter-municipal nature, but also collaboration of cross-sectoral nature. Municipalities as fully-fledged stakeholders of LED can establish various entities. However, whilst municipalities can establish only public companies in some countries, in other countries, municipalities are entitled to establish also other entities, including NGOs, various joint ventures or even companies based on private law. Although municipalities are not specifically limited in this field in many European countries, for example, technical/feasibility studies or business plan are required if municipalities want to establish some new entities in Serbia, and it must be proven that the activities intended to be done cannot be managed by private sector.

Municipalities in European countries can choose from various forms of collaboration with one another, these options are usually defined by law. Municipalities are very flexible in this field in the countries like Slovakia, where the national regulation is rather vague, but there are cases (e.g., in Portugal) where detailed description of individual inter-municipal co-operation (IMC) forms are prescribed by law. The [Centre of Expertise for Multilevel Governance](#) at the [Congress of Local and Regional Authorities](#) of the Council of Europe also offers its own [toolkit on IMC](#) detailing various forms of IMC.

Regarding stability, IMC is used as a voluntary tool in most of the European countries and there is neither political pressure nor any specific financial incentive to establish any IMC form. On the other hand, there are compulsory IMC forms in France and Portugal as an expression of a national policy aiming at promoting IMC. However, at this juncture it is good to recall the provisions of the Article 10 of the European Charter of Local Self-Government, where the local authorities' right to associate and co-operate is enshrined.

If CBC is settled between municipalities, a creation of no additional body is necessary. However, cross- or trans-sectoral co-operation is a challenge. The European experience shows that the most essential determinant of accountability is a mutual trust. There are several other limitations or challenges that must be faced by those who take part in CBC, for example language differences, legal regulation differences and necessity to reconcile various administrative, as well as political elements, and also various explicit or implicit expectations that individual partners bring in CBC initiatives.

In various European countries, the state is usually responsible for checking whether CBC agreements are in compliance with a constitution and other relevant laws. In addition to this task, states commonly provide technical support and facilitate and enhance CBC through various financial incentives. In many cases, the initiation of cross-border co-operation (CBC) often comes from heads of municipalities or chiefs of administration in European countries. However, final decisions are usually in the hands of collective decision-making bodies, such as local councils. The [Centre of Expertise for Multilevel Governance](#) at the [Congress of Local and Regional Authorities](#) of the Council of Europe also offers its own [toolkit on CBC](#) detailing various forms of CBC.

Opinions, perceptions and experience presented during the on-site visit revealed that even simple initiatives to co-operate in the border regions at the Armenian-Georgian border line are rather complicated and have brought just questionable outcomes yet.

## Peer-review findings

### Priority Area I: Local economic development

Local economic development can be simply defined as a multi-level process which brings together partners (stakeholders) from various sectors in a certain local area. The main intention of such partnerships is to co-operate to exploit local resources for economic growth. LED is usually understood as a key goal of municipality because its outcome is a pro-business and pro-citizen environment where citizens and entrepreneurs can develop their initiatives in a sustainable way and all relevant services are delivered to them in a proper way. From this perspective, it is important to stress that there is no single successful model for LED (Malizia et al., 2021; Leigh, 2025), and each attempt to implement some of them should reflect specific local features as well as needs of all local stakeholders.

At this point, it is important to see a role of municipalities in local economic development. As it is stressed by Clark, Huxley, and Mountford (2010), although the LED is often led, or facilitated, by municipalities, at the same time, the LED is not equal to the provision of services that municipalities usually provide (for example, regulation, the delivery of regular services or maintaining local facilities). The LED is especially focused on development activities and investments. More precisely, within the LED, municipalities focus their activity on the stimulation and management of sustainable economic growth and social well-being for the benefit of the locality's residents, workers and visitors in the future. As a key component of this process, investment attraction and retention is critical (Clark, Huxley, and Mountford, 2010: 13). The LED can be supported either by internal resources or by external ones. For example, in the European Union (EU) countries and especially in the new member countries, the external resources have been the most important since their EU accession.

In addition, Clark, Huxley, and Mountford (2010) pointed out two main roles of municipalities (and other public sector organisations) as far as local development is concerned: 1) ensuring that there is the necessary co-ordination of public sector endeavours in place, such as co-ordination of investment in different types of infrastructures or the co-ordination of regulatory regimes; and (2) government should collaborate extensively, and foster co-operation, at a broad regional level with private and public sector actors, to ensure that market sensitive development interventions are delivered in a professional and supported manner. This would include planning and development, branding and promotion, support for businesses and investors, investment facilitation and financial engineering, management of commercial spaces and fostering of entrepreneurship and innovation (Clark, Huxley, Mountford, 2010: 25).

Whilst various international donors, e. g. the World Bank, are very active in promoting LED in several regions outside Europe and they actively collaborate with relevant national governments, many EU countries prefer bottom-up approaches, where national governments

are enablers. More precisely, national governments in many EU countries prefer to create pro-business and pro-citizen environment rather than adopt any strict regulation in this field. On this matter, it is important to decide whether LED initiatives are directly co-ordinated by local administration (i.e. municipalities by themselves), or whether there is a separate organisation (for example some agency or a co-ordination/collaboration council) that is responsible for such co-ordination.

If an agency-based model is used, an agency especially tries to identify the opportunities and threats that exist in the local economy, develops strategic documents in collaboration with other local stakeholders, etc. On the other hand, co-ordination or collaboration councils usually are representative platforms, where not only municipalities, but also other stakeholders are represented and these councils focus on identification of local development priorities, on allocation of available resources, etc.

## **Example 1**

### **Council-based partnerships in Slovakia**

Slovakia had a problem with allocation of EU funds, especially in the field of LED (e.g., infrastructure construction projects based on public-private partnerships, establishing local industrial parks and innovation incubators) and cohesion policy for a long time. In practice, there were too many central co-ordination bodies, multi-level collaboration was hampered, and local authorities often simply only reacted to something that they had not been consulted on. In addition, calls were also issued with delays, and local authorities were put under time pressure, which caused problems in both drawing funds and implementing projects.

The system before 2021 used a top-down approach where ministries were the most important stakeholders and defined all priorities. Therefore, before initiating the current programme, the central government decided to change its approach and involve the local level in the planning phase. Representatives of local stakeholders were intensively consulted. The Partnership Agreement with Slovakia 2021-2027 is based on a broad use of cross-sectoral partnerships within a multi-level government system. The co-ordination is not fragmented anymore, because the whole co-ordination is in the hands of one central co-ordination body nowadays.

Regarding the allocation of the EU funds for purposes of LED, the Act on the Contribution from EU Funds<sup>1</sup> -Establishing rules for the allocation, use, and monitoring of EU funds within the country defines the bodies in the field of support for integrated local/territorial development, namely partnership councils and co-operation councils of the regional development region.

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<sup>1</sup> Typically refers to national legislation enacted by a European Union (EU) member state to regulate how EU financial contributions

The *partnership councils* are considered key institutional mechanisms for local development dialogue, interaction and setting development goals at a regional level through so-called *integrated territorial strategies*. The partnership councils were established at the level of higher education institutions on the initiative of municipalities and their socio-economic partners. Since there are eight administrative regions in Slovakia, eight partnership councils have been established there. Each partnership council consists of certain number of members representing relevant regional self-government unit, local self-government units (i.e. rural municipalities as well as urban municipalities), state administration authorities, and various socio-economic partners.

The co-operation councils have been established for specific sub-regions in the vicinities of larger urban municipalities (towns/cities). In total, 18 co-operation councils have been established in Slovakia since 2021. Each co-operation council has its own statute and rules of procedure, and their role, structure, responsibility, performance of activities as well as methods of decision-making are set in those documents. It is important to stress that the co-operation councils have autonomous position within the partnership councils in relation to all decision-making linked to specific financial tool focused on the needs of those pre-defined sub-regions. Besides, the co-operation councils co-operate with the partnership councils for the purpose of information exchange and mutual co-ordination of their activities.

From the perspective of the state, it is important to stress that the national regulation was prepared by the ministry responsible for regional development, and the same ministry prepared a set of guidelines where the abovementioned councils can find templates of their main documents. Last but not least, the statute as well as rules of procedure of each partnership council and co-operation council must be approved by this ministry.

## **Example 2**

### **An agency driven local economic development in Spain**

A good example of a LED agency is, for example, Barcelona Activa. Its vision is to support sustainable economic growth in the City of Barcelona and its vicinity. Its mission is to promote quality employment, entrepreneurship, business competitiveness and the diversification of the productive fabric, in order to achieve a sustainable, inclusive and fair economic model (Barcelona Activa, 2025).

The agency develops its activities in compliance with strategic documents and intentions, including the Barcelona Green Deal urban and economic agenda, the Municipal Action Plan 2023-2027, etc.

For example, Barcelona Activa deals with the following fields within the Barcelona Green Deal: visitor economy, agri-food, trade and markets, health and bio, technology, creative

industries, social economy, research, transfer and innovation, economics for sustainability, blue economy, and care economy.

Barcelona Activa offers, inter alia, training, support and networking for professionals, entrepreneurs, the self-employed and companies. In addition, this agency supports specific organisations and projects that contribute to the social and solidarity economy.

## **Findings and recommendations for priority Area I**

- European countries have different regulations in the field of LED, and there are also some standards of the Council of Europe that could be taken into account (e.g., [Recommendation Rec\(2004\)1 of the Committee of Ministers to member states on financial and budgetary management at local and regional levels](#); [Recommendation Rec\(2005\)1 of the Committee of Ministers to member states on the financial resources of local and regional authorities](#); [Recommendation Rec\(2011\)11 of the Committee of Ministers to member states on the funding by higher-level authorities of new competences for local authorities](#)). There is a group of countries where municipalities can broadly engage in economic activities. For example, municipalities can go beyond their functions in France, Slovakia or Spain. If one looks closer on these economic activities, it is possible to see that these countries usually do not limit municipalities in any specific way: in countries like Slovakia or Spain, what is not forbidden by law or dedicated to other authorities, municipalities can do.

