

AMERICAN UNIVERSITY OF ARMENIA

CROSSROADS ON THE PATH TO LOCAL SELF-GOVERNMENT DEVELOPMENT:  
INCENTIVES AND PERSPECTIVES FOR POLICY REFORMS

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## LIST OF ABBREVIATIONS

LSG – Local self-government

ASSR – Armenian Soviet Socialist Republic

GTZ - Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Society for Technical Cooperation)

TACIS - Technical Assistance for the Commonwealth of Independent States

NGO – Non-governmental organization

ICU – Inter-community union

UNDP – United Nations Development Program

## Abstract

The study was conducted as an internship project carried out for USAID funded Local Government Program Phase Three implemented by Research Triangle Institute (RTI) in Armenia. The objective of this research study is to present and analyze possible policy options for initiation of new reforms in the area of local self-governance. The author identifies basic challenges that local self-government in Armenia faces at present. For the purpose of finding a viable solution to these challenges, the author chooses the method of survey research. Questionnaire and in-depth interviews are conducted with government officials, NGO representatives, 13 community associations and 135 community leaders. Analysis of opinions and preferences of different stakeholders as well as the current legislation of the Republic of Armenia and other materials reveal a practical and feasible policy direction that accommodates the interests of all parties involved.

The policy direction satisfying these interests the most is identified to be the voluntary inter-community union formation. In view of some issues and challenges connected with voluntary approach, the author also suggests several recommendations that central government could put into effect to ensure success of the reform. The author hopes that this research study will increase the knowledge of all the parties about preferences that each of them hold and will support cooperation among them.

## Introduction

Post-Soviet countries, like Armenia, when moving away from the old political regime, came to a decisive point of making an important decision on what type of territorial administration division and local self-government system they should adopt for future development. The reform decisions concerning local government that Armenia made in the early years of its independence reflected liberal values and principles of democracy. These reforms had significant importance and were central in the first attempts of creating a new system of public administration and initiating devolution of highly centralized powers. They ensured certain progress on the way to decentralizing the country and devolving certain powers to local governments. However, in the course of time, further strengthening and development of the system requires a more flexible approach. Armenia reached a certain point when further reforms are needed in order to address new issues and overcome new challenges. At present, the increased number of small communities that exercise self-governance has created fragmentation in the local government system. Many small and weak communities are incapable of adequately implementing their responsibilities, and increased inequalities between communities have produced impediments for regional development.

For several years now, there has been much discussion in the country about new reforms and potential restructuring of local self-government (hereafter LSG) system. Yet, these initiatives have not been transformed into a systematic, clearly defined long-term vision and national strategy for LSG development. The objective of this study is to suggest a policy reform direction and practical steps that will overcome present-day challenges of fragmentation, and of inadequate financial and institutional capacity of communities that hinder strengthening and further development of local government system in Armenia. The



study is conducted with the purpose of finding the most practical option that will consider differences of opinions between major parties and will accommodate the interests of all.

The paper is comprised of three main chapters. The first chapter describes current situation of LSG in Armenia. It identifies the major challenges that communities experience at present and highlights main points that should be considered in the future reform process. The second chapter puts forth the hypothesis and research questions of the study, describes the methodology used for the research and presents quantitative and qualitative findings. The third chapter of the paper proceeds with analysis of major findings and detailed discussion of potential policy options. At the end of the third chapter the paper suggests steps to be taken by the central government to ensure success of the proposed policy.

## 1. CHAPTER I

### 1.1. General Overview

During Communist regime Armenia was governed by a highly centralized multi-level administrative system that covered the whole territory of the Soviet Union. This system was comprised of federal government, central governments of 15 republics, a number of autonomies and several tiers of local government, depending on the size of republics. The territorial and administrative structure of local government in Armenia consisted of two tiers. There were 37 rural and 10 urban administrative regions (*rayons*). These regions comprised 22 cities of republican subordination, five cities of regional subordination, 31 boroughs and 479 rural councils<sup>1</sup> in Armenian Soviet Socialist Republic (ASSR) (Ռազարյան, 2006). Local authorities, the council and executive committee, were given a wide range of responsibilities to fulfill, however, they were deprived of independence in decision-making. Local government was simply the extension of state administration and was strongly controlled by Communist party (Gimishyan, 2004).

Declaration of independence in 1991 set grounds for development of a new political, socio-economic and administrative system in the Republic of Armenia. Nevertheless, the implementation of large-scale reforms in local self-government was delayed till 1995 due to economic and energy crisis of transitional period, border blockade from Azerbaijan and Turkey, and the war over Nagorno Karabakh. The Constitution of the Republic of Armenia adopted on July 5, 1995 introduced the institution of self-governance at community (*hamaynk*)<sup>2</sup> level, thus promoting democratic principles of governance. The Constitution also specified the basic territorial and administrative units of Republic of Armenia, those being

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<sup>1</sup> The data is true for the year 1987.

<sup>2</sup> "A community comprises the populace of one or more localities. A community shall be a legal entity, have the right to property and other economic rights" (Constitution, 2005, Article 104.1).

marzes and communities. The Law on Territorial and Administrative Division adopted soon after the Constitution in 1995 defined the borders of administrative units. The Law on Local Self-Government adopted in 1996, then replaced by a new law in 2002, expanded the provisions of the Constitution by defining the powers and responsibilities of local authorities, as well as setting up processes and procedures for governance.

In 2001 Armenia ratified the European Charter of Local Self-Government. The principles of this Charter facilitated further development of legislation on LSG in Armenia. Currently, there are more than 40 laws, numerous presidential, government decrees, Prime Minister's decisions and other legal acts that support LSG in Armenia, among those are the Law on Budgetary System of Armenia, the Law on Financial Equalization, the Law on Local Referenda, and Land Code of the Republic of Armenia (Ghazaryan, 2004). With respect to the legislation of Armenia, the European Charter of LSG supersedes all other laws, after the Constitution.

Currently, there are 10 marzes<sup>3</sup> (regions) and 1000 localities<sup>4</sup> combined in 925 communities that operate in the territory of Armenia (Tumanyan, 2006b). Out of 925 communities 48 are urban, 865 rural and 12 Yerevan district municipalities. Marzes in Armenia are given the responsibility to execute state governance. According to the Constitution and legislation regional governors (*marzpet*): (1) implement territorial policies of the government, (2) coordinate activities of executive branch representatives in regions, (3) carry out oversight of local self-government activities, and (4) serve as a communication channel between state administration and LSG (Tumanyan, 2005).

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<sup>3</sup> The capital city of Armenia – Yerevan, had a status of a separate marz according to Constitution of 1995. After the amendments made to Constitution in 2005 its status was changed into a community (Article 108). The peculiarities of local self-government and formation of local self-government bodies in the City of Yerevan is going to be defined by the law.

<sup>4</sup> Locality is understood as a populated area representing either a village or a town.

Armenia has a single-tier local government system. Local self-governance is executed at community level. All communities enjoy the same status in exercising their powers and responsibilities.

Since 1999 a number of communities established associations to consolidate their efforts and address some of most challenging issues jointly. International donor organizations, like GTZ and TACIS, have had an enormous input in the formation of some of these community associations. Although many of the associations insist that the initiative for establishing community cooperation came from the communities themselves, they were encouraged by financial and technical support provided by these organizations. Since there was no law regulating cooperation between communities at the time, when these associations were created, they registered as non-governmental organizations (NGO).

Later in 2002, the new law on LSG introduced the notion of inter-community unions (ICUs) and set the basic institutional framework for ICUs. According to this law, ICUs serve the purpose of promoting cooperation between communities to jointly solve some of their problems and to reduce expenses. Encouraged by the experience of existing community associations and broader opportunities that the new legislation provided for this kind of cooperation, a number of communities initiated community cooperation on their own. Although, these groups were allowed to use the expression "intercommunity union" in the title of their association, the Ministry of Justice continued to register them as NGOs. Main underlying reason for retention of NGO status was the gaps and imperfections of the legislation. In fact the draft law on LSG, developed in 2002 and submitted to the National Assembly by the Government, initially contained a whole chapter on ICUs. However, during subsequent hearings in the National Assembly this chapter was removed with suggestions to initiate a separate law on inter-community unions. This was not done until now. Presently,

the lack of a comprehensive law on ICUs creates impediments for development of this institution.

## 1.2. Current Problems and Issues of Local Self-Government in Armenia

The new political and economic system adopted by Armenia required major reforms in the process of democratization. The first steps towards this goal were the restructuring of territorial and administrative system and establishment of LSG system. These reforms, though adequate for the period, had not been consistent, and currently need re-consideration and novel approaches. Evolution toward more democratic and participatory forms of government is hindered by the absence of new initiatives and political will to introduce further reforms in LSG system.

Current state of affairs endorses inefficiencies within the system. At present Armenia experiences high fragmentation within the local government system. Each community irrespective of its size has the same status and the same powers to fulfill, however, financial and institutional capacities to implement their responsibilities greatly differ. As a result of these differences inequalities between communities have increased, which hinder regional strategy for development and hold back the future goal for decentralization. Another negative effect of fragmentation is the incapacity of many communities to provide quality services. In fact, local government is not capable to function as well-established, strong and autonomous authority, which creates grounds for retention of traditional strong control by state administration.

Further sub-chapters discuss in greater detail the problems and issues that LSG experiences today. The study identifies them as consequences of five major factors: (1)

consolidation of old regions into marzes; (2) creation of a single-tier LSG system; (3) granting equal status of local self-governance to all communities; (4) insufficient financial resources, and (5) continuation of the old Soviet practices of exercising excessive state control over local governments.

### *1.2.1. Regional Consolidation*

Uneven development of regions was the primary concern of the Armenian government, which was addressed by collapsing several of previous regions into a larger administrative unit of a regional character named "Marz". As a result of consolidation, former 37 rural and 10 urban regions were combined into 10 marzes. According to Davit Tumanyan (2003), the major driving force for making changes in the Soviet territorial administrative system was the objective to alleviate the increasing gap of socio-economic development between different regions. The new system of market economy could not coexist with old centralized system of permanent redistribution of resources. There was a strong need to create an administrative structure that would consider geographic and economic differences to make the necessary resources (infrastructure, transportation routs, etc.) available. However, the creation of larger regions was inadequate to ensure equal development of all communities within a marz. Long distances from marz center, poor road conditions and the absence of unified transportation infrastructure made the access to resources and information more difficult for remote mountainous villages (Թումանյան, 2003). Division into marzes did not consider well the boundaries of economic regions and perspectives of regional development and regional economic policy. In addition, historical and traditional diversity of different regions brought about contradictions and created obstacles for applying a common regional approach.

### *1.2.2. Single-Tier Local Self-Government System*

Consolidation of regions was not accompanied with the creation of a second tier of self-government. Each community exercises self-governance separately. This has resulted in a highly fragmented local government system that lacks a regional strategy for development, and is inadequate for implementation of large-scale projects requiring regional coordination. Correspondence principle is not complied with: local governments sometimes provide services that spill beyond their boundaries, therefore these should be rendered by provincial governments, which do not exist. As a consequence of increased divide between communities, infrastructure and services established during Soviet period to serve the common needs of several localities are not available for joint use. For example, utilization of a music school by a neighboring community member incurs costs for the community, where the music school is located.

