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## Local Government in Armenia: Reforms with an Uncertain Outcome

By Katharina Hoffmann, St. Gallen, and Arman Melkonyan, Yerevan

### Abstract

In 2015 Armenia's government is pushing local government reforms in an effort to strengthen the country's lowest level of government, the communities (*hamaynkner*). The ambition is to merge small communities into larger and, in theory, administratively more viable units. Although the Armenian government has yet to define core legal aspects of the consolidation reform, on May 17, 2015, it nevertheless launched referenda on the consolidation of selected communities in three Armenian regions. The majority of the communities have accepted the consolidation plans, but concerns prevail that this reform will have negative effects on the communities' financial resources and power. It remains uncertain whether the reform will strengthen or distort decentralization. However, if the reform does not come with substantial infrastructural investments, the greater geographical distance between the people and their local government bodies may result in a substantial loss of trust in the latter.

### Local Government Status Quo

Local government in Armenia is ailing and it is hard to find a proper remedy. Legacies of Soviet rule are in play. The country struggles with persisting patterns of centralized government that strongly rely on personalized networks while limiting the reach of formal institutions.

Starting in 1996, the government introduced reforms of the centralized Soviet system, seeking to build an administrative-territorial division that allows for local government. 37 Soviet-era units (*raions*) have been reorganised into 10 regions (*marzer*). Yerevan comprises an 11<sup>th</sup> region. The regions are divided into 915 communities. While the regions are governed by the state administration and implement central government policies, communities are subject to local government. Formally they are governed by a directly elected community chief and a community council. The authority of local government is, however, constrained by inertia in the central government and reluctance to shift real responsibilities to local government. This situation is apparent in the formal setting but also in informal power relations.

In terms of formal capacities, local governments enjoy responsibilities over a wide range of issues, including protection of civil rights, communal development, public utilities, education, social services and environment protection. Only in minor areas, such as road repair in communities, pre-school education, waste removal or cemetery maintenance, though, is real responsibility exclusively in the hands of local governments and not shared with regional or central counterparts. In practice, the central government has a number of control mechanisms at hand. It exerts influence via the regional government, the head of which is appointed by the central government. The governor of a region has the right to dismiss locally elected officials and must approve all decisions taken by local governments. Formally there are some mechanisms for local government

to protest against state decisions. In practice, however, dependencies on the central government, most significantly in financial matters, put local governments in a vulnerable position.

Financial dependencies manifest themselves in several ways. Communities generally face strong budget constraints that make it difficult for them to fulfill their obligations. Small communities, in particular, are barely able to cover more than their administrative expenses. The share of the community budgets in the total government spending is not more than 6–7%. Local governments themselves are eligible to collect land and property tax, fees for selected communal services, and may also sell property. The share of land and property tax in the communities' budget does not, however, exceed 25% of the budget of all communities. Fees for communal services are rather low, if collected at all, given the level of poverty in the regions. Revenues from property sales are negligible. This leaves local governments without any substantial independent resources and makes them dependent on state budget transfers. The latter cover about 50% of the communities' budgets (Tumanyan 2012). The state is miserly when it comes to redistributing taxes and keeps subsidies low. The only additional governmental funding a community may obtain is financial support for specific communal projects. Access to this fund depends on the regional governor. Given the weak financial situation of the communities, this mechanism strengthens the influence of regional governors on community chiefs.

The formal and financial constraints on local governments reinforce the importance of personalized networks among the different levels of government. Successful empowerment of individual local governments often rests on strong informal ties to agents in the regional and central government. These connections increase the importance of the community head and provide incen-

tives to marginalize the community council. Thus the pervasive informal system weakens a body that ideally should function as an additional intersection between residents and local government. Accordingly, local government reform so far has been able to break through the persisting patterns of centralized rule only to a limited degree.

### **The Promise of Community Consolidation**

Against this background, domestic non-state and international actors have lobbied for wide-ranging local government reforms, including the enlargement of communities. The government has indeed picked up the issues of community consolidation and has, with the support of external actors, designed a reform pilot for 14 clusters of communities. Referring to experiences in other European countries, the reformers are promising to increase the communities' budgets and to create a more efficient administration. It is, however, questionable if the reform, as designed for the current pilot, can fulfill this promise. The two key issues that raise doubts are the difficult financial situation and the still undefined mechanism for an appropriate representation of the merged settlements.