However, instead of becoming real economic competitors, municipalities willing to intervene in the field of economic activities, should focus on support of economic activities (technical support, financial support through local subsidies, grant schemes etc.). In addition, municipalities are still primarily responsible for a proper service delivery, and any economic activity that brings additional income cannot become the core activity of municipality.

Local stakeholders in Armenia see activities focused on LED as activities that could bring additional revenues for municipalities as to mitigate the effects of limited/insufficient local resources. However, it is important to understand that it is also necessary to invest in development activities, and thus, in some phases, ensuring LED do not bring income, but, on the contrary, it requires investments and therefore it increases expenditures.

## **Recommendations for Priority Area I**

In the case of Armenia, a list of competences might be reconsidered in the future in order to provide municipalities with a higher degree of autonomy in terms of their activities. However, this should not be done without adopting relevant fiscal decentralisation measures.

If entrepreneurial activities to generate additional local revenues are allowed for municipalities in Armenia, there are two important rules that should be followed:

- Economic activities should have no or limited implication to local budgets,
- Economic activities should have no or limited implication to local market competition as specified in the Appendix of the [CM/Rec \(2004\)1](#)<sup>2</sup>.

At this point, it should be stressed that any extra economic activity should not become a burden that limits local capacities to address citizen's basic social needs and interfere with those competences that local municipalities have been entrusted with. Moreover, a local market competition is vital element for a sustainable and comprehensive LED and therefore extra economic activities should not destroy any economically healthy entrepreneurial activities already existing in the territory.

LED should not be understood as the issue of one municipality. Effective LED requires trans-sectoral co-operation initiatives, and municipalities are often just one party of very diverse development consortia. Due to possible differences in regulation, in some European countries, municipalities can establish not only public companies, but also other entities, including NGOs or various joint ventures in order to be fully-fledged partners in various LED activities.

Legal provisions linked to the LED and entrepreneurial activities are rather open and flexible in some European countries (e.g., Slovakia, Spain, France). Municipalities are limited in such activities through provisions that entrepreneurial activity is not their core activity. However, laws at the same time allow such an activity and in addition, they are entitled to establish their own companies (these entities can be fully focused on entrepreneurial activities and generate financial profit). The

Interestingly, technical/feasibility studies or business plans are required if municipalities want to establish some new entities in some European countries (e.g., in Serbia). These studies or plans should prove that the activities intended to be done cannot be managed by private sector.

### Example 3

#### Municipalities and their entrepreneurial activities in Slovakia

Municipalities in Slovakia enjoy considerable autonomy in pursuing entrepreneurial activities. Generally, each municipality is a legal entity that, under the conditions set by law, independently manages its own property and its own income.

Therefore, one of the main activities of municipalities in Slovakia consists of independent management of its own property. More precisely, municipal property can be used primarily

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<sup>2</sup> [CM/Rec \(2004\)1](#) (...) 66. Establishing or managing commercial enterprises and participation in such enterprises should be limited, in principle, to public service activities or to activities in which there is no competitive market or activities that are aimed at economic promotion (such as housing developments, creation of business parks and start-up activities, promotion of employment, etc.).

for public purposes, for business activities and for the exercise of municipal self-government. For example, a municipality can rent premises to establish and run a clinic with practitioners with aim to ensure a proper medical care in the municipality regardless of who owns the clinic.

In addition, the law allows Slovak municipalities to establish companies. Municipalities can establish companies independently or in collaboration with other public entities (i.e. other municipalities or regional governments) or with private entities. Regardless of the fact whether they are established independently or within some collaboration and regardless of the ownership share of public entities, these companies have to respect the same rules as the private companies. The income generated by these companies is considered their own. If a municipality wishes to include this income in its budget, this must be stipulated in the companies' founding documents or authorised by a formal decision of their governing bodies.

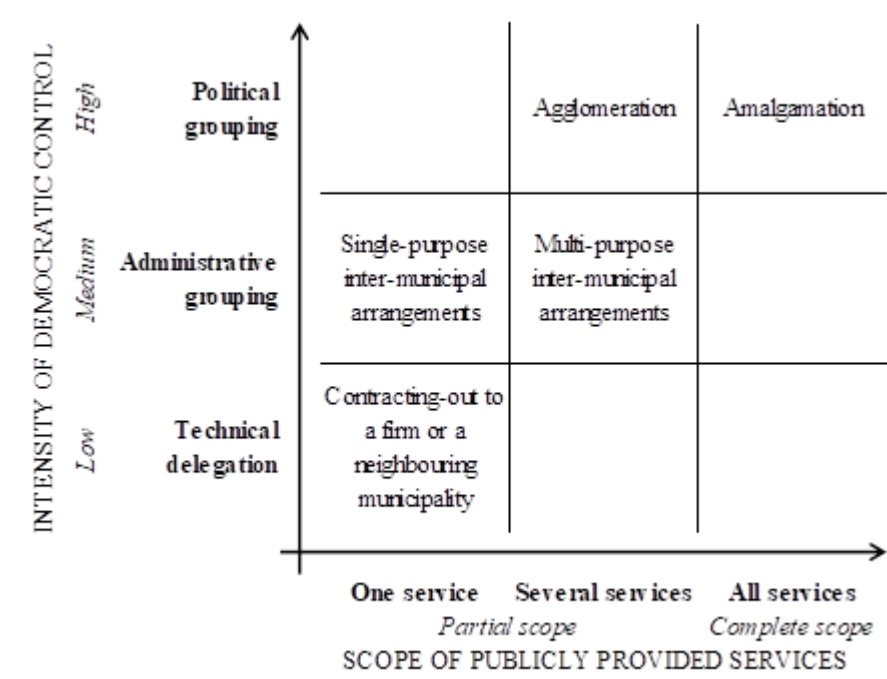
## **Priority Area II: Inter-municipal co-operation**

Collaboration of municipalities in European countries are usually diverse and various options are defined by law. There are different approaches of individual countries, and whilst some countries prefer to offer to municipalities as high degree of autonomy as possible in this field, some others use detailed description of individual inter-municipal co-operation forms.

Generally, (in a competence area of municipalities) IMC is used to achieve:

- higher economic efficiency;
- higher standards in service delivery; or
- as a hub that can generate further activities that go beyond capacities of individual member municipalities.

Figure 4: IMC in terms of its intensity



Source: Soguel 2006: 175.

From a theoretical point of view, there is “a scale” of IMC in terms of its intensity: ranging from a simple contract-based collaboration between two municipalities where one municipality delivers a contracted service also on behalf of another (neighbouring) municipality, through various single-purpose and multi-purpose inter-municipal arrangements, to possible administrative or even political mergers of individual municipalities (Figure 4).

According to Klimovský (2014), IMC design can be determined either by a bottom-up approach or a top-down approach. More precisely, any IMC initiative can be initiated either by municipalities themselves or it can be demanded and often also managed by some higher authority, for example by a central government. The latter case is rather typical for a co-ordinated IMC or for so-called compulsory or obligatory IMC. On the other hand, municipalities are usually interested in heterogeneous voluntary horizontal co-operation forms.

Klimovský (2014) compared findings from various international studies focused on practical experience with IMC, and he pointed out several pros and cons of this tool. The pros are the following:

- The IMC should lead to higher efficiency and relevant cost savings in public service delivery;

- The IMC attracts the mutual knowledge and experience transfer, since the co-operating municipalities may (and should) exchange between themselves not only necessary information, but also, for instance, best managerial practices;
- The IMC may lead to different political culture, i.e. to the state where the stakeholders co-operate regardless of their political preferences, and the crucial driver of their co-operation is either common interest or the inhabitants' needs;
- Development of the IMC requires development of internal capacities, willingness and sense of solidarity of the individual co-operating municipalities;
- The IMC usually facilitates more opportunities for involvement of other stakeholders (e.g. various non-governmental organisations, sub-national state authorities, private enterprises) into the local policy making, and it may attract establishing various public-private partnerships or public-public partnerships;
- The IMC may be enriched through including some foreign 'elements', and it can evoke various trans-border or cross-border partnerships;
- The IMC may foster concentration of the co-operating municipalities on those issues which are not in the responsibility of the IMC form;
- The IMC may sharpen the competitiveness of the co-operating municipalities and either intensify economic activities within the existing IMC partnership or attract investments from subjects localised outside the IMC partnership.

Concerning the important cons, one can mention especially the following list of them:

- The IMC requires higher managerial and co-ordination capacity, and if the co-operating municipalities do not dispose with prepared personnel, they must recruit necessary managers/co-ordinators from external resources;
- The IMC often requires a clear political leadership, and within this context additional costs of 'political co-operation' are produced;
- The IMC slows the decision-making procedures and 'produces' the situations in which compromise rather than consensus is taken by the decision makers;
- Compulsory (obligatory) IMC may be considered, from the co-operating municipalities point of view, 'an enforced solution' and a way some higher authority (e.g. state) either violates their rights or weakens their position within the whole public administration and political system;
- Voluntary IMC may be developed in non-strategic manner and it may lead to establishment of units which are far from 'optimal units' (i.e. scientifically justified);
- Voluntary (especially contract-based) IMC may be a kind of unstable solution which might depend, inter alia, on local election results;
- The IMC may lead to increase of costs, for instance, if the co-operating municipalities employ personnel to deal with issues that have been transferred to the IMC form;
- The IMC may lead to internal struggles between local bureaucrats/administrators (e.g. local servants or managers) and local politicians (e.g. mayors or local councillors);

- The IMC may evoke a kind of democracy deficit, since while the delivery at a municipal level ensures ‘daily connection’ of common inhabitants with the local decision-making, the IMC ‘takes’ this decision-making ‘away from’ the inhabitants;
- The IMC may lead to higher corruption, since the IMC institutions are usually important contractors and therefore there is a higher risk that they might be endangered by corruption ‘options’, and within this context, also more vulnerable to corruption;
- The IMC may lead to unequal development of the individual co-operating municipalities, especially if the IMC institutions are politically imbalanced or, if there are some internal managerial/co-ordination tensions.