### *1.2.3. Equal Status to All Communities*

Primary efforts to introduce democratic principles of governance resulted in the creation of a great number of different size communities that were granted equal status of LSG. The administrative and economic considerations for effectiveness were given secondary importance. Some larger communities were able to accept their responsibilities and exercise their powers quite successfully. Yet, the majority of small and weak communities encountered enormous obstacles and proved to be unable to implement some of their duties and address essential issues relating to public service delivery. Based on the latest census data, in 2001 there were 481 communities in Armenia with a population of less than 1,000 people, 207 were between 1,001-2,000, 204 had a population between 2,001-10,000 and 27

communities had as much as 10,001 to 1,000,000 and more (Tumanyan, 2006b). Many of the small communities not only lack the necessary infrastructure, machinery and resources, but have low human resource capacity. Lack of professionalism of local government staff affects the quality of budget implementation and hinders the development process (Darbinyan et al. 2004).

Low capacity of local authorities to fulfill their powers is not a problem per se. It has also created obstacles in the further development of self-government system. Expansion of the scope of powers of local authorities would bring local government closer to the population, thus ensuring better accessibility in addressing social problems of population and executing timely improvements in the quality of services rendered (Terteryan, 2004). However, political decentralization process in Armenia has come to a dead end. Current limitation in institutional and financial capacities makes the devolution of new powers almost impossible.

#### *1.2.4. Insufficient Financing*

Part of the reason why communities fail to implement some of their mandatory and delegated powers is the scarcity of resources. Local government responsibilities are not commensurate with their financial resources. Devolution of powers to local governments was not accompanied with provision of adequate financial means. According to 2003 data, average budget size of communities was 24.5mln drams, and budgets of communities with population less than 500 people were under 5mln drams (Gimishyan, 2004). Comparison of the planned budget with the actual implementation reveals that local governments fulfill on average only 40-50% of their powers (Gimishyan, 2004). Besides, municipal budget



execution level is low also because revenue collection rates are extremely low and collection enforcement is quite poor.

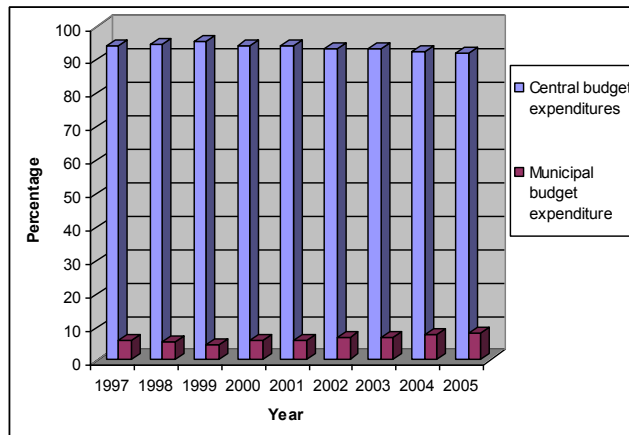
It is important here to point out also another issue: the unmatched proportion of municipal budget expenditure in consolidated public expenditure, as a general measure of decentralization in the country. Within nine years municipal budget expenditures on average have constituted 6.3% of consolidated government expenditures (see Figure 1). Although there has been a constant increase in municipal expenditure size reaching 7.9% in 2005, it is still very low, if compared with many European countries, where this indicator reaches 25-30% (Tumanyan, 2006b). In Switzerland, for example, communal expenditures account for the 30% of total state expenditures (Kübler et al. 2002). Local government expenditure size in Armenia could be increased, if certain shares of taxes, other than land and property tax<sup>5</sup>, such as shares of profit tax, value added tax, income tax and excise tax<sup>6</sup>, could be allocated to local government. Although the acting Law on LSG in Armenia incorporates the principle of tax sharing for income tax, profit tax and environmental fees, it does not clearly define the exact shares to be allocated (Law on the Budgetary System, 1997). The law stipulates that the National Assembly determines these shares in annual budget laws. In fact, this provision creates a loophole for bypassing the legislation, hence so far no shares of the above mentioned taxes have been allocated to local government budgets.

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<sup>5</sup> Property and land taxes are revenues of local government budget.

<sup>6</sup> In many European countries local governments receive shares of profit tax, value added tax, income tax and excise tax as a part of their own revenue.

**Figure 1. Shares of municipal and state budgets in consolidated budget**



Fragmented nature of local government system creates obstacles for efficient use of the scarce financial resources. Small size of communities does not allow the utilization of economies of scale and contributes to the waste of finances. Also, huge amount of resources are spent for the purpose of maintaining the local government apparatus. As a result, the lion's share of municipal budgets, especially in smaller communities, is spent on salaries, while the major problems remain unresolved. For example, the total number of municipal servants in 1998 was 6,425 people. Compensation of all these employees in the same year was reported 3,281.8 mln drams. Whereas, total municipal budget expenditure (including investments and capital repairs) constituted 11,458.1 mln drams (Tumanyan, 2006, b).

Communities encounter financial problems also because central government does not adequately meet its financial obligations to local governments. The Constitution of Armenia states that delegated powers<sup>7</sup> should be fully financed (2005, Article 106). However, as of 2005, very little financial allocation has been made for implementation of delegated powers. The state has mainly financed for the functions of civil status registration and for veterinary services. Delegation of powers to lower levels of government allows improved access of population to services and utilization of effectiveness, yet as a result of inadequate financing from state government most of these powers are not fulfilled by the majority of local

<sup>7</sup> In order to ensure effective exercise of the state powers the law may envisage the delegation of these powers to the local self-government bodies (Constitution, 2005, Article 105).

governments. A few larger communities that do partially perform their delegated powers, finance the performance mostly from their own-source revenues (Թուվանյան, 2003). In these circumstances not only the quality of performance of delegated powers suffers, but also the communities are left with less resources for implementation of their mandatory responsibilities.

#### *1.2.5. Tradition of State Control over Local Governments*

For more than ten years now Armenia has adopted decentralized and democratic principles of governance, nonetheless centralized and authoritarian approach in the relations between central and LSG has still preserved. The principle reason is the low degree of autonomy of local governments due to flaws in the legislation and lack of financial independence. Responsibilities and powers of regional governors are not stipulated clearly in the law, consequently this ambiguity creates grounds for unjustified intervention in the affairs of LSG. Real power of governors far exceeds the scope of responsibilities given them by the law. As Edgar Ghazaryan (2004) explains, regional governors merely serve as a link in providing methodological guidelines for preparation of executive budgets and their subsequent execution after adoption by Councils. This simply has the purpose of notifying "major provisions and requirements of the coming year" and does not imply intervention in decision-making (p.277). However, such interference is quite common, especially in the case of small and weak communities. Financial scarcity does not allow small communities to address vital issues in their community, especially when it comes to development of their infrastructures, which is always a high-ticket item. In such cases the state may execute direct involvement by allocating additional resources for some projects or alternatively channeling assistance of international organization for the solution of the problem. Nonetheless, the

logic of decision-making for provision of additional subsidies and grants is not transparent and lacks clarity. It is highly at the discretion of central government to favor one or the other community. Evaluation for eligibility is based on subjective approaches: personal perceptions, personalities and political affiliation of mayors, which creates conditions for multipurpose influence (Tumanyan, 2006a).

Sometimes, the state and regional authorities confuse equalization grants (state transfers to be used by the community at their own discretion) with payments for financing delegated powers. Hence, they force communities to perform certain tasks outside their immediate scope of responsibilities. Existing legislation provides opportunity to protest in the court against state and regional officials for the abuse of power and violation of their rights, however, this right is almost never exercised. Ghazaryan (2004) notices that lack of trust towards the court system, as well as embarrassment of a rural leader to sue a ministry or the government are the major reasons for abstaining from this right.

## 2. CHAPTER II

### 2.1. Hypothesis and Research Questions

The problem of local government fragmentation is not unique to Armenia. Many post-Communist countries followed the same path of disintegrating forcefully amalgamated localities and ended up having a large number of small and weak municipalities that are incapable of providing adequate public services and fulfilling other responsibilities. Some of these countries, like Latvia and Estonia, returned to the policy of amalgamation (Vanags et al, 2002). Others, like Slovakia, Hungary, and the Czech Republic, addressed the issue of fragmentation by reestablishing second tier of local government. Yet, most of these countries

also applied the principle of municipal cooperation. Slovakia, Hungary, Czech Republic, Latvia and many others enacted a law that encourages municipalities to form associations, unions and consortia for the purpose of improving public service provision (Sopóci et al, 2006; Fekete et al, 2002; Illner, 2002; Vanags et al, 2002). Having in mind the experience of other countries, as well as the actual issues, characteristics and specificities of LSG in Armenia the current research puts forth the following hypothesis and research questions.

### *2.1.1. Hypothesis*

Formation of voluntary intercommunity unions is the most practical and feasible option for eliminating the issue of fragmentation and strengthening the capacity of local government in Armenia.

### *2.1.2. Research Questions*

The research questions that aim to provide better understanding of the topic and answer different parts of the hypothesis are put together into logical groups to enable the reader easily comprehend provided data.

#### ***Willingness, interests and motivations of different stakeholders***

1. Are government and NGOs interested to pursue reforms of amalgamation or establishment of a second tier of local government?
2. Are communities, community associations and central government interested and willing to establish ICUs?

3. Is resistance of communities to become a member of an ICU related to contradicting expectations of different stakeholders in terms of what ICUs should achieve for them?
4. Is there a correlation between communities that are members of community associations and their willingness to become a member of an ICU?
5. Is there a correlation between effective functioning of community associations and the willingness of communities to be involved in inter-community unions, in comparison with those communities that have a negative experience with the community association they are involved in?
6. Is there a correlation between the size of communities and their willingness to be involved in ICUs?
7. Is there a correlation between knowledge of communities about ICUs and their willingness to become a member?

***Different approaches to ICU formation***

8. Which approach of forming ICUs – voluntary, compulsory or voluntary with some mandatory elements, is preferred by different stakeholders?
9. Is there a correlation between the size of communities and their preferred approach to voluntary or compulsory formation of ICUs?
10. Which powers, according to different stakeholders, should be delegated to ICUs?

***Financing of ICU***

11. What are the possible sources of finance that can increase efficiency and quality of municipal services?

***Community preferences to size, administrative center location, and leadership structure for ICU***

12. What is community preferred size for ICUs?

13. What is community preferred structure of the governing body for ICUs?
14. Where do the communities prefer to locate the administrative centers of ICUs?

## 2.2. Methodology

Several methods have been used in this research design. First, a cross sectional survey design is used to do a quantitative analysis of LSG opinions and approaches towards ICU formation. This survey is conducted in all marzes of Armenia. A sample of 150 communities was selected from 913 communities<sup>8</sup> in 10 marzes of Armenia. Sampling unit represents the local government leader of the community. Communities were selected purposefully to include communities that are a member of a community association; communities that are a member of "Inter-Community Union – Community Association"<sup>9</sup>; and communities that are not a part of any type of community cooperation. The data was collected through self-administered questionnaires. A questionnaire of 9 measures was constructed, which asked questions about their willingness to be involved in ICUs, their knowledge about the institution of ICUs, whether voluntary or compulsory principle should be used in the formation process, powers and responsibilities delegated to ICUs and financial sources for implementing them, government structure and the optimal size for ICUs, and the criteria for choosing ICU administrative center location. Before conducting interviews, the questionnaire was pre-tested in order to find its shortcomings and make corrections. The

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<sup>8</sup> The survey was conducted outside of Yerevan city and did not include 12 Yerevan district communities.

<sup>9</sup> Some community associations consider themselves as inter-community unions, however, based on the analysis of their activities and responsibilities, they can be classified as community associations having a NGO status. Therefore, hereafter they will be referred to as community association.

response rate of the study was calculated to be 90 percent<sup>10</sup>. All data from the completed questionnaire was recoded and analyzed using SPSS.

