

Improving Financial Management with a Municipal Treasury

Karakol, Kyrgyzstan

Background

In Kyrgyzstan, as elsewhere in Central Asia, oblast (regional) treasuries maintain control of all cities' finances. Taxes collected at the city level are deposited in the bank account of the oblast treasury. The oblast maintains control of the cash before and after the city's share of revenue has been decided at annual budget time. This arrangement can lead to shortfalls and cash flow problems for cities. Moreover, the absence of audit controls and transparency in oblast treasury functions may breed mistrust between city and oblast officials. The system of oblast control of revenue was also incompatible with other financial management reforms that were being implemented in the City of Karakol (population 62,000). Those reforms provided for a general fund into which all municipal revenues would be paid, and a budget classification system against which all expenditures would be prioritized and recorded.

Innovation

In early 1996, the Mayor of Karakol began lobbying for authority to establish a separate city treasury as a means of alleviating problems arising from oblast control of the city's finances. The Deputy Oblast Governor was receptive to the idea due in part to observations he made of local government finance operations in the United States. The Mayor and Deputy Oblast Governor lobbied for approximately four months for oblast approval for establishment of a separate municipal treasury for Karakol. The Ministry of Finance approved the plan in August 1996. Karakol also established a communications link between its tax department and the oblast treasury to allow finance professionals to monitor how much cash was on deposit at the oblast.

Results

Establishment of a municipal treasury will allow Karakol's tax authorities to deposit the city's tax revenues directly at the city level, so city financial planners and management will have easy access to current information about the city's cash flow capabilities. Audit controls will allow oblast officials to monitor the city treasury to ensure that revenues have been properly apportioned. Implementation of the municipal treasury will mean an end to the inefficient practice of having to petition the oblast for money to fund municipal operations. The ability to control municipal cash flow is seen as an important step towards increasing local autonomy.

Summary

To alleviate problems arising from oblast control of city finances, the City of Karakol lobbied for authority to establish a separate city treasury. In August 1996 the Ministry of Finance approved the plan, which is seen as an important step toward local autonomy.

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