## **Example 4**

### **Inter-municipal co-operation in Serbia**

#### Legal framework

IMC in Serbia is regulated by several basic regulations:

- The Law on Local Self-Government, which was significantly amended in 2018 to provide a more substantial legal framework;
- Regulation on Conditions and Method of Joint Execution of Delegated Tasks (2021);
- Rulebook on Method and Criteria of Distribution of Funds for the LSG System Development and Functioning Programmes (2024 amendments);
- Sectoral laws (Law on Communal Activities, Law on Educational Inspection, etc.).

The Law on Local Self-Government, as the systemic law regulating the local self-government system, also addresses the issue of IMC. A special chapter of this law is dedicated to the co-operation and association of local self-government units.

The law stipulates that a local self-government unit, its bodies, and services, as well as enterprises, institutions, and other organisations it has established, can co-operate and associate with other local self-government units and their bodies and services. Co-operation takes place in areas of common interest, and for their realisation, they can pool resources and establish joint bodies, enterprises, institutions, and other organisations and institutions, in accordance with the law and statute. The Law on Local Self-Government also provides for specific tasks in the field of communal activities, which can also be jointly performed based on an agreement on co-operation between local self-government units, in accordance with the law regulating communal activities.

A very important novelty regulated by the amendments to the Law on Local Self-Government from 2018 is that co-operation between local self-government units also includes the delegation – entrusting of certain tasks within their original jurisdiction to another local self-government unit or an enterprise, institution, or other organisation it has established.

The Law on Local Self-Government generally regulates the content of the agreement on co-operation between local self-government units. The law also stipulates the obligation for a local self-government unit to submit the co-operation agreement to the ministry responsible for local self-government within 30 days from the date of conclusion of the agreement, and for the ministry to keep records of concluded co-operation agreements.

The law specifically regulates the management of IMC. Thus, in the case of establishing a joint body, service, enterprise, or other organisation based on a concluded co-operation agreement between local self-government units, their managers are appointed or dismissed, and their responsibilities and termination of duties are decided by the competent bodies of the founding local self-government units. Funds for financing the work of the joint body are provided in the budgets of the local self-government units that have joined the agreement, proportionally to the scope of tasks performed for them by the joint body.

In Serbia, it is also regulated that two or more local self-government units can propose to the ministry responsible for local self-government the joint execution of certain delegated tasks, in accordance with the law regulating state administration and the government regulation regulating the closer conditions and method of joint execution of delegated tasks (the Regulation on Conditions and Method of Joint Execution of Delegated Tasks). The proposal contains a description of the problem that arose in the execution of delegated tasks, the causes and consequences of the problem, and a proposal for the method of joint execution of delegated tasks to overcome the problem. Consent for the joint execution of delegated tasks is given by the Government, at the proposal of the ministry responsible for local self-government affairs, with the prior opinion of the ministry responsible for the execution of delegated tasks.

As already emphasised, IMC is also regulated by special sectoral regulations. Certainly, the most important of them is the Law on Communal Activities. This law also addresses this topic through a special section dealing with the performance of communal activities for two or more local self-government units. Accordingly, two or more local self-government units can decide to jointly implement communal activities by establishing a joint public enterprise or company through a co-operation agreement in the field of communal activities.

Co-operation between local self-government units also includes the delegation of tasks within a certain communal activity within their jurisdiction:

- when one local self-government unit delegates the performance of tasks within its jurisdiction to another local self-government unit;
- when one local self-government unit delegates the performance of tasks within its jurisdiction to a public communal enterprise established by another local self-government unit.

If they determine an interest in the joint performance of communal activities, the municipal or city council of each local self-government unit adopts a decision on the preparation of a feasibility study. The feasibility study contains:

- a detailed presentation of the current state in that communal activity, a financial analysis with a budget of necessary investments;

- sources of financing and a preliminary financial assessment of the justification for the joint performance of communal activities;
- market analysis for that communal activity;
- a detailed presentation of economically justified and legally possible models of joint performance of communal activities;
- a detailed explanation of the proposed model of joint performance of communal activities with a review of the advantages and disadvantages of that model compared to other possible models, especially compared to the previous model of performing communal activities;
- expected results of the proposed model, as well as the prerequisites for achieving those results;
- an overview of risks and proposals for their elimination or prevention.

When the results of the feasibility study indicate the efficiency and economy of joint provision of communal activities, a co-operation agreement is concluded. If the results of the study determine the justification for the joint performance of communal activities, the municipal or city council submits to the assembly of the local self-government unit a proposal for a decision on the method of performing communal activities and a proposal for a co-operation agreement on the joint provision of communal activities. The co-operation agreement on the joint performance of communal activities is considered concluded when it is adopted in the identical text by all assemblies of the local self-government units within a period that cannot be longer than three months from the receipt of the proposal.

### Support in the implementation of IMC

Key support in the implementation of IMC is provided by the Ministry of Public Administration and Local Self-Government (MPALSG) and the Standing Conference of Towns and Municipalities – National Association of Local Authorities of the Republic of Serbia (SCTM). Within the support, expert and technical support for the establishment of IMC and financial support for inter-municipal projects are provided.

Within the expert and technical support, SCTM has prepared:

- Methodological instructions for establishing IMC;
- Guidelines for establishing inter-municipal economic entities;
- Models of procedures implemented to establish and start IMC;
- Proposal for ways of managing human resources in joint services, institutions, and organisations;
- [IMC models](#) in 11 areas of local self-government work (local ombudsman, inspections, energy management, emergency situations, social protection, legal representation, communal police, etc.) depending on the type of co-operation.

In addition to models of various documents and procedures, SCTM has conducted a series of training sessions for establishing IMC and provided advisory support to cities and municipalities.

Financial support during the first few years after the adoption of the amendments to the Law on Local Self-Government in 2018, which reformed the legal framework for IMC, was provided by MPALSG, which implemented the project “Local Self-Government for the 21st Century” in co-operation with SCTM and with financial support from the Government of the Swiss Confederation.

Within this project, a special fund for financial support for inter-municipal projects was established as a pilot programme. Within this, MPALSG financially supported 47 local self-governments and two city municipalities in achieving IMC through three periodic calls for financial support for IMC projects. Based on these experiences, during 2024, the Ministry introduced IMC as one of the five priorities for supporting local authorities through the already existing state fund for supporting local self-government. This created sustainable conditions for financing local self-government units to increase work efficiency, improve infrastructure, and strengthen the capacities of local self-government units to provide services. The goal of this support is to overcome situations in which a number of local self-government units, especially smaller municipalities, do not always have enough capacity to perform some original or delegated tasks, and through resource pooling, they could organise joint services or tasks.

## Summary

Two models of IMC:

- *Model of joint execution*  
Municipalities can join resources and establish joint bodies, enterprises, and institutions. IMC enables municipalities to pool resources, share responsibilities, and achieve economies of scale, thereby enhancing the efficiency and effectiveness of public service delivery. In this model, municipalities, their bodies, and services, as well as enterprises, institutions, and other organisations they have established, collaborate by pooling their resources. The goal is to efficiently address common interests and tasks.
- *Model of task delegation*  
This model implies that municipalities can delegate the performance of certain tasks within their original jurisdiction to another municipality or to an enterprise, institution, or another organisation it has established. If one municipality has better infrastructure or expertise in a particular area, another municipality can delegate the performance of those tasks to that municipality or organisation. This model allows municipalities to specialise and efficiently utilise resources, instead of each municipality trying to perform all tasks independently.

IMC is voluntary, allowing towns, municipalities, and other local bodies to co-operate in areas of common interest and to jointly provide public services in their competencies. IMC agreements are commonly established for communal activities, disaster risk reduction, and other public services. Concerning the support for implementation of IMC, the Standing Conference of Towns and Municipalities (SCTM) provides normative acts, advisory support, and training for IMC. Financial incentives are provided through the Budget Fund for the Local Self-Government Programme and donor funds.

## **Example 5**

### **Inter-municipal co-operation in Spain**

#### Legal framework

Co-operation between local entities in Spain is a key mechanism for optimizing resources, improving service efficiency, and strengthening municipal governance. Over the years, different forms of collaboration have been established between municipalities and other local entities, regulated by a legal framework that ensures their viability and effectiveness.

The Spanish Constitution recognises, in the Articles 140 and 141, municipalities as the basic local entity and provinces as the second level of municipality. Additionally, in the Article 137, it establishes the autonomy of municipalities and provinces, allowing them to co-operate to improve service delivery.

As a regulatory development of the basic legislative framework recognising municipalities and their autonomy in managing their interests, as established in the Constitution, Spain has the following laws:

- Law 7/1985, of April 2, Regulating the Bases of the Local Regime (LRBRL);
- Law 27/2013, of December 27, on the Rationalisation and Sustainability of Local Administration – this law introduces financial sustainability criteria for local entities, promoting co-operation as a mechanism to improve efficiency in the provision of public services and to avoid redundancies;
- Law 40/2015, of October 1, on the Legal Regime of the Public Sector – this law regulates the actions of public administrations and their inter-administrative relations, fostering co-operation through agreements and consortia.

In addition, statutes of autonomy of the Autonomous Communities are used in this field, too. Each Autonomous Community adopts its own statute and holds legislative powers. The Spanish Constitution sets out the division of powers, and whilst certain competences are attributed to the state, the Autonomous Communities have right to regulate the residual competences in their statutes of autonomy. These legal documents also include specific provisions on co-operation between local entities within each Autonomous Community.