Utilizing in-depth interview method, another cross sectional survey is conducted to do a qualitative analysis of opinions and approaches of functioning community associations, government officials and representatives of non-governmental organizations. All selected respondents from non-governmental organizations, professional associations and an international donor organization (UN)<sup>11</sup>, have had an enormous input in the development process of local government-system. They participated in the preparation of laws dealing with LSG system, provided expert opinion on possible development directions, assisted in implementation of different projects aimed at increasing the capacity of LSG, and performed other activities. Since non-governmental organizations are in close contact and cooperation with government, their opinions quite often coincide in most of the issues. Therefore, in the paper their opinion is combined and presented together. In cases, when government and NGO opinions diverge, they are presented accordingly.

Chief executive officers or presidents of 13 out of 20 community associations were interviewed. Selection of these respondents was conducted purposefully to include the two type of community associations, mentioned above. The list of government officials and NGO representatives and executive directors or presidents of community associations, interviewed for the study, is provided in Appendix A.

The questions asked during in-depth interviews were aimed at receiving the following information: incentives of community associations and government/NGOs in establishing ICUs, potentials for solving local government problems through amalgamation, establishment of ICUs, or formation of a second tier of LSG, obstacles for creating ICUs, voluntary or compulsory approach in ICU formation, sources of finance.

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<sup>10</sup> Refusal rate was 3.3 %, and additional 6.7% could not be reached.

<sup>11</sup> Hereafter, all these organizations will be referred to as NGO organizations.



Content analysis method is applied to analyze the legislation of Armenia and other relevant materials. This information is used in the discussion to analyze survey results and ensure conformity of provided policy recommendations with the Constitution and the Armenian legislation.

### 2.3. Findings

As the research comprises both quantitative and qualitative analysis, findings are presented in two sections. Section One provides findings from quantitative analysis of questionnaire interview with community leaders, and section Two provides findings from qualitative analysis of in-depth interviews with community associations, government officials and NGOs.

#### 2.3.1. *Section One - Quantitative Analysis*

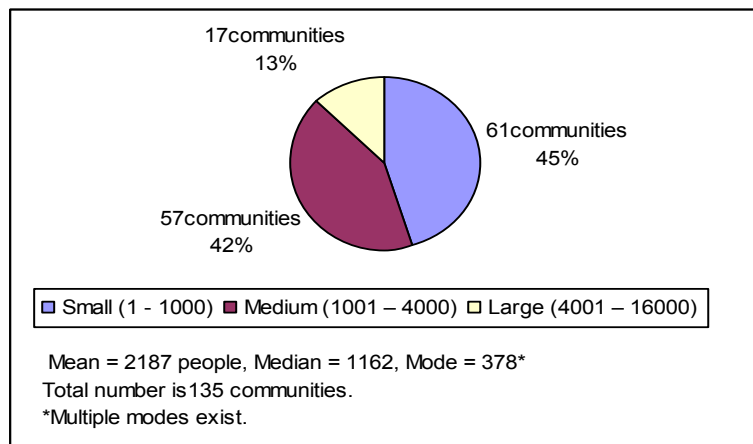
Continuous level data collected from community leaders through questionnaire survey is described in terms of the mean, frequencies, and percentages. Discrete level data is presented in terms of frequencies and percentages. The data presented below is based on the answers given by 135 respondents. In case the particular data is collected from communities less than 135, the exact number of interviewed communities is provided.

##### ***General Information about Interviewed Communities***

As basic information, the study classifies communities by towns and villages, by size and according to their membership in community associations. Out of 135 communities interviewed, 125 (92.6 percent) are villages and 10 (7.4 percent) are towns or cities (Table

1<sup>12</sup>). 61 communities (45.2 percent) interviewed have a population of 1-1000 classified as small size, 57 of the communities (42.2 percent) have a population of 1001-4000 classified as medium, and 17 of the communities (12.6 percent) have a population of 4001-16000 classified as large community (Figure 2). Average size of communities is 2187 people.

**Figure 2. Size of interviewed communities**



As major variables of the study membership in community associations is recorded as well as the attitude of communities towards the effectiveness of the activities these associations perform. 57.8 percent (78 communities) of interviewed 135 communities are a member of a community association, and 42.2 percent (57 communities) are not involved in such associations (Table 2). 35 (44.9 percent) of total 78 communities involved in community associations consider the activities of this organization as very effective, 27 (34.6 percent) consider it somewhat effective, 6 community leaders (7.7 percent) say they are somewhat ineffective and 8 community leaders (10.3 percent) express the opinion that their community association is completely ineffective (Table 3).

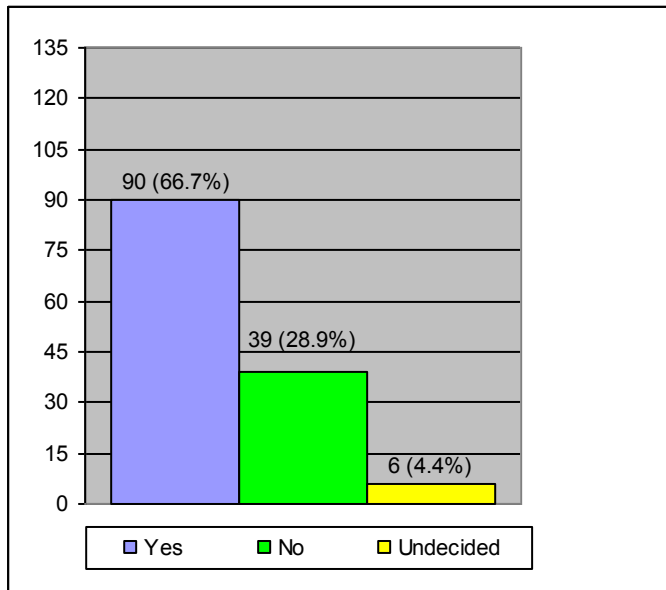
***Willingness, interests and motivations of communities***

Next, the willingness of communities to become a member of an ICU after the adoption of the Law on Inter-Community Unions is measured (Figure 3). Ninety out of 135 communities (66.7 percent) express the desire to become a member of an ICU, 39

<sup>12</sup> The tables are presented in Appendix B.

communities (28.9 percent) do not want to be involved in any ICU, six communities (4.4 percent) are undecided.

**Figure 3. Willingness of communities to become a member of an ICU**



An open ended question is asked about the reasons for either willing to become a member of an ICU or rejecting this membership. Various answers are given to these questions, also in some cases more than one reasons are provided. After combining the answers in groups the following results are achieved. Out of the 90 community leaders, who expressed willingness to become a member of an ICU, only 78 respondents give explanation for their willingness. Thirty six respondents answer that this entity will assist them in solving common problems of communities jointly, nine respondents mention that it will increase cooperation and allow exchange of experience, seven respondents stat that ICUs will increase effectiveness and efficiency of implemented activities, nine communities think ICUs will allow them to save resources, decrease expenses, receive additional financing from government and make more money available for investment projects. Five communities think ICUs can promote development of the whole LSG system, and will assist them to become strong and independent. Finally, six respondents express willingness to be involved

in an ICU because of a very successful experience they have with their community association.

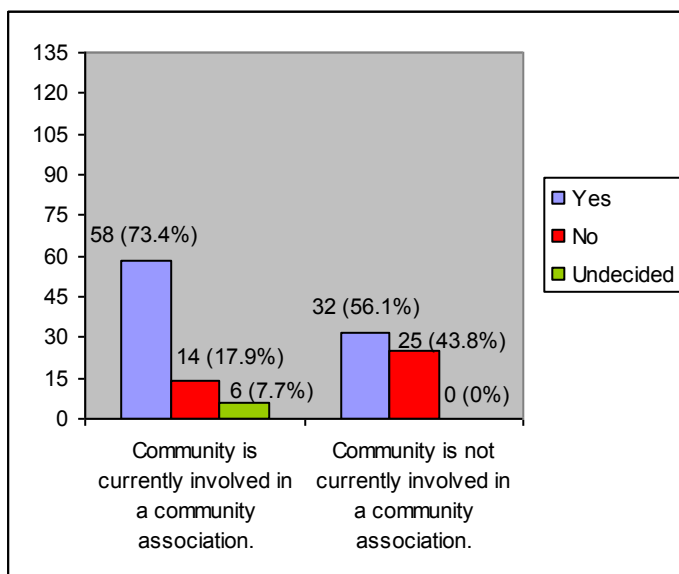
Out of the 39 community leaders, who do not want to be involved in any ICU, 33 respondents explain the reasons. Provided explanations are several in number and significantly vary. Although, many of them are combined in groups, there are some that do not fit into any group. Seven respondents explain that their community is not ready yet: the community is weak and poor, they have low living standards, and lots of problems, also the society is not ready psychologically, therefore it is still early for getting involved in an ICU. Six communities confuse formation of ICUs with amalgamation: those that are large in size explain that large communities do not need to be amalgamated, they have enough resources and infrastructure to be self-sufficient, and that only those having smaller population size should be involved. Smaller size communities explain that local governments are necessary to function in smaller communities to protect interests of community members, otherwise these localities will be neglected and will disappear. Also, many of them have unique identity and well-established traditions which will be lost. Five community leaders say that ICUs will bring additional difficulties with management. Five communities say that ICUs will require additional expenses because of inequality of resources between different size communities: neighboring communities are small and weak, and larger ones have to think about how to handle their own problems. Three respondents believe that cooperation will never work in Armenia, as there is self-interest involved, and communities will never stand on equal footing. The rest of the eight respondents give diverse answers, some of which are: previous failed experience of a community association; ineffectiveness; and limitation of community power.

Only 45 communities are asked the question "which option - amalgamation, ICU formation, none of them or both of them, could help to further develop LSG system in

Armenia". Thirteen respondents (28.9 percent) say that amalgamation is a better solution, 31 communities (68.9 percent) answer that ICUs are more preferable and only one respondent (2.2 percent) answers that none of them can be a solution. The analysis reveals that the size of communities has no correlation with choosing between the answer of amalgamation or ICUs (Table 4).

The willingness of community leaders to become a member of an ICU is measured in relation with their present membership status in any community association. To analyze two types of discrete level data Chi-square Cross tabulation test is run. Out of 78 communities that are members of community associations 58 (74.4 percent) express a willingness to be involved in an ICU, 14 (17.9 percent) reject it and six (7.7 percent) are undecided. From total of 57 communities that are not a member of any community association 32 communities (56.1 percent) are willing to become a member of an ICU, whereas 25 (43.9 percent) do not have such willingness (see Figure 4). This difference is statistically significant (Pearson chi-square = 0.001).

**Figure 4. Correlation between the willingness of communities to become a member of an ICU and their present membership status**



The willingness of communities to become a member of an ICU is also analyzed in respect to the attitudes of community leaders towards the work performed by the community association they are involved in. Independent sample T-test is used to compare attitude means of the two groups. The average attitude mean of 58 respondents who want to become a member of an ICU is 1.69, and the average attitude mean of 14 respondents who do not want to become a member of an ICU is 3.00. 1 in this case stands for very effective, 2 for somewhat effective, 3 for somewhat ineffective and 4 for not effective at all. The difference between the two group means is statistically significant ( $p=0.000$ ).

Continuous level data on community size is analyzed with the discrete level data about the willingness of community leaders to become a member of an ICU. ANOVA test was run to determine whether there is difference between groups willing to become a member of an ICU and those rejecting such membership in terms of their mean size. Based on the test results 90 communities willing to become a member have an average size of 2114 people, and 39 communities not willing to become a member have an average population of 2521, and six communities that are undecided have an average population of 1096 people. This results show no statistical significance.