There is a consensus on the need for community consolidation in Armenia, especially given the fact that only 23% of the 915 communities have more than 300 inhabitants. Some communities have no more than 25 inhabitants but have the same obligations as other communities. Experts and local government agents are concerned, though, about the legal framework and implementation of the reform. The overall aim is to merge the existing 915 communities into 235. The settlements will be governed by community centers, which are agglomerations with more than 3,000 inhabitants. The current consolidation plans include settlements that have a distance of 20km to the center; in some cases even more. With the argument to increase efficiency, the development of key infrastructure will concentrate on the community centers. This may affect public administration, nurseries and medical support. There is, however, much uncertainty regarding the legal framework that defines the power and competences of the community settlements.

An often discussed, but not yet convincingly answered, question concerns the financial implications of the consolidation process. The reform will not be accompanied by changes in the legal regulation of community budgets or additional state-transfers. The current budget of the settlements will be merged into one community budget. The only financial benefit will stem from centralizing core administrative units. This will indeed reduce the number of civil servants in a community reasonably, as so far each community, regardless of its size, is supposed to have a similar, often over-complex

administrative structure. The monetary surplus created by this measure will, however, be limited due to the low salaries in Armenia's public administration. The government did not provide any calculation for the expected benefits. Some officials speak, however, about 50–60% of the communal budgets. Other sources suggest a total surplus of 24,000 USD per annum which equals only 37% of the overall budget. The government promises a reallocation of this money into infrastructure projects, thereby raising hopes in the settlements given the poor conditions of, for example, drinking water supply, irrigation systems and streets. The community enlargements create an additional priority. Substantial improvement is needed in most pilot cases to ensure appropriate mobility between settlements and the new community centers. The lack of transport and poor roads mean that distances of 20–30km will make it difficult for settlement residents to travel to the future community centers. A surplus of 24,000 USD from the administration reform will hardly allow the communities to satisfy infrastructural needs in and between settlements. These logistical problems raise questions about how the merged settlements may keep a voice in the communal budget decisions and ensure that their infrastructural needs will be considered.

### **Challenges of Consolidation**

The answers given so far to this question are inconclusive. Expert interviews with representatives of the federal and local governments conducted after the referendum reflect uncertainty regarding the representation of settlements in the community structures. Confirmed is that the settlements will not have a mayor or a council anymore. The population will directly elect the community council. It is not yet defined which mechanisms will ensure that all settlements have a representative with appropriate powers in this council. There will be a second representative of each settlement who will support the work of the community mayor and will be appointed by him. The competences of this representative are not yet clarified. In any case, the individual settlements are losing their direct connection to the regional governor.

In the light of these trend lines, a rather ambivalent picture emerges for the merged settlements. The main power of the residents will rest in the election of representatives to the community council; however, this mechanism hardly promises much leverage. On the one hand, the merged settlements will hardly have sufficient weight against the representatives from the community centers with more than 3,000 inhabitants. On the other hand, as mentioned before, the community council has little decision-making power and tends to be marginalized. A direct link to the community mayor appears to be more helpful.

However, the representatives' leverage will be rather limited given that s/he will be appointed by the community mayor. As we have already pointed out, access to resources strongly depends on the regional governors. The enlargement process will deprive the settlements of institutionalized opportunities to interact with regional governors. This will decrease their chances to lobby for their needs on the regional level through formal and informal mechanisms.

The consolidation reform also risks further weakening the anyways weak linkage between residents and local government bodies. Despite all limitations in its formal and de facto power, people tend to place more trust into local than central government institutions. A survey conducted in Armenia in the period 2009–2013 indicates decreasing trust in the president and increasing trust in local government. These attitudes reflect a genuine reticence towards state administration bodies inherited from Soviet experiences and the benefits of direct access to local government members (Babayan 2008). Often trust is placed in the current chief of community due to his/her personal characteristics and achievements than into the body as such (Margaryan 2011). It will require time and significant improvement in the mobility between settlements and the new community center to develop trust in local government bodies that are located far from the people they serve.