#### Diversity at the sub-national levels and types of IMC

The currently existing local (sub-national) entities in Spain are as follows:

- **Municipalities**  
There are 8,117 municipalities, which constitute the basic entity of the State's territorial organisation and the primary channels for citizen participation in public affairs.
- **Provinces**  
Spain has 50 provinces, although in the 7 single-province Autonomous Communities, their functions are assumed by the respective Autonomous Communities. Provinces are the internal territorial divisions within the 17 regions that make up Spain, the legal and political recognition of the regions is referred to as "Autonomous Communities" in the Spanish Constitution. While most autonomous communities are internally divided into several provinces, there are some single-province autonomous communities, meaning that in these cases, the province does not exist as a territorial division or as a local entity with specific autonomy and competencies distinct from those of the autonomous community or its municipalities.
- **Islands**  
A total of 11, distributed as follows: Illes Balears (4) and Canary Islands (7).
- **Entities of a territorial scope lower than the municipality, established or recognised by the Autonomous Communities**  
There are 3,719 such units in Spain in total.
- **Comarcas or other entities grouping several municipalities, similar to districts or counties in other countries, established by the Autonomous Communities.**

Currently, there are 81, located in Catalonia (41), Aragon (32), the Basque Country (7), and Castile and León (1, El Bierzo).

- Metropolitan Areas

There are 3, located in Catalonia (1) and the Valencian Community (2).

- Mancomunidades of Municipalities (associations of municipalities)

Currently, there are 1,018, encompassing 6,190 municipalities, representing 76% of the total.

Co-operation between local entities can take various forms, depending on the objectives and needs of the municipalities. There are five the most common types, namely *mancomunidades* (municipal associations), consortia, collaboration agreements, comarcas, and metropolitan areas.

*Mancomunidades* or municipal associations are regulated by the Article 44 of the LRBRL. It defines them as voluntary associations of municipalities to jointly manage services or carry out activities of common interest, such as water supply, waste collection or public transportation. An example of good practice is the Mancomunidad de Servicios de la Axarquía in the southern province of Malaga, Andalusian autonomous community. This mancomunidad has achieved efficient management of urban waste and portable water supply in municipalities with fewer resources. Examples of challenges faced by some municipal associations that have had an impact in their efficiency or had led them to paralysis are: 1) financial problems (lack of economic contributions or adequate funding); 2) political misco-ordination (lack of consensus among municipalities and conflicts of interest as they may not share political affiliation or political differences may arise between municipalities and provincial council when the latest plays a role within the promotion, establishment or managing the association); 3) mismanagement (in the form of corruption, inefficiency, and excessive bureaucracy); and 4) a lack of incentives (municipalities do not see clear benefits and choose to leave).

The article 57 of the LRBRL defines consortia as entities with their own legal personality that enable collaboration between different public administrations (municipalities, provincial councils, autonomous communities, and even the State) for the provision of public services. An example of good practice is the Consorcio Regional de Transportes de Madrid, which integrates several municipalities in the Autonomous Community of Madrid, the regional government, and private operators to efficiently manage public transportation across the region.

Both the Article 57 of the LRBRL and the Article 47 of Law 40/2015 provide with IMC through collaboration agreements. These agreements allow two or more local entities to jointly provide a service without the need to create a new legal entity. While there are many successful agreements, as this is a widely used mechanism, there are also examples of failure, particularly in some rural healthcare collaboration agreements that have failed due to a lack of stable funding and poor co-ordination among municipalities during implementation.

According to Article 43 of the LRBRL, autonomous communities may promote, with the agreement of the State and the affected municipalities, the creation of metropolitan areas. These are local entities made up of municipalities within large urban agglomerations that have strong economic and social ties, necessitating joint planning and co-ordination of certain

services and infrastructure. This situation typically occurs in some capitals of the most populous autonomous communities, where surrounding municipalities share similar needs and are closely linked to the main city in terms of population size or economic activity. For example, the Metropolitan Area of Valencia forms an urban network organised around the main city of Valencia. It is the third-largest agglomeration in Spain by population and one of the most important in Europe, with 1,635,239 inhabitants (2024) and 44 municipalities, spread over an area of 627.6 km<sup>2</sup>.

In addition to the above-mentioned types of the IMC, the Spanish Federation of municipalities and Provinces (FEMP) is also an example of a broad IMC network. It is a non-governmental association formed by elected members of municipalities and provincial councils. In fact, it includes as members up to over 84% of the Spanish municipalities, and despite being a private entity, although declared of public utility, plays also a role on promoting and implementing the co-operation between municipalities and provinces through different forms such as disseminating good practices amongst them, being a think tank and a lobby advocating for municipalities and provinces as well as implementing the results of some specific forms of co-operation such as agreements with the central government that address needs and competences of local entities (i.e. ATENPRO a programme awarded by the government to the FEMP in coalition with the Red Cross and different municipalities by which it is provided to women that have been assessed by municipal social services to be at risk of suffering gender violence by former partners a specific mobile phone and an assistance/information 24/7 telephone line for support, notwithstanding any measure or decision taken by the judiciary).

## **Example 6**

### **Inter-municipal co-operation in Portugal**

#### Legal framework

The creation of associations of municipalities has a constitutional seat in article 253 of the Constitution of the Portuguese Republic: municipalities can establish associations and federations for the administration of common interests, to which the law may confer their own powers.

Inter-municipal co-operation has been encouraged through the laws 10 and 11 of 2003 that create inter-municipal entities (comunidades intermunicipais), which can have specific or general purposes. In 2008, a reform of the IMC (Law 45/2008) was approved in order to redesign the territorial scope of inter-municipal entities. Through Law 75 of 2013, 21 compulsory inter-municipal entities were created in mainland Portugal. Currently, all municipalities are engaged in one of the IMC associations in Portugal.

In order to develop multi-level contracts, Partnership Agreement with the European Commission (EC) is used to promote IMC at the level of the new inter-municipal entities.

In addition, the two metropolitan areas of Portugal, Area Metropolitana de Lisboa (AML) and Area Metropolitana do Porto (AMP) were first established in 1991, through a national law, but without a definition of their competences and resources. These two metropolitan bodies

were further strengthened through two laws in 2003 and 2008, and more recently by Law 75/2013.

The legislation on associations of municipalities (metropolitan areas and inter-municipal communities) and associations of parishes and municipalities with specific purposes, constitute the universe of autonomous associations, whose legal discipline is provided for in Annex I of the Law 75/2013, 12 of September (title III - 63 to 110).

#### Diversity at the sub-national levels and types of IMC

Currently in Portugal there are 23 Inter-municipal Communities (IMCs) and 2 Metropolitan Areas (Lisbon and Porto) which constitute the basis of the NUTS3 statistical regions. IMCs are constituted by contract and any municipality that is part of a territorial unit where an IMC already exists has the right to adhere to it. IMCs can only provide services that are assigned to them by municipalities and the central government.

Inter-municipal entities (metropolitan areas and inter-municipal communities) enable IMC in various strategic areas where local service delivery may benefit from increasing scale and improved inter-governmental co-ordination.

Currently, inter-municipal communities can take on the functions and tasks assigned by law to the municipalities. However, IMCs can only provide services that are assigned to them by municipalities and the central government.

In the current legal framework, IMCs are designed to pursue the following assignments:

- Promoting the planning and management of the strategy for economic, social and environmental protection of its territory;
- Co-ordination of municipal investments of inter-municipal interest;
- Participation in the management of regional development programmes;
- Planning of the activities of public entities, of supra-municipal character.

It is also the responsibility of the IMC to ensure the co-ordination of actions between municipalities and central government in the following areas:

- Public supply networks, basic sanitation infrastructures, treatment of wastewater and municipal waste;
- Network of health equipment;
- Educational and vocational training network;
- Spatial planning, nature conservation and natural resources;
- Security and civil protection;
- Mobility and transport;
- Public equipment networks;
- Promotion of economic, social and cultural development;
- Network of cultural, sports and leisure equipment.

In Portugal, the EU Cohesion Policy has reinforced the financial and strategic capacities of IMCs. They currently manage European funding as intermediate bodies.

There is a strict structure of governing bodies in the case of all IMCs. First of all, each IMC is governed by inter-municipal assembly (deliberative power), inter-municipal council, executive secretariat (executive powers), and strategic council for inter-municipal development (advisory power).

Mandates are assigned, in each municipal assembly, according to the proportional representation system and the D'Hondt highest average method. The term of office of the members coincides with that established for the bodies of local authorities. The loss, cessation or resignation of the mandate of the mayor of the municipality determines the end of the mandate in the inter-municipal council. The inter-municipal assembly meets ordinarily twice a year (approval of the budget and accountability) and extraordinarily whenever necessary. In general, each assembly:

- Elects the board of the inter-municipal assembly;
- Approves, upon proposal from the inter-municipal council, the plan options, the budget and its revisions, and also evaluate and vote on the accountability documents;
- Elects, upon proposal from the inter-municipal council, the inter-municipal executive secretariat;
- Approves its rules and regulations;
- Approves motions of censure in the inter-municipal executive secretariat

In the case of metropolitan areas, the inter-municipal assembly does not exist. The powers described here belong to the Metropolitan Council (composed by the mayors).

Each inter-municipal council is composed by the presidents of the municipal councils of the municipalities of that IMC. Associations of local authorities for specific purposes are established by contract, under the terms set out in civil law, with the mayors of the municipalities involved being the grantors. Its constitution is communicated by the local authority in whose territory it is based to the member of the Government that oversees the local authorities.