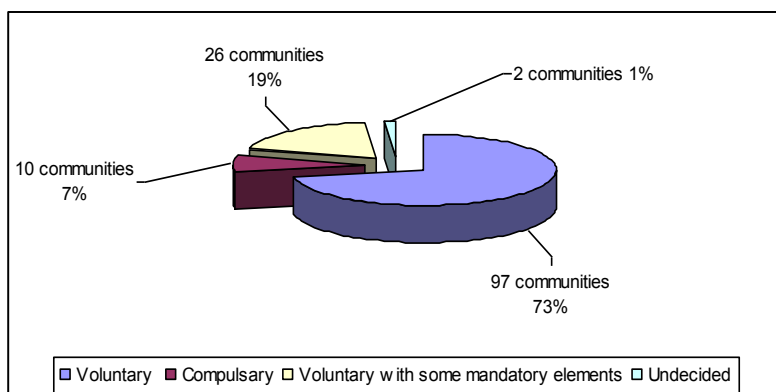
Knowledge of 135 community leaders about the status of ICUs is measured by asking five questions (Table 5). Question 1 - 29 community leaders (21.5 percent) think it is a second level of local self-government, 99 (73.3 percent) disagree, and seven communities (5.2 percent) are undecided. Question 2 - 22 community leaders (16.3 percent) consider ICU to be a private organization working on contractual bases, the majority 106 communities (78.5 percent) do not agree with this statement and seven (5.2 percent) are undecided. Question 3 - only nine (6.7) community leaders think it is a legal body that is a subject to public law. 119 community leaders (88.1 percent) do not view ICU as a body that is a subject to public law, and seven (5.2 percent) are undecided. Question 4 - 35 community leaders

(25.9 percent) think ICU is a non-governmental organization that assists LSG in implementation of their mandatory powers. 93 community leaders (68.9 percent) do not think it is an NGO and seven (5.2 percent) are undecided. Question 5 - 65 community leaders (48.1) consider ICUs to be equivalent to amalgamation, 62 community leaders (45.9 percent) disagree, and eight (5.4 percent) are undecided. As there was only a small number of communities that give the correct answer, the correlation between the knowledge of communities about ICUs and their willingness to become a member is not possible to measure.

***Different approaches to ICU formation***

The next variable measured is the approach of communities towards formation of ICUs based on the following principles: voluntary, compulsory, or voluntary with some mandatory elements. As presented in Figure 5, 97 out of 135 community leaders (71.9 percent) require the formation of ICUs on voluntary basis, 10 community leaders (7.4 percent) consider compulsory approach as a better solution, and 26 community leaders (19.3 percent) agree that some mandatory elements can be used together with voluntary approach, and two (1.5 percent) are undecided (see also Table 6).

**Figure 5. Community approaches to ICU formation**



The size of the communities is also analyzed in respect to the opinion of community leaders about voluntary and compulsory approach. ANOVA test is used with the continuous

level data on community size and discrete level data on three approaches. The three groups, namely those that prefer voluntary approach, compulsory approach or voluntary with mandatory elements approach, are compared in terms of the mean of their size. The average size of the group choosing voluntary approach (97 communities) is 2287 people, those choosing compulsory approach (10 communities) is 1134 and those choosing voluntary approach having some mandatory elements (26 communities) is 2276 people<sup>13</sup>. This difference is not statistically significant.

Concerning the issue of which powers can be given to ICUs, 73 out of 135 community leaders (54.1 percent) agree that some of the mandatory powers of LSG can be proscribed to ICUs, and 81 (60.0 percent) agree that powers delegated by state should be transferred onto ICUs (Table 7).

Out of the 73 community leaders who agree to transfer some of their mandatory powers to ICUs, only 41 respondents give examples. However, out of those 41 respondents only 17 bring concrete examples of powers that are of mandatory implementation for communities. Another nine of these respondents give very vague answers which cannot be categorized as mandatory, voluntary or delegated powers. The rest of 15 respondents mention different responsibilities that fall under the category of delegated and voluntary powers. Among the frequently mentioned mandatory responsibilities to be given to ICUs are: public utilities (including waste collection, drinking and irrigation water management (14 respondents), formation of community budgets (5 respondents), provision of legal services (4 respondents). Ten people express willingness to transfer the delegated functions of property and land tax collection to ICUs.

Out of the 81 communities who would like the transfer of delegated powers onto ICUs, only 33 provide example of which exact delegated powers they prefer to be given to ICUs.

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<sup>13</sup> Two communities are undecided.



As mentioned above, these examples are again a mix of delegated, mandatory and voluntary powers. Eleven respondents only provide answers that are purely delegated responsibilities. Seven answers do not fall under any category, and 14 respondents give answers that comprise powers other than delegated by central government. The most frequently mentioned delegated powers are: property and land tax collection (6 respondents), veterinary services (6 respondents), anti-epidemiological activities (3 respondents) and others.

### ***Financing of ICUs***

To the question “which sources of finance community leaders think should be transferred to ICUs” (Table 8), 110 community leaders (81.5 percent) agree that community should have an input, 18 (13.3 percent) disagree, 7 (5.2 percent) are undecided. Only 43 (31.9 percent) agree to allocate some money from local budget, 80 (59.3 percent) refuse to give up some shares of their land and property tax, and 12 (8.9 percent) are undecided. Seventy (51.9 percent) out of 110 communities agree to give shares of income tax, profit tax and environmental fees that according to law are assigned to local budgets, however till now never have been allocated. Fifty two communities (38.5 percent) do not agree to transfer these resources to ICUs, and 13 (9.6 percent) are undecided. Fifty nine community leaders (43.7 percent) are willing to make material investments, 25 (18.5 percent) disagree, and 51 (37.8 percent) are undecided.

Ninety four out of 135 community leaders (69.6 percent) think that mandatory powers of communities transferred to ICUs should be financed from state budget, only 11 (8.1 percent) do not agree that the state should pay for mandatory powers, and 30 (22.2 percent) are undecided. 86 community leaders (63.7 percent) think that subsidies should be given to ICUs, 12 (8.9 percent) disagree and 37 (27.4 percent) are undecided. Likewise 89 community leaders (65.9 percent) agree that ICUs should be financed by user fees and charges for services they provide to population, 11 (8.1 percent) disagree and 35 (25.9

percent) are undecided. Other financial sources for ICUs mentioned by respondents are: 10 % of the total national budget, donations, grants, and membership fees (8 respondents).

***Community preferences to size, administrative center location, and leadership structure for ICUs***

Ten out of 135 community leaders 10 (7.4 percent) think that the size of ICUs should be equivalent to the marz, 70 (51.9 percent) think it should be equivalent to the size of former Soviet regions (*rayons*), 43 (31.9 percent) think it should be smaller than former regions, eight community leaders (5.9 percent) give other answers, such as two or more neighboring communities depending on geographic location and the needs, four people (3 percent) are undecided (Table 10).

Concerning management of ICUs, 67 out of 135 community leaders (49.6 percent) think ICUs should have an executive body, 18 (13.3 percent) do not think it is necessary, and 50 (37.0 percent) are undecided. Instead, the majority, 124 out of 135 community leaders (91.9 percent), agree that ICUs should have a board, three community leaders (2.2 percent) do not want ICUs to be governed by a board and eight (5.9 percent) are undecided. Thirty three out of 124 above mentioned community leaders (26.6 percent) think the board should be formed by community leaders only, while 88 (71.0 percent) disagree, and three (2.4 percent are undecided). Forty six out of 124 community leaders (37.1 percent) think that not only the community leader but also one member of community council from each community should be represented in the board. Seventy five community leaders (60.5 percent) disagree with this option, and three (2.4 percent) are undecided. Thirty nine out of 124 community leaders (31.5 percent) think the board should consist of the community leaders and several community council members proportionate to the size of community. Eighty two (66.1 percent) do not accept this option and three (2.4 percent) are undecided (Table 9).

Community leaders suggest the following options as criteria for selection of the administrative center for ICUs (Table 11)

- The community having the largest population: 29 community leaders (21.5 percent) agree, 101 (74.8 percent) disagree, five (3.7 percent) are undecided.
- The community having the best geographic location, which makes the center accessible for other communities: 71 community leaders (52.6 percent) agreed, 60 (44.4 percent) disagreed, four (3.0 percent) are undecided.
- The community having most roads and infrastructure: 23 community leaders (17.0 percent) agreed, 108 (80.0 percent) disagreed, four (3.0 percent) are undecided.
- The community that was the previous regional center: 39 community leaders (28.9 percent) agreed, 92 (68.1 percent) disagreed, four (3.0 percent) are undecided.
- Other answers provided by nine community leaders (percent) include: the strongest community; the most neglected border communities; and administrative center selected by the government.

### *2.3.2. Section Two - Qualitative Analysis*

In-depth interviews conducted with government officials, NGO representatives<sup>14</sup>, and executive officers of community associations aim at finding out their opinion about possible strategic directions toward development of local government system. The first part of the Section Two presents the opinions of government and NGO representatives, and the next part provides data collected from 13 community associations.

#### ***Willingness, interests and motivations of government and NGOs***

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<sup>14</sup> The list of interviewed government officials and NGOs is provided in Appendix A.

All seven respondents representing government and NGOs consider amalgamation to be the most economically viable option. They say that amalgamation will strengthen local government system and provide opportunities for resource conservation and development of capacities for the solution of many problems that present-day communities face. The answers to the question about how amalgamation should be conducted reflect different opinions. One respondent thinks that communities themselves should decide whether they want to be amalgamated. The other six representatives think that communities can be requested for opinion but the final decision for amalgamation should not be left with communities. Nonetheless, all the respondents explain that despite the strong resistance from communities, amalgamation is a difficult step to take.

Five respondents think second tier of self-governance could provide greater opportunities for development of local government system. However, three of them express the opinion that, despite some differences, such as the election of the governing body for the second tier of self-governance through direct popular vote, ICUs are somewhat similar to the second tier of self-governance.

Two respondents explain that establishment of the second tier of LSG would be negative for the county: "this requires the creation of a three-tier budget system. Today, Armenia experiences difficulties with tax collection, and the second tier of self-governance would create issues concerning tax revenue division between these tiers." Nonetheless, there is a uniform opinion that at present establishment of the second level of local self-governance is not a prospective option. This requirement entails changes in the Constitution not likely to happen in the near future.

Government and NGOs all agreed that ICUs are the least controversial and complicated option. Government officials think ICUs will promote further political decentralization by delegating new powers to the lower level of the government and increase efficiency of local

government in performing its responsibilities. NGO representatives enrich this list with more detailed objectives that ICUs may achieve. First, they will improve quality of public service provision. Second, they will save financial resources and utilize best available professionals in a concentrated manner. Third, it will become capable of implementing projects of regional importance. Fourth, the state will be able to allocate more money to local governments: today it is impractical, as those resources will be wasted because of the large number of communities and lack of capacity. And lastly, it will allow the development of municipal service system: at present there are about 7000 municipal servants, and organizing their training and attestation will require enormous amount of financial resources.

To find out whether government of Armenia is willing to promote ICU formation, NGOs were asked for opinions. Answers were combined into two groups. Three NGO respondents think government is not very much interested in ICU formation. In contrast to this opinion, two of the NGO representatives think that state administration is willing and motivated to establish ICUs.

#### ***Different approaches of government and NGOs to ICU formation***

Government and NGOs are asked for their opinion on the most appropriate approach that can be used to assist the formation of ICUs. Four respondents think that voluntary principle with some mandatory elements incorporated in it is the best way to approach this issue. Two respondents think ICUs should be formed on compulsory basis. One respondent thinks that ICUs should be formed only on voluntary basis.