The results on the May 17 referenda draw a rather promising picture of the residents' trust in the reforms. Only 6 of 22 communities rejected the enlargement plans. In the Armenian context of vital dependencies between community chiefs and regional governors and the strong influence of community chiefs on the residents, these results should be treated with caution. The post-referendum debate appears to draw a more reliable picture by pointing to the undesirable features of the reform. The

lack of convincing suggestions as to how small settlements may ensure their ability to influence communal budget spending is a key element in the rather negative attitude. People expect little investment in small communities and outward migration triggered by the reduction of public administration staff in villages. In consequence, some critics claim that small settlements will cease to exist. Those in favor often refer to promises given by the government to engage in infrastructure development and poverty reduction measures, if the referendum is adopted. So far however, the government did not present any framework for such an investment programme.

### Conclusion

The effect of the consolidation reforms will depend on the government's readiness to take the concerns of the settlements into account by ensuring an appropriate and efficient representation of all settlements, providing sufficient financial means for the development of core infrastructures beyond the community center and encouraging intercommunal mobility between residents. The three referenda are only one milestone in a process the course of which is not yet set. The government may well take it as a chance to trim local government structures in a move towards more centralization. Yerevan can also see the vote as a chance to substantially enhance local governments by creating conditions that indeed allow communities to fulfill their obligations. In any case, the government faces few constraints in proceeding according to its reform plans as it is not obliged to respect the referendum results, a fact that is increasingly often mentioned when talk turns to the communities that rejected their consolidation. In the final analysis, the referenda are little more a PR strategy. It remains to be seen who is the core audience, the population or external actors who are eager to see reforms.

#### *About the Authors*

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Arman Melkonyan is currently working as a data analyst at the Youth Studies Institute in Armenia and as a data manager at the Center for Educational Research and Consulting. He is associated with the FP7 project ISSICEU.

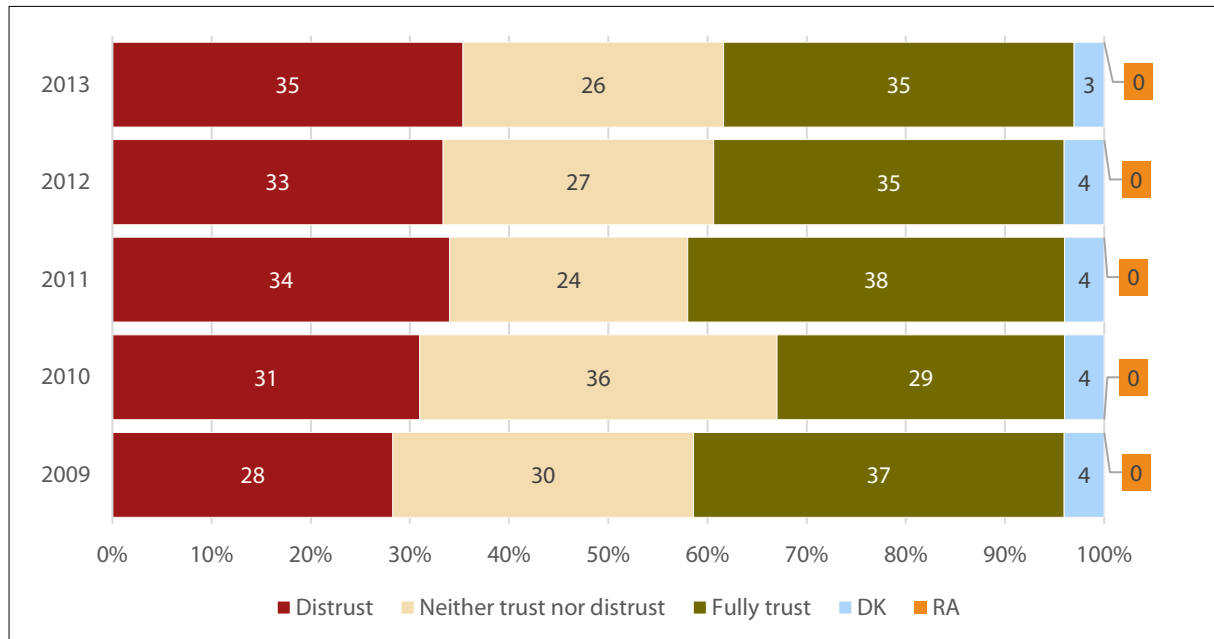
#### *Recommended Reading*

- Babayan, Babken V. (2008) Social Capital and Community Participation in Post-Soviet Armenia: Implications for Policy and Practice. *Europe-Asia Studies*, vol. 60, no. 8, 1299–1319.
- Margaryan, Tatevik (2011) Phenomena of Informal Relations in the System of Local Governance in Armenia. In V. Voronkov (Ed.), *Changing Identities: Armenia, Azerbaijan, Georgia*. Tbilisi: Heinrich Böll Stiftung South Caucasus.
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## OPINION POLL