Deepening the decentralisation of competences to local authorities implies creating the legal and operational conditions to implement the transfer, to inter-municipal entities, municipalities and parishes, of the competences provided for in the approved sectoral diplomas based on the Framework Law on Decentralisation (Law 50/2018). So, Portugal began an important decentralisation process in 2018, which foresees the transfer of powers to local authorities and inter-municipal entities in the following fields:

- Tourism (Decree-Law no. 99/2018, 28 of November):
  - Participate in the definition and implementation of the regional tourism plan at sub-regional level;
  - Ensure the promotion of sub-regional tourism products and resources in the national territory;
  - Manage and implement programmes with national and/or European funding;
  - Define the events considered anchor for the sub-region and participate in their organisation;

- Projects financed by European funds and investment attraction programs (Decree-Law no. 102/2018):
  - Develop the overall strategy and action plan for the respective sub-regions;
  - Define, implement and monitor programs to attract productive business investment on a sub-regional scale;
  - Promote and boost, at national and international level, the economic potential of the respective sub-regions;
  - Submit applications for European funding programs;
  - Manage and implement projects financed with European funds;
- Justice (Decree-Law no. 101/2018):
  - Social re-integration of young people and adults;
  - Participate in inter-municipal actions or projects that promote the social reintegration of young people and adults into the inter-municipal community;
  - Promote and develop the actions/projects to be developed, inter-municipal entities may enter into co-operation agreements or protocols with bodies that are part of the direct and indirect State Administration, private social solidarity institutions, public utility legal entities or non-governmental organisations;
  - Violence against women and domestic violence – the inter-municipal entities are competent to define, within their respective territories, actions or projects to prevent and combat violence against women and domestic violence and to protect and assist their victims, which contribute to the pursuit of equality and non-discrimination;
  - Support for victims of crime – the inter-municipal entities are competent to develop actions or projects to support victims of crime, namely: providing information to victims regarding their rights and the support they can seek; establishing and organising local structures with the functions of assisting, supporting, redirecting and temporarily sheltering victims of crime;
- Education (Decree-Law no. 21/2019):
  - Inter-municipal planning of the school transport network and the educational provision at supra-municipal level is the responsibility of the bodies of the inter-municipal entities;
- Health (Decree-Law no. 23/2019):
  - Deliberative bodies of the inter-municipal entities issue prior opinions regarding the conclusion of agreements and the definition of the network of primary healthcare units and continuing care units at an inter-municipal level.

## **Findings and recommendations for Priority Area II**

There are different approaches of individual countries, and whilst some countries prefer to offer municipalities as high degree of autonomy as possible in this field (e.g., Slovakia), some others use detailed description of individual IMC forms (e.g., Portugal). From the perspective of co-ordination and potential financial incentives, it is recommended to define forms and fundamental obligations (in terms of establishing process and operation) by law. In addition, the state (in co-operation with a general association of municipalities) can also prepare and

offer methodological guides on how to organise various inter-municipal entities (e.g., Portugal is an example where internal organisation of inter-municipal entities is pre-defined by law, but in many other countries this issue remains open and is not strictly pre-defined by law).

Generally, IMC is used to achieve:

- higher economic efficiency,
- higher standards in service delivery, or
- as a hub that can generate further activities that go beyond capacities of individual member municipalities.

These intentions require not only certain level of flexibility, but also strategies, managerial approach, and initial investments (including financial inputs). If there is an intention to achieve or support LED through IMC, it must be understood that any **IMC form is an enabler rather than a real driver of LED**. More precisely, IMC initiatives can help to create a pro-development environment, but activities of other partners (i.e. involved stakeholders coming from other sectors) are essential. Guidelines to local authorities in the appendix to [CM/Rec\(2004\)1](#) to member states on financial and budgetary management at local and regional levels suggest that “*Horizontal and vertical co-operation between authorities should be encouraged to facilitate the completion of major projects, in such a way as to share the expenses and the risks.*”

Whilst in many European countries, IMC is used as a voluntary tool and there is neither political pressure nor any specific financial incentive to establish any IMC form, in a few countries, there are compulsory IMC forms (e.g., in France and Portugal). If any specific incentives (financial incentives in particular) are used, for example the Portuguese case shows that some sanctions can be applied if there is no stability or if there are some quick changes.

From the perspective of the Council of Europe, it is important to stress that the local authorities' right to co-operate is defined in the Article 10 of the European Charter of Local Self-Government. Moreover, The [CEMG](#) at the [Congress of Local and Regional Authorities](#) of the Council of Europe developed its own [toolkit on IMC](#) should be taken into consideration in this case, too.

## Recommendations for Priority Area II

As a result of a consolidated municipal structure, there are larger municipalities in Armenia nowadays. On this matter, it is important to stress that relation between citizens (local residents) and IMC entities should respect democratic governance in line with the [CM/Rec\(2022\) 2](#) (in some countries – e.g., in Portugal – inter-municipal assemblies are used).

We recommend using a set of legally pre-defined forms of IMC but leave some room for flexible solutions, too. This flexibility is important if Armenia wants to foster meaningful LED initiatives.

Besides, we recommend following the subsidiarity principle and let municipalities in Armenia decide in what fields they would like to co-operate. On this matter, the state can offer guidelines and in co-operation with the national general association of municipalities it should facilitate further dissemination of good practices in this field.

Last but not least, due to rather negative experience with the recent development of IMC in Armenia, it seems crucial to invest in a proper information campaign and further readiness of the state to offer technical support and perhaps also financial incentives for successful front-runners in the field of IMC.

### **Priority Area III: Cross-border co-operation**

In the framework of the Council of Europe's Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities ([CETS No. 106](#)), cross-border co-operation is recognised as a vital instrument for fostering dialogue, mutual understanding, and sustainable development between local and regional authorities across national boundaries.

Generally, cross-border co-operation should be understood as a set of processes focused on building neighbourly relationships between local stakeholders and public authorities on either side of a border. CBC does not entail conveying additional powers to border municipalities and relevant public authorities. On the other hand, through CBC, municipalities located in border areas may seek to promote the socio-economic development of the border area, develop economies of scale to provide better services and widen cultural perspectives. Thus:

- CBC may positively influence management practices in partners' institutions;
- CBC may encourage a more co-operative culture both among different partners and within the same type of partner;
- The process of jointly applying for external funding may help to develop the will and capacity of each partner for partnership-working with other public, private and voluntary organisations both within and beyond the CBC arrangements;
- If a CBC body is established and is responsible for a number of issues which would have been otherwise under the direct management of local authorities, elected representatives can focus more on their strategic responsibilities;
- Since CBC is not a statutory obligation on local authorities, it is implemented only when its benefits can be felt;
- Partners may develop a greater sense of solidarity through CBC;
- CBC may create more opportunities for engaging local organisations and citizens;
- CBC encourages public-private partnerships (PPPs);
- CBC encourages the harmonious cultural growth of border areas, builds up social capital and promotes the peaceful co-existence of people.

There are several modes or stages of operation within which CBC processes develop:

- No relation stage: Inward looking border area characterised by stereotypes and diffidence.

- Stage of information exchange: Parallel identification of border as common generator of issues and resources.
- Consultation stage: The cross-border interdependence is understood; actions are carried out separately, but joint actions are envisaged.
- Co-operation stage: Common goal is set, and actions are carried out according to a shared agenda (and within the limits of each actor's competencies and authority).
- Harmonisation stage: Policies are designed taking into consideration the cross-border nature of the area.
- Integration stage: Borders are virtual, and the CBC is fully integrated in the policy making process.

## Example 7

### Cross-border co-operation in the area of Strasbourg

Strasbourg has been operating a well-established CBC since 1963, date of the French-German reconciliation and co-operation treaty also called Elysée Treaty. This treaty was signed 20 years after World War II, 20 years before the first decentralisation laws in France and 30 years before Schengen.

This Franco-German reconciliation has built up a comprehensive CBC system with the neighbouring State of Baden-Württemberg, featuring mutual solidarity arrangements and partnerships demonstrating concrete examples of Europe in the everyday lives of its citizens.

This CBC is based on flows and exchanges of information at every level and has developed into a genuine border-free living area and a driving force for projects benefiting its inhabitants.

Border crossing has now become part of daily life for many of people for reasons of work, residence, studies, and healthcare or leisure activities.

As a border city, Strasbourg shares a living area with its German neighbours, in particular the city of Kehl. The concept of a living area goes beyond the simple 'territory' (in the French sense) or 'functional area' (in the European sense / EU Commission).

This cross-border living area is defined by:

- a high degree of interpenetration of activities, flows and exchanges at all levels (commuter flows, consumer flows, residential flows): 3,000 French people living in Kehl, 5,000 daily journeys on the Strasbourg-Kehl cross-border tram during the week and 9,000 at weekends;
- an urban continuity that is part of the landscape and way of life: public facilities and services are used by residents on both sides of the border;
- structuring cross-border projects serving the population: tramway, kindergarten, parc, social economy incubator, job centre, library);
- healthy, regular and balanced political dialogue despite the asymmetries (mainly spatial, demographic and economic).

The cities of Kehl and Strasbourg signed a co-operation agreement in 2021 in order to describe and strengthen their already existing links and to work towards better integration of their respective public policies. This agreement re-affirmed a common desire to respond with a single voice to ecological, social and democratic issues, and to implement projects that are essential for the residents of both parts of the border: integration of mobility networks, complementarity of public facilities, involvement of residents in urban transformation and promotion of a shared culture and bilingualism.

As a result of its commitment to Franco-German co-operation, the city of Strasbourg maintains regular exchanges with its German partners. It carries out local Franco-German projects in the heart of its cross-border living area.

The CBC for Strasbourg has 3 different perimeters:

- a direct proximity with the City of Kehl;
- an intermediate level with the Strasbourg-Ortenau Eurodistrict: a European Grouping of Territorial Co-operation;
- a regional level with the Upper Rhine Conference: an inter-governmental co-operation forum.

Here are some examples and cross-border flagships projects:

- Since 2020, Strasbourg Eurometropole has been working with the city of Kehl and the Land of Baden-Württemberg on a project to build and operate a heat transport pipeline to recover waste heat from the Badische Stahlwerke Kehl (BSW) steelworks in the Rhine harbour and supply the heating networks in the conurbation. A Franco-German cross-border company, SEM Calorie Kehl-Strasbourg, was created on 31 May 2022. Six partners from both sides of the Rhine are involved in the SEM under French law: the Strasbourg Eurometropole (EMS), the Grand Est Region, the Bank of Local Authorities, the Land of Baden-Württemberg, the city of Kehl and BSW. It has its own capital of around €4.2 million. Completion is scheduled for 2027/2028.
- With the extension of the tramway line to Germany, the people of Kehl and Strasbourg now have quick and easy access to their neighbouring city. 3 additional stops have been created in France, as well as 3 stops in Germany. The first part of the line extension was inaugurated on 29 April 2017. Following its extension, the cross-border tramway line has become one of the busiest lines on the network with almost 7,000 journeys a day on weekdays and 10,000 at weekends.
- Cross-border cycle highway: The planning agreement for the cross-border cycle highway from Offenburg to Strasbourg (30 km apart) was signed in August 2024. This agreement lays down the general conditions for carrying out and financing the planning work up to the right to build.
- ‘Spiel & Parle’ (Play and Speak) is a cross-border educational project run by the Strasbourg-Ortenau Eurodistrict. The aim is to offer German and French children from primary schools on each side of the Rhine the opportunity to learn their neighbour's language in a fun way. With the help of games, songs and literature, children learn basic vocabulary in German or French, which awakens their inter-cultural curiosity.