#### ***Financing of ICUs viewed by government and NGOs***

As potential sources of finance for ICUs, one government official mentions that during the first stage ICUs will be given mostly delegated powers for which they will be financed from central government, while communities must provide space and furniture. If later communities delegate their mandatory powers then they will have to pay for their

implementation. Six other respondents agree that both government and communities should finance for whatever the powers each of them delegates. They also add some other sources that could provide financing to ICUs. Those are: subsidies presently allocated to communities, land tax on those territories that are outside any community boundaries, subventions from government, service fees, profits from community based for-profit organizations, and motivational funds (adding extra amount to subsidies as encouragement).

### ***Willingness, interests and motivations of community associations***

This part of Section Two presents data on opinions of 13 executive directors and presidents of community association<sup>15</sup> collected during in-depth interviews. Six major questions are asked during these interviews. The questions with the respective answers are given below.

#### ***1. What are the major factors that made communities join their community association?***

All the respondents claim that communities are very enthusiastic for their cooperation within community association. Four executive directors of community association say that the reason for this enthusiasm is the assistance communities receive for solution of some of the community problems that none of them is able to address individually. These are solid waste management, repair of roads and drinking water and irrigation pipelines, and gasification. Two respondents notice that community association, on the basis of a contract with government, assists them in implementation of a delegated power – property and land tax calculation. Four executive directors mention that the objectives of community association are compatible with those of communities: community associations provide benefits without harming the interests of communities; as well as decisions are made exclusively by themselves. Three community associations mention that the results of their cooperation are visible in terms of conservation of time and resources, and providing

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<sup>15</sup> The list of respondents from community associations is presented in Appendix A.

bargaining strength against central government. Three respondents state that the major factors are the tradition of coexistence during Soviet period and the presence of common infrastructure.

2. *Is amalgamation a solution to current problems of local self-government?*

Ten out of 13 respondents claim that amalgamation is wrong. They believe amalgamation will result in decay of many localities. Three respondents think amalgamation is a necessity, however it requires some time and a well thought strategy to implement it through persuasion and proof of efficiency.

3. *What do they consider as the main purpose for establishment of ICUs?*

Ten out of 13 respondents say, ICUs should implement activities of intercommunity importance, such as maintenance and repair of intercommunity roads, building and repair of water pipelines, etc. Four respondents say, ICUs should implement some of mandatory powers of communities, and another four say, they should implement delegated powers. One respondent says they should establish international cooperation with municipalities of other countries. Two respondents say they should enable joint use of infrastructure. Three respondents say they should be established for the purpose of expanding the scope of services provided and allow delegation of new powers from central government.

4. *Why do they not get registered as ICUs?*

Seven out of 13 respondents answer that it is still unclear what ICUs are. Their functions and responsibilities are not defined yet. They are waiting for the law in order to change their ICUs status and start functioning in the scope of rights for ICUs. One of them even mentions that at this moment they don't have the right to be registered with the Ministry of Justice. Four respondents respond that they are already registered as an ICU.

### ***Different approaches of community associations to ICU formation***

5. *Which principle should be used for the formation of ICUs: voluntary, compulsory or voluntary with some mandatory elements?*

Eight out of 13 respondents say that ICUs should be formed on voluntary bases. Five community associations agree that voluntary should be combined with some mandatory elements. No community association chooses compulsory approach for ICU formation.

### ***Financing of ICUs Viewed by Community Associations***

6. *What sources of finance do they think should ICUs possess?*

Eleven respondents think ICUs should be financed with some contributions from community budgets. Nine respondents think financing should come from central government; three of them say this financing should be in the form of transfers for delegated powers, and two – in the form of state subsidies. Four respondents say that communities should pay membership fees. Five respondents consider also international donor organizations as a potential source of financing for ICUs. Two respondents say ICUs should be given the right for income from business activities. And one person mentions service charges collected from population as additional source of financing.



### 3. CHAPTER III

#### 3.1. Discussion

The study identifies three options that can serve as potential solutions to the problems presented above. These are: amalgamation of communities, establishment of a second tier of self-government, and formation of ICUs. In this section all three options of policy reforms will be discussed. We will look at each case separately and consider the positive and negative aspects of these options.

#### *Willingness, interests and motivations of different stakeholders*

First reform option that we discuss is amalgamation of communities (municipalities). Could amalgamation be a potential solution? Article 110 of the Constitution of Armenia allows amalgamation of communities (Constitution, 2005, Chapter 7). Amalgamation would address the issue of fragmentation directly. Creation of communities with large territories and combined financial and human resources could increase effectiveness of local government activities and promote further decentralization. For example, Poland, which never underwent massive disintegration of amalgamated municipalities after the fall of the Communist regime, did not experience the problem of fragmentation of local government. Present-day Polish municipalities consist of several localities. A typical rural municipality has a population of 7 to 8 thousand people (Swianiewicz et al. 2002). This relatively large number of population allows utilization of economies of scale and is an essential factor for resource conservation. Large size of a community is often a prerequisite for further decentralization.

But how amalgamation is initiated? In Polish legal system, the central government is the body that decides on any split or amalgamation of municipalities (Swianiewicz et al. 2002). Conversely, in Hungary the state administration is not able to intervene in decisions of local

governments even if these decisions are in conflict with national interests (USAID, 2002). Only in case of violation of the law, the Hungarian court gains supervisory role and intervenes with local government decisions (Fekete, 2002). Armenian Constitution gives communities the right of voice on the split and amalgamation of municipalities through referendum, however final decision rests with the central government (Constitution of Armenia, 2005, Chapter 7).

To find out how amalgamation is perceived in Armenia and the potential for its introduction, the study studied opinions of different stakeholders on the issue. The results of the interviews show, that government and NGOs all agree that 925 communities are too many for Armenia and amalgamation could correct the situation. According to deputy minister of territorial administration Vache Terteryan, the best way to introduce amalgamation is with a "surgical knife": which implies adopting a law that defines territories of the new amalgamated communities. However, government and NGOs realize that amalgamation is not so easy to accomplish. Despite the fact that amalgamation first of all benefits LSG, there is still strong resistance from communities. Narine Sahakyan, portfolio manager of socio-economic programs in UNDP/Armenia, notices that "no community leader will be willing to give up his/her power." Edgar Gazaryan points out that the society is not ready, either. People are used to the name and borders of their community because of ten-year experience in local self-governance. There are also cultural differences between different communities - different dialects, different traditions and even food. In addition, amalgamation may bring forth ethnic minority issues – Yezids or Malakans<sup>16</sup> would be deprived of the opportunity to self-governance. There is a potential that mountainous and border villages will be abandoned if there are no local authorities to address day to day issues. Another reason to refrain from amalgamation is the upcoming parliamentary and presidential elections. Politicians are

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<sup>16</sup> Yezids and Malakans are national minority groups that have been living in Armenia for a long period of time.

careful not to launch unpopular reforms that would damage their political reputation and reduce the number of their potential supporters.

Based on the results of the survey, about 70 percent of 45 communities prefer ICUs to amalgamation. In-depth interviews with 13 community associations reveal the major reasons why amalgamation is not popular among communities. The most expressed reason is the fear of negligence. Communities fear that similar to Soviet times, all the resources will be directed to whichever community is stronger. Mayor will always be elected from the most populated community, who will neglect other localities. Also, loss of identity, such as village customs and traditions, is an issue for communities. Finally, difficult roads and long distances from the administrative center will lead to gradual disappearance of faraway villages in the absence of authorities to promote their interests.

Edgar Gazaryan claims that these concerns are not realistic. He explains that currently villages have one or at most two rival families competing for the position of community leader. Amalgamation in a democratic system could increase competition between candidates during elections. Potential candidates would have to gain legitimacy not only within their locality but also in the nearby localities. This automatically eliminates the assumption that the community leader would be elected only from the locality having the most population, as well as the supposition that nearby villages will be neglected. In regards to possible disappearance of present-day communities, Ghazaryan points out at current situation: dilapidated schools, poorly maintained roads, absence of any type of waste management, etc. and asserts that many communities are already on the verge of destruction and disappearance, whereas amalgamation could bring revitalize them.

Government and NGOs recognize how challenging amalgamation will be. They claim that communities are not capable of seeing the benefits of amalgamation for themselves, hence their opinion cannot play a vital role in final decision. Nonetheless, both government

and NGOs agree that amalgamation cannot be spontaneous, and that comprehensive and multifaceted approach should be adopted. Not only population size will be considered in amalgamation, but also geographic location, availability of infrastructure and natural resources, as well as consideration of interests of both state administration and LSG. As a means for introducing amalgamation, Terteryan suggests a more "elastic" approach. He suggests establishment of ICUs that will serve two alternative purposes: (1) allow cooperation and joint implementation of local-government responsibilities, and (2) provide an indirect path to amalgamation.

Government and NGOs seem to view amalgamation as an ultimate goal in the solution of local government problems. No doubt large communities with comparatively large financial and human resources are capable of better fulfilling their responsibilities; on the other hand, amalgamation contains risks that extend beyond considerations of efficiency and economic welfare. These risks can no way be overlooked. For example, amalgamation of rural communities with a nearby town threatens the survival of rural lifestyle and living habits that can lead toward urbanization. Is urbanization a desirable goal to achieve? Maintenance and promotion of old traditions and identity still present in rural areas should be the goal to cherish for an ancient county, like Armenia, that has great potentials for tourism. Centuries-old history, names, different dialects and traditions of many communities bare enormous value and pride for people. At the same time, distinct identity is a cause for long years of disagreements and hatred among them. Amalgamation of these communities may create grounds for permanent future conflicts.

National minority issues are also important to consider. Allowing self-governance in small communities with national minority highlights the capacity of the country to meet the provisions of its Constitution to ensure non-discrimination of national minorities.

Last but not the least is the risk of losing population of many remote mountainous communities. Even today many remote rural areas are abandoned by younger generation. Lack of opportunities for higher education and perspectives for jobs other than farming drives young people out of their communities to larger cities and abroad. Depriving these communities from the privilege of having their own local authorities, that protect interests of their people and sincerely care for the development of their community, indicates further loss of their inhabitants and final disappearance of these localities.

The principles of correspondence and subsidiarity are what needs to guide the reform process. If the responsibility corresponds to the capacity of local authorities then it should be delegated to the lowest level possible. There is no danger in having many local governments unless they are able to provide the services they are proscribed to. The issue of resource conservation and efficiency can be addressed by other means, which is presented later in “Recommendations” section.

Some respondents from government and NGOs would argue that communities separated with only one street do not need to hold two local governments. This argument surely has important grounds, however, amalgamation of even this kind of communities should be a product of natural integration as a result of preparatory activities with public to reduce possibility of cultural conflicts and confrontations.

Second reform option is establishment of the second tier of LSG. Would it be a better solution to introduce a second tier of LSG? Many European countries at some point of development realized that second tier of LSG can provide wide opportunities. Even though Poland never went through disintegration of communities amalgamated during Soviet period, in 1999 they felt the necessity to establish the second tier of local self-governance (Swianiewicz et al. 2002). Czech Republic, which had a similar problem of LSG fragmentation, like Armenia, established provincial governments in 2000 and assigned them

both mandatory and delegated powers of regional importance (Illner, 2002). Similarly, Slovakia in 2001 introduced eight counties as regional governments, which took the names and territorial area of the preexisting counties of Communist period (Sopóci et al. 2006).