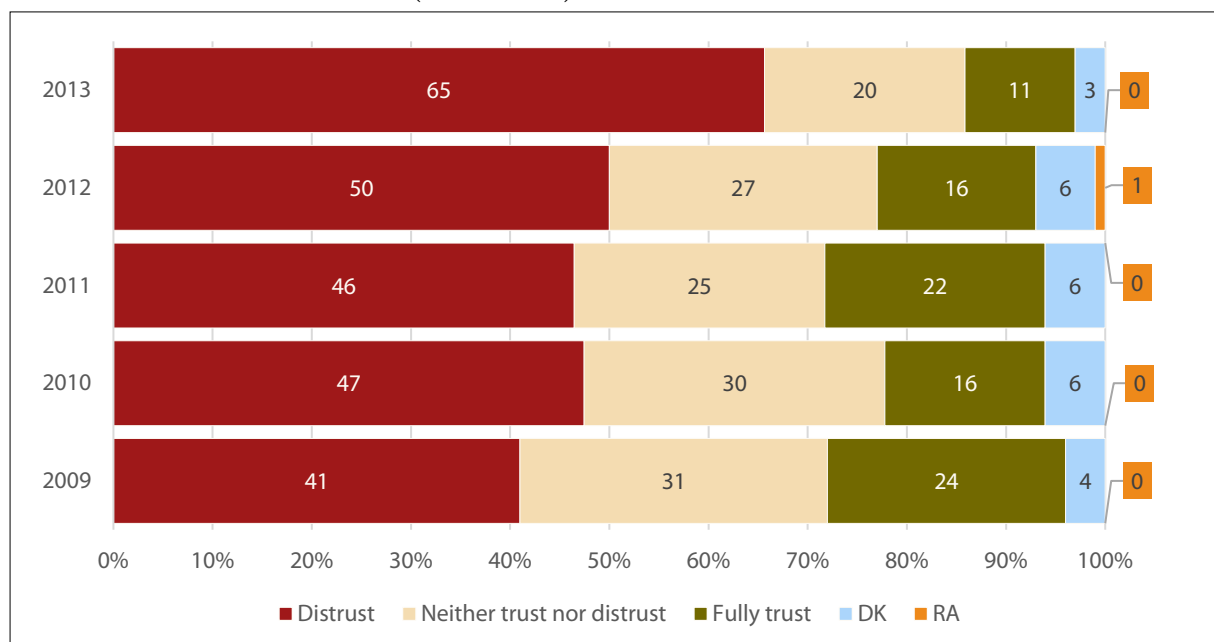
## Level of Trust Towards Different Political Institutions

Figure 1: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—Local Government (2009–2013)