- Every two years, the Eurodistrict organises a meeting between elected representatives and citizens. The aim is to involve civil society on both sides of the Rhine more closely in the construction of the common cross-border living area, while enabling a direct exchange between the elected members of the Eurodistrict Council and the German and French inhabitants on their needs, wishes and visions for the Franco-German territory.

The city and the Eurometropole of Strasbourg have created and co-funded cross-border structures and projects that constitute local cross-border public services within a common living area.

Strasbourg-Ortenau Eurodistrict (European Grouping of Territorial Co-operation) was created in 2010, is registered under French law but has its headquarters in the German city of Kehl. It aims to develop and strengthen CBC between both French and German territories and to support innovative projects and initiatives of strategic relevance (such as transportation policy, health issues, education, culture, sustainable urban development and cross-border intercommunality). A genuine governance model and bottom-up strategy enable citizenship participation and local democracy at cross-border scale and compensate a spatial and demographic heterogeneity of the territory (high urbanised on French side and mostly rural on the German side). Yet, some additional actions on communication and public relations are needed to make the Eurodistrict more visible and known by “ordinary citizens”.

For example, the ‘Justice without frontiers’ contact point is a project run by the European Consumer Centre (ECC), co-financed by the Eurometropole and the City of Strasbourg and the European INTERREG Upper Rhine programme. This is a free service for the general public offering:

- general bilingual information on the French and German legal systems;
- assistance in initiating European legal proceedings in the event of a cross-border consumer dispute;
- a one-to-one consultation with a bilingual legal professional.

Strasbourg is also working with existing Rhine Region co-operation forums (such as the Network of Cities of the Upper Rhine Region, the Rhine Council, the Upper Rhine Conference), information and advice facilities (such as Infobest, the European Consumer Centre, the Cross-border Job Placement Service, the TRION Climate Network and the Eurodistrict). These structures are all working with the Secretariat of the Cross-Border Co-operation Committee of the Aachen Treaty signed in 2019 and act as local relays for territory’s inhabitants and centres of innovation, helping to make the first steps of a cross-border territorial marketing and breathe life into a concrete Europe.

## Example 8

### Cross-border co-operation and its weaknesses or failures

Since the collapse of the Communist Parties' regimes in Czechoslovakia (later the Czech Republic and Slovakia) as well as Hungary, several small initiatives focused on communication and mutual exchange of experience in a few policy fields have occurred in regions of these countries neighbouring with the north-east part of Austria. The cross-border collaboration in this region was significantly deepened thanks to the integration of these countries in the EU. The region was called Centrope and it was officially established in Kittsee in 2003, when both relevant regional governments and several cities located in these regions decided to advance their (usually bilateral) co-operation initiatives.

The Kittsee declaration (2003) stressed the following statements:

- establish CENTROPE as a common region of growth and prosperity and support all measures towards the attainment of this goal;
- create an attractive, internationally respected, quality location covering all areas of life and improve the framework conditions for CBC;
- intensify CBC by networking existing initiatives, communicate the future potential of the region to the public at large, and strengthen the social and entrepreneurial commitment to the Central European Region (Finka, Husár, Jaššo, 2020: 154).

After the Kittsee event, several political memoranda were signed, and a few strategic regional documents were approved. Currently, the backbone of this region is represented by the metropolitan region of Vienna - Bratislava, with its long common history, mutual functional ties, and high dynamics of growth. One of the most significant competitive advantages of the CENTROPE region is its scientific profile. More than 25 universities and academic bodies are based in the region and their co-operation with business institutions is promoted intensely. CENTROPE is striving to maintain its identity as a sustainable region by stressing its natural landscape potential. The Danube River and the green belt between Vienna and Bratislava are irreplaceable landmarks of the region. The outstanding quality of life in the region derives from the proximity of urban centres and attractive natural landscapes (Finka, Husár, Jaššo, 2020: 155).

However, according to Finka, Husár, Jaššo (2020), the CENTROPE initiative also offers a few lessons to be learnt:

- Daily operation of this initiative revealed a language challenge, since representatives of the collaborating units speak four languages from three diverse language groups);
- National legal and administrative systems are quite different, and they led to several misunderstandings and partially to loss of co-operative dynamics;
- Although the CENTROPE might sound as a well-known and politically important initiative, it does not attract local and regional politicians very much: the initiators were very enthusiastic but these political representatives were sooner or later replaced by others due to various political cycles, and the newcomers did not show so much

political enthusiasm because the CENTROPE representatives failed to make the initiative attractive to a wider public;

- Despite the fact that the role of the borders was significantly changed (e.g., thanks to adoption of the Schengen rules), the differences among the CENTROPE countries have remained, and even some older issues played a certain role during the negotiations (e.g., tensions between Slovakia and Hungary due to the dam on the Danube River);
- Branding was not successful, and although there were clear attempts to create a common brand of CENTROPE, a sort of common CENTROPE identity among local citizens has not been developed.

### **Findings and recommendations for Priority Area III**

In European countries, impetus for CBC often comes from heads of municipalities or chiefs of administration but the final decisions are usually in the hands of collective decision-making bodies, such as local councils. Obviously, CBC initiatives do not occur unexpectedly. Vice versa, they are often based on a long-term building of various inter-connections, especially in the field of culture and local economy. From this point of view, various cultural events or economic cross-border activities are important drivers for further deepening the CBC.

If CBC is settled between municipalities, a creation of no additional body is necessary. However, CBC is rarely organised as a pure cross-border IMC (e.g., twin cities). Instead, CBC usually facilitates collaboration among higher number of various entities, i.e., besides municipalities, also private companies, schools or universities, or NGOs. If CBC initiative leads to establishing some official bodies, all these entities are represented there.

Cross- or trans-sectoral co-operation is a challenge, and accountability should be developed at the local level in particular. At this point, the European experience shows that the most essential determinant of accountability is a mutual trust. And since CBC is about building inter-connections not only between entities coming from different national legal systems but also entities coming from sectors with different aims and internal administrative and managerial cultures, all relevant steps done in this field should contribute to the mentioned trust.

Besides the abovementioned challenge, there are other limitations or challenges that must be faced by those who take part in CBC, especially daily operation challenges (based, for example, on language differences), legal regulation differences and necessity to reconcile various administrative as well as political elements, and also various explicit or implicit expectations that individual partners bring in CBC initiatives.

Generally, in European countries, the state has one crucial task in regard to the CBC, namely to check whether CBC agreements are in compliance with a constitution and other relevant laws. However, instead of a central government, local state authorities (e.g., various district/county/provincial/regional offices) are usually entitled to perform this task.

The state commonly provides a technical support in many European countries in this field. In addition to this technical support, for example, in the EU countries, the state usually facilitates

and enhances CBC through various financial incentives (e.g. grant schemes that support CBC). However, these incentives are very often used for all entities involved in CBC, not only for municipalities.

The local experience presented during the on-site visit of the peer review team shows that even simple initiatives to co-operate in the border regions at the Armenian-Georgian border line are rather complicated and has already brought questionable outcomes.

### **Recommendations for Priority Area III**

It is recommended to Armenian authorities to keep CBC rules as flexible as possible for local entities with a clear control function played by the state authorities. The appendix to the European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities ([Madrid Outline Convention CETS 106](#)) contains [outline agreements and model contracts](#) which could serve as a source of inspiration.

The state should be ready to provide a relevant technical support because CBC is not an easy task, and there are many challenges.

The state should also consider a possibility to offer a set of specific financial incentives in order to support CBC as such and assist to maintain those CBC initiatives that might bring a desired additional value.

Protocol No. 3 to the European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities concerning Euroregional Co-operation Groupings (ECGs) ([CETS 206](#)) can be applicable in Armenia, if the process of ratification is completed, but before application of its provisions it is necessary to take into consideration that the current geo-political situation is suitable just for co-operation initiatives between entities from Armenia and Georgia.

## General and concluding remarks

Representatives of the municipalities (communities) in Armenia still do not have a clear vision in terms of the future steps, and although they have been involved in reform processes, they still have unanswered questions. During the on-site visit of the peer review team, the invited representatives of the municipalities stressed their concerns in regard to further development of decentralisation in the country, and they explicitly call for specific tools that will ensure their financial autonomy. Local stakeholders have consistently highlighted the importance of advancing fiscal decentralisation, particularly through the development of instruments that strengthen local financial autonomy. This perspective echoes Recommendation [CM/Rec\(2005\)1](#) of the Committee of Ministers, which calls on member States to guarantee local authorities a system of financing their expenditure that is based on the principle that “local authorities’ resources and their allocation must be consistent with the requirement that they discharge their responsibilities effectively”. Furthermore, the Recommendation points out (3) to the necessity to review “the legal and administrative framework for local taxation and grants to local authorities so as to encourage the improvement of services and their efficient provision, and the legal and administrative framework for financial equalisation, so as to ensure fairness and solidarity between authorities”.

A lack of such autonomy leads them to ideas that IMC can be effectively used for various entrepreneurial activities and significant increase of their own incomes. At this point, however, it is important to stress that IMC initiatives can play a positive role in supporting LED, achieving economies of scale and mutual enrichment (e.g. as a basis for the transfer of good practice), but it cannot replace necessary policy instruments ensuring real financial autonomy. And these instruments should be adopted at the state level.