Creation of a second tier of LSG in Armenia would promote a regional approach to governance. Fragmented nature of local government could not be an impediment in the process of decentralization, as the second tier would take over these responsibilities. Second tier of local government would also require its own sources of budget revenue, which would increase the share of local government expenses in the total public expenditure. In view of the long tradition of regional governance in Armenia during Soviet era, as well as preserved infrastructure and networks, establishment of a second tier of local governance is expected to have easy acceptance by communities. This assumption is based on the fact, that many community associations were able to establish community cooperation among local governments that occupy the same territorial area as previous regions, as well as because more than half of interviewed communities consider the size equivalent to Soviet era regions to be the best size (see Table 10).

One impediment towards establishment of the second tier of LSG is the Constitution of Armenia. Article 11.1 defines the administrative units of Armenia being marzes and communities. Article 104 further details that local governance is exercised only at the level of communities (Constitution, 2005). Although, the Constitution cannot be amended so easily as the laws<sup>17</sup>, last amendments took place in November 2005. This opportunity could have been utilized to prepare grounds for establishment of the second tier of local self-government. According to the explanation of deputy minister of territorial administration Vache Terteryan, second tier of self-governance also requires re-distribution of powers and resources between the three tiers of government. Davit Tumanyan mentions that the second

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<sup>17</sup> Amendments to the Constitution can be realized only through referendum.

tier of local-self government necessitates direct popular elections for the positions of regional governor and board member. This has potentials to propagate new bureaucracy and incur additional costs on society in case it does not replace but comes in addition to the institution of Marzpet. In short, second tier of local self government is expensive and threatens to disturb the existing power dynamic. Therefore, it has a prospective to bring more problems than solution to existing ones.

As a possible solution, government suggests establishment of intercommunity unions, which is the third reform option that we are going to look at. Article 110 of the Armenian Constitution allows formation of ICUs for promotion of cooperation between communities. The Law on Local Self-Government further defines the nature of ICUs (2002). It states that ICUs are formed voluntarily on the basis of an agreement between communities and have the status of a legal entity. The governing body of ICUs is the board comprised of community leaders. However, the law does not detail all the powers and responsibilities of this union. This is left onto a separate law on inter-community unions, which is not yet adopted.

Inter-community unions could solve the problem of unequal development of different communities, by promoting strategy for regional development. ICUs could play an important role in the reform process of introducing differentiation in status of municipalities (see Recommendations section). ICUs would allow consolidation of resources and capacities of communities for provision of quality public services without introducing administrative consolidation. ICUs would further the process of decentralization. They will also create basis for increasing the amount of local government expenditure by ensuring an efficient use of additional financial transfers.

To understand whether ICU formation has any potential in Armenia, it is necessary to look at interests and motivations of different stakeholders in ICU formation. According to results of the survey, majority of communities (90 out of 135 communities) are willing to be

engaged in an ICU. Analysis reveals that the willingness of communities is strongly associated with their present engagement in community associations. Moreover, test results demonstrate statistically significant difference in willingness to become a member between the group that is engaged in a community association demonstrating effective performance and the one that evaluates the performance of their community association as less effective. This states that positive experience of cooperation is a prerequisite for raising the willingness of communities to join in ICUs.

As to community associations' interest in ICU formation, seven of them expressed willingness to become an ICU. They are waiting for adoption of the new law, which is currently under discussion. The executive director of community association in Sisian points out that the Ministry of Justice refuses to re-register them as inter-community unions because of the lack of adequate law that defines their status and responsibilities.

The other four community associations claim that they are inter-community unions. Examination of the regulations of these four organizations reveals that they exercise similar tasks and responsibilities as the other community associations. Likewise, they are also registered as non-governmental organizations that implement activities to assist local governments. The only difference is the word "Inter-Community Union" that is added to their title (see Table 12). Edgar Gazaryan points out that these organizations are engaged in a form of cooperation, which is beneficial for development of local government; however, they cannot be considered as ICUs. He argues that according to Article 78 of the Law on Local Self-Government ICUs serve the purpose of solving community problems jointly and reducing their expenses. Vedi community association brings counter arguments claiming to have solved several problems of communities and reduced budget expenses. Nonetheless, Ghazaryan explains that communities would have reduced their budget expenses if the member communities had combined some of their resources meant for implementing



specifically local government powers. This says, that community associations should be recognized as subjects of public law that have the right to fulfill mandatory and delegated powers of LSG.

Experience of various countries demonstrates differences in the form of cooperation between communities. In Czech Republic municipal associations perform functions that are within the competence of member municipalities, but are not subject to public law. They are regulated by Civil Code on Associations of Legal Bodies (OECD, 2001). Slovakian municipal associations are legal entities of civil law, which pursue common interests of municipalities by combining financial means and establishing common funds (Nemec et al. 2000). In Switzerland there are voluntary issue-oriented types of inter-communal cooperation, which are not bound to a specific institutional body and operate under private law (Leresche et al. 1993).

Obviously, it is the law that should clarify what type of cooperation the idea of inter-community union assumes. Current legislation of Armenia lacks this clarity and even hinders establishment of ICUs. None of the communities, even those that consider themselves as ICUs, are registered as an entity that is a subject of public law. The reason is not the unwillingness of communities to register as such an entity; the reason is the imperfection of the legislation.

In order to objectively assess the interest and motivations of central government in establishment of ICUs the study referred to a third party - the NGOs, for their opinion on this matter. There is a dichotomy in how NGOs perceive government's interests. One group insists that government is neither interested to amalgamate communities nor form ICUs. This judgment is based on the assertion that government lacks a strategic policy plan for local government development. Also, there are assumptions that state government will lose its influence over LSGs if the latter become stronger and financially independent: with the

increase in strength local governments will put forth democratic demands for more powers and financing. They think that central government is taking some actions in this field only because it feels pressured by the Council of Europe to comply with requirements of European Charter on Local Self-Government. However, respondents suppose that government wants to meet these requirements by adopting a tactic that would harm its interests the least possible way. The opinion is backed up by the fact that over a year adoption of the Law on Inter-Community Unions has been a disputable issue. The other reason why government feels compelled to establish ICUs is the pressure from local NGOs, other organizations and the public to resolve challenges resulting from defective administrative and territorial division.

In contrast to this opinion, second group of NGOs thinks that government is very much motivated and willing to establish ICUs. According to this group, the central government realizes that present-day territorial and administrative division has certain flaws. Central government is concerned that currently the powers that it delegates to communities are not implemented in a proper manner. The reason is not only because central government is not paying sufficient amounts for their implementation but also the low capacity of LSG to perform these responsibilities. Edgar Ghazaryan explains that increasing the volume of intergovernmental transfers will not make the communities more efficient in their activities. The central government wants to found an institution which will assist LSG to perform their delegated powers in a most efficient and least wasteful manner. The central government would also be willing to ease its burden by delegating more powers to the lower level of government. The reason why it takes so long to come up with a law that regulates the activities of ICUs, is the upcoming parliamentary elections. Any serious decision on the eve of elections could have detrimental consequences for politicians.

Both these opinions can be considered as relevant. By ratifying European Charter of LSG Armenia became "bound by at least twenty paragraphs of Part I of the Charter" ten of which

are required to be selected from among listed paragraphs (Council of Europe, 1985). Paragraph 1 of Article 10 is among those listed paragraphs which states: "Local authorities shall be 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." Hence, establishment of ICUs is an obligation, which government tries to meet in the framework of European Charter. However, it is wrong to assume that government is taking this initiative only for the purpose of meeting the above mentioned requirements, and that it lacks any interest in bringing changes to local government system. Deputy Minister of Territorial Administration Vache Terteryan expresses concerns about the incapacity of many weak and small communities to even form their annual budgets. As a proof to this opinion it is worth mentioning that five community leaders express willingness to transfer their responsibility of budget formation to an ICU.

Besides ICU formation, Article 4, paragraph 3 of European Charter also requires transfer of public responsibilities closer to the citizen (Council of Europe, 1985). Even today, as a result of inadequate human and material resources, communities are not capable of properly fulfilling their delegated powers. Decentralization in these circumstances could have destructive consequences. First, it would place huge financial pressure on the state budget, and second, those responsibilities would either not be fulfilled or would be implemented very poorly. Delegated powers are the responsibility of the state. If it is not done properly then it impedes proper functioning of the state.

The tradition of state control over LSG should not be viewed as an insignificant factor in analyzing motivations of government to establish ICUs. Several community associations state that individual communities do not have enough power to put forth legitimate demands from state administration. However, cooperation in community associations helps them gain enough strength and independence. This could be viewed as a potential threat for the central

government that strives to preserve its influence and control over local government. As it was mentioned earlier on page 12, the initial draft of the Law on LSG contained a whole chapter on ICUs, the initiation of which by central government could be regarded as a safeguard mechanism against this threat. The draft law empowered central government with the right to make decisions on ICU formation; listed 32 mandatory powers that would be transferred to ICUs without LSG's consent; gave enormous power to executive director who would be selected based on the procedures identified by government (Draft law on Local Self-Government, 2004). All these provisions emphasize government's desire to retain the central role in designing policy of ICU formation, and retain significant control over this institution.

Based on the arguments presented above, it can be inferred that government is very much motivated in establishing ICUs. Main motivations of government for ICU formation are summarized as implementation of its obligations towards the Council of Europe, finding the most efficient way of implementing decentralization and at the same time avoiding decline/loss of their supervisory role.

#### ***Different approaches to ICU formation***

Although all parties have great interest in establishment of ICUs, communities, community associations and government have different approaches in terms of formation of this institution. Majority of communities and community associations are for voluntary initiation of the unions. In-depth interview with executive directors of the community associations reveals the main reasons for choosing this approach. They claim that local government is autonomous from state government and has the right to make its decisions independently. Some express the concern that ICUs are initiated through amalgamation, which creates trepidation among communities. There are others, who declare that ICUs established on compulsory basis will become an artificial entity and will not function in its

full potential. In their words communities will not make financial contributions, and this institution will become an unwanted burden.

Yet, there are communities, though only a small number, that agree to either pure compulsory approach (7.4 percent) or voluntary approach that incorporates some mandatory elements (19.3 percent). The study tried to find some correlation between these types of responses and the size of these communities. However, test results do not show any statistically significant difference in size between those groups who choose voluntary and those that choose compulsory or the intermediate approach. The assumption is that not the actual but the relative size can influence the response. Communities that are not large in terms of their actual population but are considered large in comparison with other communities in the area feel relatively comfortable and do not fear amalgamation. Unfortunately, current study does not provide necessary information to test this hypothesis. This could serve as a topic for further research.

Despite the fact that five community associations prefer to combine voluntary principle with some mandatory elements, the understanding of what "some mandatory elements" mean differs among respondents. First explanation for this term is – "persuade, if they don't join, then force them to join by law" (two respondents); second – "force communities to join for implementation of delegated powers, but leave implementation of mandatory powers at the discretion of communities" (two respondents); and the third explanation is "if 90 percent of communities join (100 percent is considered all communities of a previous regions) then force the remaining 10 percent to join (one respondent).

Government and NGOs approach this issue from the opposite angle. Two respondents that prefer compulsory approach point out that no ICU has been formed yet during these years in Armenia albeit the law allows its formation. Reasoning behind this is the belief that no community leader will voluntarily give up its power and functions even for the sake of

economic benefits for community. Though community leader participates in the governance of ICUs, he/she does not exercise this power individually. One of the respondents also asserts that cooperation of this kind has the threat of being based on personal relationships: "Two amicable community leaders can get together and form their ICU, just for the sake of showing that they belong to one." This opinion infers that there is lack of trust among people in government institutions that democratic principles will be upheld. Therefore, the respondents push forward the idea of conventional methods proved to be effective in the past.