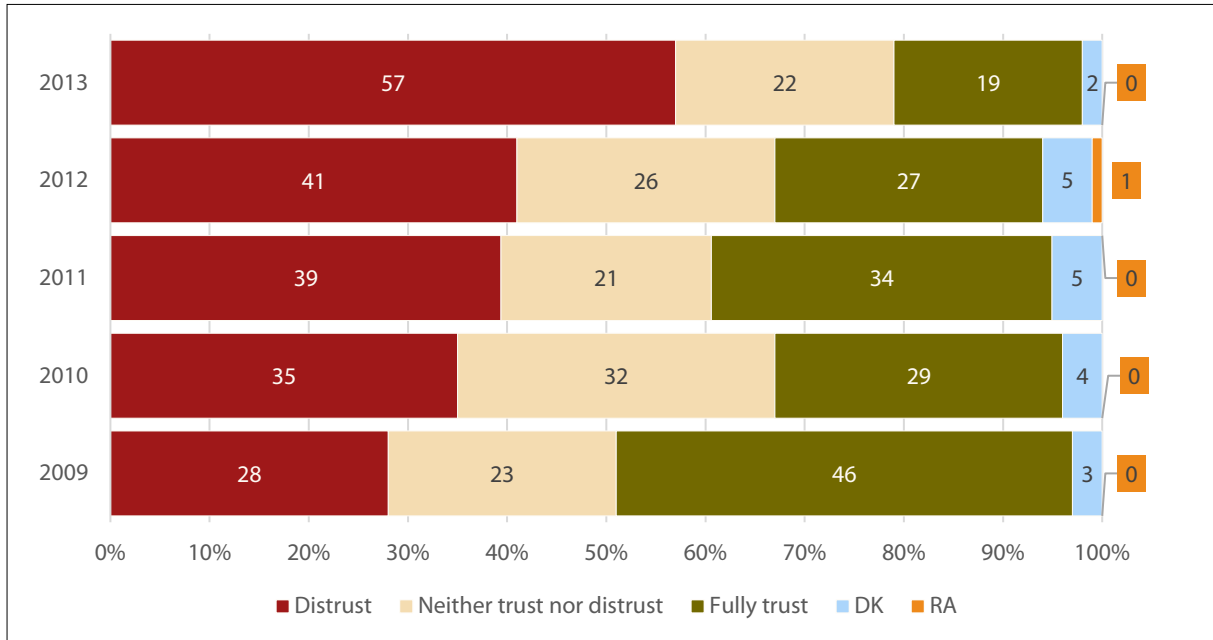
Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>

Figure 2: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—Parliament (2009–2013)



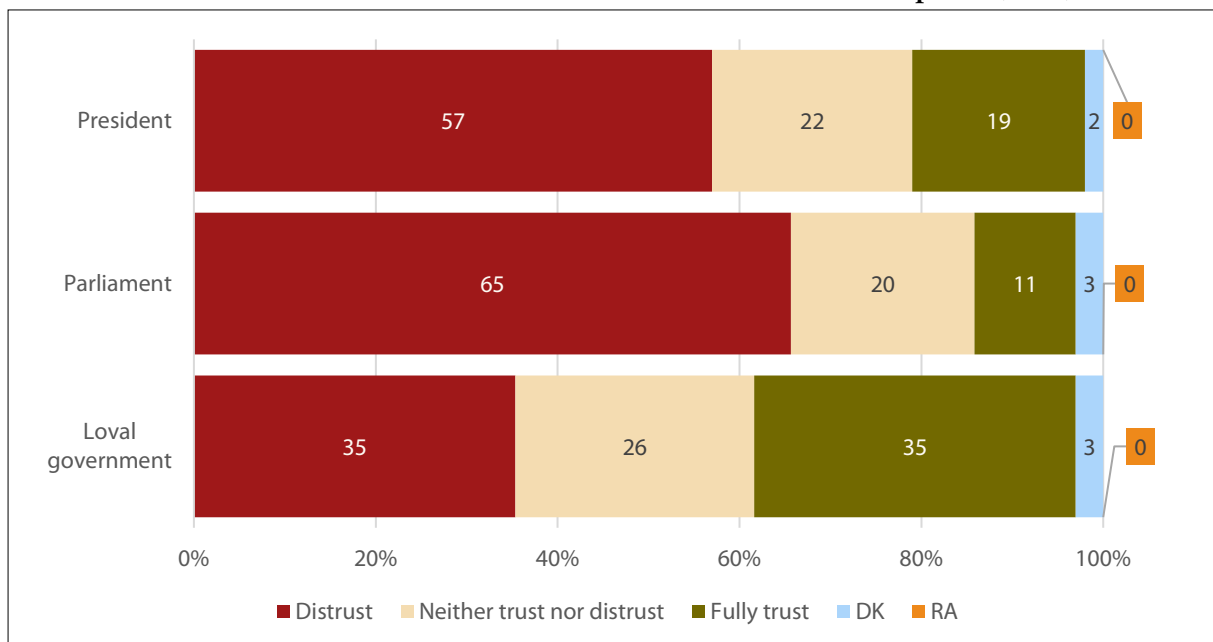
Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>

**Figure 3: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—the President (2009–2013)**



Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>

**Figure 4: Please Assess Your Level of Trust Toward Each of Social Institutions and Political Unions—Local Government, Parliament, and President Compared (2013)**



Source: Caucasus Barometer time-series dataset Armenia, <<http://caucasusbarometer.org/en/datasets/>>