Whilst IMC will be necessary in some cases (e.g., in the cases that include very small/unmerged municipalities), in some other cases IMC will be a desired tool in terms of LED, and from this perspective the state should remove as many possible obstacles or constraints to the development of such co-operation as possible. However, fully-fledged LED require a broader co-operation that includes not only municipalities or other public authorities, but also private companies, NGOs, universities, etc. At this point it is important to understand also expectations of Armenian municipalities' representatives. During the on-site visit they repeatedly pointed out that they understood LED as a policy field that contain tools bringing additional revenues for municipalities. However, as previously explained LED cannot be considered as the sole lever to enhance the financial capacities of communities.

In this regard, the appendix to Recommendation [CM/Rec\(2005\)1](#) of the Committee of Ministers provides detailed guidelines aimed at strengthening the financial autonomy of local and regional authorities. The guidelines call on central governments to ensure that local authorities have access to adequate own resources — including the right to set rates within legal limits — and to provide non-earmarked transfers that respect their autonomy. Fair and

transparent equalisation mechanisms are also recommended while preserving the discretion local authorities have in determining expenditure priorities.

The guidelines in appendix to [CM/Rec\(2005\)1](#) define the financial capacity of local authorities as the maximum revenue an authority can raise under standard conditions set at the national level. This capacity is described as a combination of different elements: “ As a rule, financial capacity largely depends on the tax (fiscal) capacity. There are, however, authorities that can raise very substantial non-fiscal resources (revenue from property, in particular land and buildings, economic activities or financial investments); their financial capacity takes account of this.”

In this context, while a well-functioning local economic development (LED) system can generate income and opportunities, it also requires initial investments and resource mobilisation. It further relies on strategic management and strong coordination capacities to be effectively implemented.

A long-term multi-sectoral co-operation within the context of both IMC and CBC arrangements at the local level is possible. However, it will likely require not only technical support but also certain economic (e.g., direct financial subsidies) incentives from the state in Armenia. Neither IMC nor CBC should depend solely on international assistance, and therefore the state should develop a system of motivating incentives that would reward the best practices of both IMC and CBC and encourage those who will follow those practices.

The previous experience with IMC through inter-municipal unions has been explained by the invited representatives. They have stressed that there had very limited own resources to run such co-operation units. At the same time, some of them even pointed out that there was a general fear to do something that is not allowed from the legal point of view. It opens a clear question in regard to implementation phase of this measure, and related information as well as training campaign. If the state wants to continue in implementation of this measure, or if it wants to use similar measures in the future, it is necessary to invest much intensively in the information campaign and training of relevant representatives (elected or non-elected) of municipalities who should put such measures in practice.

In addition to a national legal regulation, comprehensive guidelines or manuals on how to develop both IMC and CBC with a new law will be helpful at the local level. Moreover, the current Law on Inter-Community Unions will have to be revised after the adoption of the new Law on Local Self-Government. Here, it is important to stress that the Centre of Expertise for Multilevel Governance Toolkits contain useful examples and guidance when it comes to the development of IMC agreements and CBC.

## Recommendations

Taking the international experience, the on-site findings, and also the expertise of the invited experts into account, the current friendly policy advice contains the following main recommendations:

- 1) A list of competences might be reconsidered in the future in order to provide Armenian municipalities higher degree of autonomy in terms of their activities. However, based on international experience, this should be done together with adopting relevant fiscal decentralisation measures to ensure that local authorities have enough resources to discharge their responsibilities ([CM Rec\(2005\)1](#)).
- 2) If entrepreneurial activities to generate additional local revenues are allowed for municipalities in Armenia, two essential rules should be followed: these activities should have no or limited implication to local budgets, and they should have no or limited implication to local market competition<sup>3</sup>. Additional economic activities of municipalities should not become a burden that limits their local capacities to address citizens' social needs, and they should not destroy a healthy local market competition.
- 3) If one looks closer at the recent experience with IMC in Armenia, it is recommended to use a set of legally pre-defined forms of IMC but leave some room for flexible solutions, too. The flexibility is essential for further meaningful LED initiatives based on cross-sectoral co-operation. From this point of view, the current Law on Inter-Community Unions will have to be revised.
- 4) It is also recommended to follow the subsidiarity principle within IMC and let municipalities in Armenia decide in what fields they would like to co-operate. The state can offer guidelines and in co-operation with the national general association of municipalities it can facilitate further dissemination of good practice in this field. Moreover, financial incentives for active municipalities with good performance results might be also considered by the state in Armenia.
- 5) Ensuring democratic accountability of IMC arrangements is another important determinant of its sustainability as well as ensuring openness and clarity in line with [CM/Rec\(2022\)2](#). Therefore, IMC initiatives between amalgamated municipalities in Armenia should still respect the principles of good democratic governance, and in this context, steering and/or co-ordination bodies of IMC initiatives should be covered by an appropriate accountability framework.
- 6) If there is an intention to achieve or support LED through IMC, it must be understood that any IMC form is an enabler rather than a real driver of LED. IMC initiatives can

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<sup>3</sup> [CM/Rec \(2004\)1](#) Par.66 “Establishing or managing commercial enterprises and participation in such enterprises should be limited, in principle, to public service activities or to activities in which there is no competitive market or activities that are aimed at economic promotion (such as housing developments, creation of business parks and start-up activities, promotion of employment, etc.).”

help to create a pro-development environment, but strategies, managerial approach, capability to build cross-sectoral partnerships, and initial investments (including financial inputs) are crucial at this point.

- 7) [Protocol No. 3 to the European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities concerning Euroregional Co-operation Groupings \(ECGs\)](#) can be applicable in Armenia. However, before application of its provisions it is necessary to take into consideration that the current geo-political situation is suitable just for co-operation initiatives between entities from Armenia and Georgia.
- 8) In light of the geo-political context, Armenian authorities should take inspiration from the models and templates in appendix to the [European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities](#) in developing a flexible framework for CBC with due regard to the jurisdiction provided for by domestic legislation in respect of international relations and general policy and to any rules of control or supervision to which territorial communities or authorities may be subject.

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[Recommendation Rec\(2018\)4 of the Committee of Ministers to member States on the participation of citizens in local public life.](#)

[Recommendation Rec\(2019\)3 of the Committee of Ministers to member states on the supervision of local authorities activities.](#)

[Recommendation Rec\(2023\)5 of the Committee of Ministers on the principles of good democratic governance.](#)

## Annex I: Agenda of the Meetings

| PROGRAMME                   |                                                                                                                                                                             |                                                                                                                                                                                                                   |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| WEDNESDAY, 19 FEBRUARY 2025 |                                                                                                                                                                             |                                                                                                                                                                                                                   |
| TIME                        | MEETING                                                                                                                                                                     | PARTICIPANTS                                                                                                                                                                                                      |
| 10.30 – 11.30               | -- Introductory Peer Review Team meeting<br>-- Briefing with Council of Europe team                                                                                         | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> </ul>                                                                                                          |
| 11.30 – 12.30               | Introductory meeting with representatives of the RoA Ministry of Territorial Administration and Infrastructure                                                              | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• Ministry of Territorial Administration and Infrastructure</li> </ul>                                     |
| 12.30 – 14.00               | Lunch                                                                                                                                                                       |                                                                                                                                                                                                                   |
| 14.00 – 16.40               | Working-level meeting ( <i>in-person format</i> )                                                                                                                           | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• Ministry of Territorial Administration and Infrastructure</li> <li>• Local government experts</li> </ul> |
| 16.40 – 18.00               | Internal meeting of the peers                                                                                                                                               | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> </ul>                                                                                                          |
| THURSDAY, 20 FEBRUARY 2025  |                                                                                                                                                                             |                                                                                                                                                                                                                   |
| TIME                        | MEETING                                                                                                                                                                     | PARTICIPANTS                                                                                                                                                                                                      |
| 9.00 – 10.00                | Departure from Yerevan to Vedi community                                                                                                                                    |                                                                                                                                                                                                                   |
| 10.30 – 11.30               | Meeting with representatives from Vedi and Artashat communities, Ararat region; Yeghegnadzor and Areni communities, Vayots dzor region                                      | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• Local communities</li> </ul>                                                                             |
| 11.30 – 12.30               | Departure from Vedi community to Yerevan                                                                                                                                    |                                                                                                                                                                                                                   |
| 12.30 – 14.30               | Lunch                                                                                                                                                                       |                                                                                                                                                                                                                   |
| 15.00 – 16.30               | Discussion with stakeholders: International donor-funded projects on local government in Armenia: GIZ, SALAR, UNDP, EU Delegation in Armenia ( <i>individual meetings</i> ) | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• International donor-funded projects on local government in Armenia</li> </ul>                            |
| 16.30 – 18.00               | Exchanges among the peers                                                                                                                                                   | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> </ul>                                                                                                          |

## FRIDAY, 21 FEBRUARY 2025

| TIME          | MEETING                                                                                                                                   | PARTICIPANTS                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9.30 – 10.30  | Discussion with Stakeholders: RoA Ministry of Finance                                                                                     | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• Ministry of Finance</li> </ul>                                                                                                                                                                                                                                                                                                               |
| 10.30 – 11.45 | Discussion with Stakeholders: local government associations and local government CSOs ( <i>individual meetings</i> )                      | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• Local government associations</li> <li>• Local government CSOs</li> </ul>                                                                                                                                                                                                                                                                    |
| 11.45 – 12.45 | Internal meeting of the peers: preparation of the main findings                                                                           | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> </ul>                                                                                                                                                                                                                                                                                                                                              |
| 12.45 – 14.00 | Lunch                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 14.00 – 16.00 | Round Table Discussion on Inter-Municipal Co-operation, Cross-Border Co-operation for Local Economic Development ( <i>hybrid format</i> ) | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• Ministry of Territorial Administration and Infrastructure</li> <li>• Local government experts</li> <li>• International donor-funded projects on local government in Armenia</li> <li>• International and local consultants</li> <li>• Local government associations</li> <li>• Local government CSOs</li> <li>• Local communities</li> </ul> |
| 16.00 – 17.00 | Internal meeting of the peers: preparation of the main findings                                                                           | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> </ul>                                                                                                                                                                                                                                                                                                                                              |
| 17.00 – 18.00 | Presentation of the primary findings to representatives of the RoA Ministry of Territorial Administration and Infrastructure              | <ul style="list-style-type: none"> <li>• Peers</li> <li>• International and local consultants</li> <li>• Ministry of Territorial Administration and Infrastructure</li> </ul>                                                                                                                                                                                                                                                                         |