As mentioned above ICU formation is hindered not simply because there is lack of willingness by communities to voluntarily initiate its establishment, but because of the absence of a comprehensive law that defines concrete nature and responsibilities of ICUs. Nonetheless, it is important to mention that nine out of 22 community associations (see Table 12) have been established since 2004. Presently, there are three other groups of communities (as of my knowledge) that have organized themselves and are willing to form ICUs: Nor-Kharberd ICU (10 communities), and Areni ICU (8 communities), Bazmaberd ICU (6 communities). Voluntary approach to ICU formation would be successful if adequate condition were provided. In fact, in the absence of a second tier of local government it is believed to be more chances for ICU formation on voluntary basis. Many communities feel weak to function individually and have a great desire to associate with others in order to overcome their challenges. Utilization of coercion in ICU formation could kill the very first initiatives of voluntarism and consequently damage trust towards development of democratic practices in Armenia.

Majority of respondents from government and NGOs suggest voluntary approach where some mandatory elements can be used. Davit Tunamyan explains that pure voluntary principle is not the only democratic way to approach this issue. "If reforms are not moving forward and there is an objective to meet the requirements of European Charter, the state

needs to take the initiative to find a solution" (Tumanyan). Vache Terteryan points out that the experience of ICU is very new to Armenia and the government should be very cautious in order not to "compromise" the idea of inter-community unions in the process of its formation. There is a need to be utterly careful to ensure anticipated success of ICUs.

As to the term "some mandatory elements" the government and NGOs understand it as giving some time to communities to decide, which ICU they want to become a member of. If after a certain period of time they are still undecided, then the government can point out a specific ICU they will have to join. Seyran Avagyan does not consider it as exerting a pressure: "Central government delegates its powers to ICUs and also suggests communities, where they can receive these services from." Arayik Hovhannisyan explains mandatory elements somewhat differently: legal pressure can be exercised only in cases, when communities are not able to fulfill their responsibilities.

There is only one respondent who thinks that formation of ICUs should be based on voluntary principle. According to this opinion cooperation between communities is something that cannot be imposed. "If the government wants to make ICUs mandatory then it should simply amalgamate them" (Gazaryan). The best way to promote cooperation is suggested to be through various mechanisms, such as encouragement, advocacy, and allocation of money.

Analysis of preferential approaches that different groups express for establishment of ICUs reveals obvious clash of opinions. Article 4 paragraph 6 of European Charter states that "Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly" (Council of Europe, 1985). This requirement restricts the employment of compulsory approach where communities will not be given the right of choice. Government is convinced that even though pure voluntary approach might create several ICUs, it would

not ensure involvement of all communities in such cooperation. Current study provides evidence that communities involved in a community association are willing to join ICUs. Nonetheless, these associations do not include even half of all communities in Armenia (see Table 12). Therefore, there is still the potential of high level of resistance toward ICU formation.

To find out whether strong resistance is related to the lack of knowledge about ICUs, the study tried to measure the level of knowledge of community leaders. The results pose serious concern whether there is any clear understanding of what kind of entity ICU is supposed to be. Amazingly, one statement that is most agreed upon describes ICUs as equivalent to amalgamation (48.1 percent). One possible reason why most communities associate ICUs with amalgamation, might be the result of their knowledge about the old draft amendments of Local Self-Government Law. The second most selected choice is the statement that classifies ICUs as NGOs assisting LSG (25.9 percent). The correct statement is the least selected answer, which defines ICU as a legal body subject to public law<sup>18</sup> (Table 5). As it became clear the expression 'subject to public law' is vaguely understood outside the central government, which might be one of the reasons for choosing the correct statement the least.

The fact that none of the above statements receives positive answer from more than 50 percent of respondents speaks about great confusion among communities for what ICUs are. Obviously, the law does not clarify the nature and functions of ICUs. On top of this there is little communication between state administration and local government on matters concerning establishment of ICUs. Despite a number of trainings organized by Communities Finance Officers Association the majority of communities lack basic understanding about this institution. Unfortunately, we are not able to test whether strong resistance toward

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<sup>18</sup> Wikipedia explains the term '**Public law**' as the law governing the relationship between individuals (citizens, companies) and the state. The institution of Inter-Community Unions as subject to public law is understood to have the rights of collecting taxes and implementing activities that are the responsibility of different government tiers (2006).



membership in ICUs is associated with the lack of knowledge of communities, since there are very few cases of correct answer. However, it should be mentioned that 8 out of 9 communities who answer correctly are willing to become a member of an ICU.

As mentioned above, government is trying to avoid experimentations with ICUs. It is trying to find the **best** way of introducing ICUs that could ensure success and eliminate possible mistakes. This best way is perceived to be intervention from central government. But would it be possible to find a consensus at the final stage of the decision making process, if communities are not a part of the discussion? Would it be possible to ensure final success, if the implementers are not even aware of what they are supposed to implement?

One of the important questions to consider is whether there are any similarities and contradictions in what different parties expect ICUs to achieve. When communities are asked the reasons why they want to be involved in an ICU, majority of community leaders answer that they expect ICUs to assist them in solving community problems jointly. There are also more specific answers: expecting ICUs to increase effectiveness, bring strength to local government, and assist them in conserving resources and making investments. In contrast, many of those communities that do not want to become a member of an ICU portray themselves as weak and poor, and express the fear of being neglected or losing their identity and traditions. Others doubt the likelihood of cooperation or complain about inequality of resources of different communities.

Government and NGOs expect ICUs to promote political decentralization, improve public service provision, conserve financial resources and develop professional skill. ICUs are also expected to implement activities that have inter-community nature and cover the territory of several communities. Vache Terteryan explains that ICUs will serve two main purposes: one – to allow establishment of cooperation between communities, and second – to assist in the

process of amalgamation. Basically, for many small communities ICUs are going to serve as a transition to amalgamation.

Although, expectation of communities and government for the most part seem to be similar, there are some differences that can be viewed as the major cause for choosing different approaches for ICU formation. Analysis of expectations of communities reveals that the major interest of communities is to preserve their identity and functions. They see ICU as an entity that should help them solve their community problems without restricting their authority. Those who sense a threat of merger in ICUs prefer to stay aside. Government, on the other hand, is not concerned about identity of each individual village. It has an aim of reforming current dysfunctional territorial and administrative system. And ICUs are viewed by government as the most efficient means of bringing this change.

In view of these differences in expectations, will it be possible for government to ensure that the idea of ICU is not "compromised"? If communities are deprived of the right to refuse cooperation, if ICUs are going to be used also as an instrument for amalgamation, do they have a potential to encourage voluntary cooperation among communities, or will government have to continue imposing cooperation even afterwards? Terteryan hopes ICUs will switch one man decision-making into a democratic decision-making within a group. He explains: "if currently community leaders have full discretion in their decisions within the territory of their community<sup>19</sup>, after being involved in ICUs they will have to make sure everyone in the ICU board agrees with their decision." This is a very optimistic hope. Surprisingly, such approach in decision-making is exercised currently in most community associations in Armenia. However, to anticipate that this practice will be similar in the case when ICUs are formed artificially - by force, might be a bit unrealistic. Voluntary approach is the only way to ensure functional cooperation, and promote successful development of this body.

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<sup>19</sup> Vache Terteryan explains that the institution of community council is not well developed yet. Community council members have little power over community leader.

The choice of voluntary or compulsory approach should also be analyzed in view of the functions ICUs are going to be proscribed: that is whether ICUs are being formed for implementation of delegated powers or the goal is also to proscribe them some of the mandatory powers of communities. In view of the fear to lose their identity, communities are very careful in agreeing on transfer of their mandatory powers, as well as financial resources from local budget. Sixty percent of communities express willingness to give to ICUs their powers delegated by central government and fifty four percent agree to delegate them some of their mandatory powers. It should be noticed, however, that there is some confusion among communities about which powers are delegated and which ones are mandatory. The mandatory powers most frequently mentioned by communities are provision of public services, such as waste collection, drinking and irrigation water management. Most frequently mentioned delegated state powers are property and land tax collection and veterinarian services.

Government officials do not seem to be unanimous in their opinion whether only delegated or also mandatory powers should be transferred to ICUs. According to Seyran Avagyan, at the first stage ICUs will be given mostly delegated powers. Thus, financial allocations will be made from central government, and communities will provide only space and furniture. Later, if communities want to delegate their mandatory powers, they will have to make also some financial contributions from their local budget. Vache Terteryan on the contrary mentions that some of the powers of communities will be taken away and given to ICUs. He points out that communities will have to make contributions either from their local budget or some shares of collected local taxes. If he expects communities to make financial contributions, then he necessarily expects ICUs to take over the implementation of some mandatory powers.

In case government wants to assign ICUs only delegated powers, voluntary approach combined with some mandatory elements is a logical decision. However, this cannot be the case in Armenia. Government claims that ICU formation has the purpose of overcoming challenges that face local government today. The problem is not only low capacity of communities to fulfill their delegated powers, the problem is also inability of many small communities to individually implement their own responsibilities. One solution could be redefining some of the mandatory powers that require large territories for utilization of economies of scale, as delegated powers, and handing them over to ICUs. However, this solution would necessitate also additional financial resources from central government.

The other solution would be to create ICUs by the initiative of government for implementation of delegated powers and provide communities the voluntary choice of joining any ICU they like for jointly implementation of mandatory powers. Such experience exists in Slovakia where mandatory approach is used mostly for delegated responsibilities, and the law defines the minimal size and service area for a basic unit of LSG. Those municipalities that do not have the personnel capacities to fulfill their responsibility will have to receive these services from a municipality that meets the defined criteria and is appointed by the state administration. Voluntary approach, on the other hand, is exercised for fulfillment of own tasks of municipalities, such as economic-social responsibilities (Kling et al. 2002). However, it should be noticed that this approach is more complex in terms of management and resource distribution.

Instead of putting emphasis on whether voluntary or compulsory principle should be used in ICU formation, or how it is possible to combine voluntary and compulsory elements, the discussion should be transferred onto a different stage. Government recognizes and values the benefits of ICU formation in the reform process of local government system. Therefore, it should direct its attention and efforts onto searching for different political

mechanisms and economic/financial incentives that will assist voluntary formation of these unions. It is important to achieve understanding about interests and motivations of communities which will guide the strategy for engaging them in successful cooperation.

### *Financing of ICUs*

Different stakeholders are also asked for their opinion about possible sources of finance for ICUs. Analysis of survey results show that majority of communities expect central government to finance ICUs for implementation of their mandatory powers, and to make other financial contributions such as allocation of state subsidies. Relatively small number of communities agrees to make their own budget resources available for their ICU. Only 32 percent is willing to transfer some portion of their land and property tax, and 44 percent agrees to make material investments. Nonetheless, more than half of the interviewed communities agree to transfer their “hypothetic” share of income tax, profit tax and environmental fees. As mentioned earlier these financial sources have been allocated to local government by the new Law on LSG adopted in 2002, but never implemented in practice. Therefore, this option is preferable for communities.

Majority of community associations agree that both communities and government should make payments from their budgets to ICUs. However, some of them mention that small communities in particular do not have enough financial resources to transfer money even for implementation of their mandatory powers. They suggest other sources of finance, such as membership fee from communities, financing from international donor organizations<sup>20</sup>, service fees collected from population, and the right for income generation<sup>21</sup> through business activities.

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<sup>20</sup> It should be noted that this source of financing is not sustainable, nonetheless it could assist ICUs in their first stage of formation.