## Annex II: Institutions and organisations met by the Peer Review Team

| Date       | Institutions and organisations                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 19/02/2025 | Introductory meeting: <ul style="list-style-type: none"> <li>Ministry of Territorial Administration and Infrastructure</li> </ul>                                                                                                                                                                                                                                                                                                                                                                         |
| 19/02/2025 | Working-level meeting: <ul style="list-style-type: none"> <li>Ministry of Territorial Administration and Infrastructure</li> <li>Standing Committee on Territorial Administration, Local Self-Government, Agriculture and Environment Protection, National Assembly</li> <li>Austrian Development Co-operation Office in Yerevan</li> <li>Union of Communities of Armenia</li> <li>Local government experts</li> </ul>                                                                                    |
| 20/02/2025 | Meeting with local communities in Vedi, Ararat region: <ul style="list-style-type: none"> <li>Mayor, Deputy Mayor and representatives from Vedi Municipality, Ararat region</li> <li>Representatives from Artashat Municipality, Ararat region</li> <li>Representatives from Areni Municipality, Vayots dzor region</li> <li>Representatives from Yeghegnadzor Municipality, Vayots dzor region</li> <li>Austrian Development Co-operation Office in Yerevan</li> <li>Local government experts</li> </ul> |
| 20/02/2025 | Discussions with Stakeholders: International donor-funded projects on local government in Armenia: <ul style="list-style-type: none"> <li>GIZ (Good Governance for Local Development South Caucasus project)</li> <li>SALAR (Support to Decentralisation and Local Self-Government Reforms in Armenia)</li> <li>UNDP (Gender Equality)</li> <li>EU Delegation in Armenia</li> </ul>                                                                                                                       |
| 21/02/2025 | Discussion with Stakeholders: <ul style="list-style-type: none"> <li>RoA Ministry of Finance</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                   |
| 21/02/2025 | Discussion with Stakeholders: local government associations and CSOs: <ul style="list-style-type: none"> <li>Union of Communities of Armenia</li> <li>Communities Finance Officers Association</li> <li>WomenNet NGO</li> <li>Urban Foundation for Sustainable Development</li> <li>Information Systems Development and Training Centre NGO</li> </ul>                                                                                                                                                    |

|            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 21/02/2025 | <p>Round Table Discussion on <i>Inter-Municipal Co-operation, Cross-Border Co-operation for Local Economic Development</i>:</p> <ul style="list-style-type: none"> <li>• International and local consultants</li> <li>• Ministry of Territorial Administration and Infrastructure</li> <li>• Standing Committee on Territorial Administration, Local Self-Government, Agriculture and Environment Protection, National Assembly</li> <li>• Austrian Development Co-operation Office in Yerevan</li> <li>• UNDP</li> <li>• Union of Communities of Armenia</li> <li>• Communities Finance Officers Association</li> <li>• Urban Foundation for Sustainable Development</li> <li>• Municipalities</li> <li>• Local government experts</li> </ul> |
| 21/02/2025 | <p>Presentation of the primary findings of the peer review:</p> <ul style="list-style-type: none"> <li>• Ministry of Territorial Administration and Infrastructure</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

## **Annex III: Peer Review Team**

**Véronique BERTHOLLE**

**France**

**(Peer)**

**Deputy Mayor of the city of Strasbourg, in charge of European, International and Cross-border relations**

From 2003 to the end of 2021, Véronique Bertholle worked for several European associations and NGOs (creation and management of European projects, network co-ordination, representation and relations with institutional and financial partners, etc.).

In December 2021, she was elected to the Strasbourg City Council.

Véronique Bertholle is also a member of the Congress of Local and Regional Authorities of the Council of Europe and, since 2022, has been the Deputy Thematic Spokesperson for Youth, appointed by the Bureau of the Congress.

She studied at the Grenoble Institute of Political Studies from 1997 to 2001.

**Ignacio GIL OSES**

**Spain**

**(Peer)**

**Senior Adviser at the International Relations Department of the Ministry of Territorial Policy and Democratic Memory**

Prior to joining the Ministry of Territorial Policy and Democratic Memory, Ignacio Gil Oses worked as a Senior Adviser at the Cabinet of the Secretary of State for Social Rights, handling legal issues related to proposed regulations on social services, disability, and the aged population.

He also served as a Senior adviser at the Ministry of Justice. Before that role, he was a senior advisor at the Spanish Authority for Gender Violence.

He began his career as a public official at the Spanish Patent and Trademark Office, specialising in legal matters.

He holds a Degree in Law and a Degree in Philosophy, both from the University of Valencia, as well as a Master's degree in Intellectual Property Law (ML/LLM) from the University of Alicante.

**Jovan KNEZEVIC**  
**The Republic of Serbia**  
**(Peer)**

**Acting Assistant Minister in the Sector for Registers and Local Self-Government in the Ministry of Public Administration and Local Self-Government**

From 2013 to 2019, Jovan Knezevic served as an Assistant for Legal and Economic Affairs to the Secretary of Health of the City of Belgrade. From 2019 to 2020, he participated in the creation of the company “25. maj - Milan Gale Muskatirovic” d.o.o., in which he was the first General Director.

He served as a local Ombudsman of the City Municipality of Stari Grad from 2020 to 2024, first as the President of the Assembly of the Ombudsman Association of Serbia, and then as the President of the Supervisory Board.

He was appointed Acting Assistant Minister in the Sector for Registers and Local Self-Government in the Ministry of Public Administration and Local Self-Government at the Government session on 12 September 2024.

He is the author of several professional and scientific works in the field of administrative law and human rights protection.

Jovan Knezevic graduated from the Faculty of Law, University of Belgrade, where he obtained a Master of Laws, degree in International Law.

**Tânia Isabel RAMOS MOURATO JERÓNIMO**

**Portugal**  
**(Peer)**

**Deputy Director of the General Directorate of Local Authorities and Head of the Department for Co-operation and Financial Affairs**

Tânia Isabel Ramos Mourato Jerónimo is a member of CDDEM Working group on civil society participation. She has held leadership positions, including Head of the Division of Human Resources, Training, and Projects, and Head of the Division of Inter-municipal Public Policies at the Inter-municipal Community of the West Region.

She worked as a Senior Technician in the Local Finance Division of the Directorate-General for Local Authorities and in the Strategic Co-operation Office at the Inter-municipal Community of the West Region. She served as an Adviser to the Mayor at the Municipality of Arruda dos Vinhos and as a Senior Technician at the Office of Promotion and Regional Co-operation at the Association of Municipalities of the West Region.

Tânia Isabel Ramos Mourato Jerónimo holds a Bachelor's and Master's Degree in Political Science from the Higher Institute of Social and Political Sciences of the Technical University of Lisbon, a Post-Graduation in Public Finance Management from ISCTE - University Institute of Lisbon, and a Post-Graduation in Municipal Management from the Higher Institute of Languages and Administration (ISLA).

**Nikola TARBUK**  
**The Republic of Serbia**  
**(Peer)**

**Secretary General of the Standing Conference of Towns and Municipalities**

Nikola Tarbuk has been a key figure in major local government reforms in Serbia, focusing on financing, property rights, legislation, inter-municipal co-operation, and public administration. He played an active role in drafting and implementing the Public Administration Reform Strategies (2016–2030) and the Local Government System Reform Programme (2021–2025).

He has extensive experience in managing international and donor-funded projects.

He is also a member of several national bodies, including the Public Administration Reform Council, the Emergency Situations Headquarters, the Council for the Professional Development of Local Civil Servants, and the Commission for Local Government Financing.

He has over 20 years of experience in local government affairs. Since 2006, he has been with the Standing Conference of Towns and Municipalities, as Assistant Secretary-General for Advocacy (2008–2017), Deputy Secretary-General (2017–2021), and, since December 2021, Secretary-General.

Nikola Tarbuk holds a degree in Political Science from the University of Belgrade.

**Daniel KLIMOVSKY**  
**The Slovak Republic**  
**(Leading Consultant)**

**Associate Professor of Political Science at the Department of Political Science,  
Comenius University in Bratislava**

Besides regular lecturing, Daniel Klimovsky delivered guest lectures at numerous universities abroad, and he was the Programme Director of a series of international summer schools entitled “Policy Making and Politics at the Local Level”. As a University Professor, he was awarded by the Alena Brunovska Award 2021 for Teaching Excellence in Public Administration, and in 2024 his course “Policy Making in Slovakia” was awarded by the ENLIGHT university alliance as “The ENLIGHT Course of the Year”.

He has been a member of the Group of Independent Experts of the Congress of Local and Regional Authorities, Council of Europe since 2013. Moreover, he was both a member of the Committee for Public Administration Reform in Slovakia (2021-2023) and a member of the Board of Advisers of the Prime Minister of the Slovak Republic for public administration and regional development (2021-2023).

He completed his Master studies in the field of public administration (University of P. J. Šafárik, Slovak Republic) and PhD study in the field of political theory (Comenius University, Slovak Republic).

**Armine TUKHIKYAN**  
**Republic of Armenia**  
**(Local Consultant)**

Armine Tukhikyan is a development specialist with more than twenty years of experience. Her areas of expertise are local democracy, empowerment of consolidated communities, citizen engagement in local decision making in light of territorial-administrative reforms, promotion of good governance principles, integrity and anti-corruption practices at local level. She has extensive experience as national and international consultant, closely works both with central government bodies and municipalities throughout Armenia.

She has long and successful track record of supporting CSOs/CBOs throughout Armenia fostering their management, advocacy, citizen engagement and fundraising skills.

Along serving as a board member of the Urban Foundation for Sustainable Development, she is regularly engaged as a consultant in various donor-funded programmes around governance, strategic planning, and other fields.

She holds diplomas from Department of Psychology and Department of Romance and Germanic Languages, Yerevan State University, Armenia.