<sup>21</sup> It is not clear what kind of business activities community associations want to be involved in. If it is provision of services that are a public good then ICU as a public entity will possess this right, but if they want to enter the business sector, then it is less likely that they can to provide more efficient services than the market.

Government and NGOs consider main financial resources for ICUs to be state and local budgets. They also view state subsidies, government subventions, profits from business activities and motivational funds to be potential sources of finance. Sos Gimishyan suggests to transfer land tax for those areas that are outside the borders of any community to ICUs.

Despite financial transfers from the state, financial contributions from communities are a necessity when entering into this kind of cooperation. However, it is necessary to consider that Armenian law on LSG proscribes the same powers and the same sources of finance to all communities<sup>22</sup> irrespective of their size (Law on LSG, 2002). Obviously, in view of differences in size, accumulated resources in every community will not provide the same opportunities for all. The mayor of Vedi Varuzhan Barseghyan, as a leader of a large community, claims that financial resources are more than enough; and the problem is simply incorrect budgeting. Although, low professionalism is a significant factor in resource conservation, it cannot be considered sole cause of the problem. Small villages in particular suffer the most. A budget of five million Armenian drams cannot allow them to make investments in machinery and equipment necessary to fulfill some of its powers, like waste management, repair and maintenance of irrigation pipelines, roads and bridges. In these circumstances, it cannot be expected from all communities to be able to make contributions, and at the same time implement other powers. There is a need to find a solution that will correspond to the capacity of communities to contribute financially.

***Community preferences to size, administrative center location, and leadership structure for ICUs***

In the process of establishing the institution of ICUs, there is an obligatory requirement to always base decision on mutual understanding and consideration of interests of different parties. For this purpose the study intends to also inform central government about

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<sup>22</sup> Exception is district communities of Yerevan that have less powers than other communities.

preferences of communities concerning the size of future ICUs, the selection of ICU administrative center and the preferred composition of the governing body. The most preferred ICU size is the one equivalent to regions of Soviet period. Second choice is the size that is smaller than previous regions. As of the choice of ICU administrative center, geographic location is the most preferred criteria for communities. Surprisingly, only 29 percent have named previous regional center as a potential option for ICU administrative center. As for the composition of governing body no option receives at least half of the votes. The most given response is ICU council formed by community leaders and one member of community council (34.1 percent). The least agreed option is ICU board consisting of only community leaders. As all of the provided options are less than half percent there is a need to further enquire about other possible options that would satisfy majority of communities.

### 3.2. Conclusion and Recommendations

The hypothesis of the study states that “formation of voluntary intercommunity union is the most practical and feasible option for the solution of local government problems in Armenia”. To prove this hypothesis the study put forth several research questions which were answered through analysis of survey results.

The analysis shows that amalgamation would be a direct solution to the existing problems, however, in view of strong resistance from communities, central government is cautious in taking this step. Establishment of the second tier of self government requires changes in present Constitution of Armenia. Also, it may be too costly for a small country. It necessitates redistribution of budget revenues between three tiers and entails high costs for

preserving the apparatus and staff. This kind of policy decisions along with other considerations may need in-depth economic assessment and analysis of all the benefits to the society. ICU formation is found to be the most preferred option by all stakeholders. ICUs can bring forth consolidation of public services while ensuring political and administrative autonomy of local government.

The results of the survey demonstrate that all stakeholders have interests and motivations in ICU formation, however, their opinions about which approach should be used in ICU formation differ. Majority of communities insist on voluntary formation of ICUs. However, considering the correlation between the willingness of communities to become a member of an ICU and their membership in successful community association, it can be inferred that the resistance from communities to voluntarily become a member of an ICU is still very high. The reason is the fact that the number of current community associations does not yet cover the whole territory of Armenia. Consequently, government is insisting on an approach that limits the free choice of communities. Government wants to utilize a voluntary approach that will have incorporated some mandatory elements; this approach implies that in case communities do not decide to join an ICU for the period of time allotted by the state administration, then they will be assigned to one by law. This kind of approach contradicts the provision of European Charter that requires central government to consult with local government "in the planning and decision-making processes for all matters which concern them directly" (Council of Europe, 1985). Also, as expressed by several community associations, the imposition of cooperation will never bring successful result. If communities are joined against their will, the state will have to continually use the method of pressure to ensure cooperation. The proposed approach could work if ICUs were given only delegated powers. However, if government wishes to promote development of local government system, implementation of some of the mandatory powers by ICUs would be a must. In this



case, transfer of community powers, consequently transfer of community finances from community budgets will also require the 'strong arm' of the state. However, democracy formation in this state of affairs becomes as illusory as forcing successful cooperation.

The study reveals that central government and communities have opposing expectations from ICUs, which is not being considered in the decision-making process of ICU formation. By the majority of communities ICUs are expected to help in solving their community problems. These communities are striving to increase their capacity for the purpose of strengthening their position. Those communities that refuse to become a member of an ICU feel weak and poor, thus fear amalgamation and loss of autonomy for their community.

In contrast, central government is not concerned with preservation of individual community identity. It views ICUs both as an entity that will achieve financial efficiency, and improve the quality of delegated power implementation, as well as a means for introducing amalgamation of communities. It is this aspect of amalgamation that brings confusion amongst communities and fear to voluntarily get involved in an ICU.

For the purpose of ensuring better communication between communities and government, the study also presents opinion of local government on various aspects of ICU formation, such as preferred size, ICU administrative center location, sources of finance and structure of the governing body for ICUs.

As a conclusion it should be stated again, that differences in expectations is the major factor that should be considered in the decision-making process. Consideration of these differences will enable to accommodate interests of both parties. Consequently, the most practical and feasible option that has the potential to serve both interests is the voluntary intercommunity union formation. **To assist voluntary intercommunity union formation and insure success of the reform, the study suggests the government to take the following steps.**

1. The first important step is to adopt a law that will clearly define the responsibilities and nature of ICUs. Once the law is clearly stated and understood the fear of communities for being amalgamated will diminish, and consequently voluntary involvement of communities in ICUs will increase. Consequently, we do not recommend using ICUs as a tool for achieving amalgamation of communities. Uncertainty about this institution or presumptions about its intentions to bring in amalgamation will increase chances of resistance from communities to become a member of an ICU. Despite the fact that 925 communities are a large number for a small country, like Armenia, amalgamation of only very few communities that are close to each other and share the same national, cultural, and traditional values should be considered. Even in this case it should not be conducted by force, rather it should be a result of a natural merger. Natural merger will take place as a result of differentiation of community status (described below), in combination with intensive preparatory and encouragement activities carried out with population. For the time being ICUs can solve the problem of fragmentation by implementing responsibilities of its member communities.

2. Transfer implementation of all delegated powers to ICUs. Those communities that do not become a member of an ICU, will still receive services from the nearby ICU but will not be involved in its decision-making process. Implementation of delegated powers should be adequately financed from the state budget.

3. Introduce differentiated status between communities: some of the communities will have more powers than the others. ICUs in this case will play an important role of providing necessary public services not only for its member communities but also for those that are outside of this entity and have a lower status.

Assignment of different status to communities will be done as an outcome of evaluation, which means that the status should be granted based on the performance of

communities. Evaluation should be conducted based on well-defined performance criteria. It is highly recommended to conduct a study and establish performance benchmarks for municipal services. Communities that perform their responsibilities equal or above the established standards will be granted higher status. They will be given more powers and financial sources for their implementation. Communities that perform poorly will be given lower status: they will be granted with limited set of basic powers and the respective amount of financial sources (it is necessary to keep a balance between the number of powers and the amount of necessary financial means).

Those powers that these communities are not able to implement<sup>23</sup>, as well as certain financial sources for their implementation (such as some portions of governmental transfers given to communities, service fees, shares from other taxes and others), will be transferred to ICUs. If that specific community chooses to be out of an ICU, it will not have any say over how these services will be conducted. These communities will lose much of their decision-making power and in the future will be prone to natural amalgamation. However, in these circumstances it is expected that communities will decide to preserve their status and become involved in an ICU. ICU in this case will be a shelter for them to keep their high status and not to lose their decision-making power. In fact, this solution is believed to be a better option than amalgamation.

To promote trust in and fairness of evaluation procedures and ensure independent decision-making, it is recommended to establish a separate, independent evaluation body that will be comprised of representatives from central government, ICU governing body and community leaders that are not a part of any ICU.

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<sup>23</sup> It is believed that these are mostly the powers that require regional approach, such as waste management, irrigation and drinking water provision, road construction and renovation, environmental protection and others. These responsibilities are often partially financed by service fees.

4. Conduct public awareness campaigns to educate both the public and local government authorities about the nature and functions of ICUs and what goals they are going to achieve for communities.
5. Start a pilot ICU project to demonstrate effectiveness of this institution. As presented in the findings section effective experience of community association is the major factor that promotes voluntary initiative. Pilot ICU project, combined with widespread promotion of its activities will ensure voluntary participation.
6. Financial tools and incentives have often been used as an important instrument in policy decisions. Therefore, the study recommends to create reward mechanisms to allocate additional resources for those communities that will be delegating many of their mandatory powers to ICUs. Financial incentive will be the strongest motivation for voluntary involvement, and we suggest to conduct a comprehensive economic assessment to identify the amount and sources for such rewards.
7. In order to discuss this and other possible options it is recommended to organize a national conference with participation of central government, NGOs, community associations, and community leaders. It is also recommended to invite international experts that will present best international practices in different countries: the success and difficulties associated with each practice.

## APPENDIX A

### List of Interviewed Individuals/Organizations

In-depth interviews were conducted with the following state officials:

Seyran Avagyan – head of the Presidential Commission on Local Self-Government,

Vache Terteryan – deputy minister of Territorial Administration.

The following respondents were interviewed from NGOs and other organizations:

Arayik Hovhannisyan – head of Armenian Councilors Association,

Mkrtich (Sos) Gimishyan - board member of Communities Finance Officers Association,

David Tumanyan - Deputy Chairman and board member of Communities Finance Officers Association,

Edgar Ghazaryan - professor of economics at Yerevan State Economics University, independent expert on LSG issues,

Narine Sahakyan - portfolio manager in the field of governance of socio-economic programs, United Nations Development Program/Armenia.

The following individuals were interviewed as representatives of community association.

Armen Nersisyan - Sisian community association

Sahak Hambarzumyan - Meghri community association

Armen Sarkisyan - Kapan community association

Grisha Harutyunyan - Goris community association

Garnik Ghalumyan - Ijevan community association

Artush Margaryan - Dilijan community association

Andranik Veranyan - Noyemberyan community association

Samvel Hovsepyan - Berd community association

Hakob Tovmasyan "Ararat Inter-Community Union" Community Association

Varuzhan Barseghyan - "Vedi Inter-Community Union" Community Association

Gagik Poghosyan - "Mush Inter-Community Union" Community Association

Nune Pepoyan - "Tumanyan Inter-Community Union" Community Association

Aram Movsisyan - "Vayots Dzor Inter-Community Union" Community Association

## APPENDIX B

### Tables

**Table 1. Status of the communities**

	Number	Percent %
Villages	125	92.6
Towns	10	7.4
<b>Total</b>	<b>135</b>	<b>100</b>

**Table 2. Membership status of communities**

	Number of communities	Percentage %
Member of a community association	78	57.8
Not member of a community association	57	42.2
<b>Total</b>	<b>135</b>	<b>100</b>

**Table 3. Community attitude towards effectiveness of community association activities**

	Number of communities	Percentage %
Very effective	35	44.9
Somewhat effective	27	34.6
Somewhat ineffective	6	7.7
Very ineffective	8	10.3
Don't know, can't say	2	2.6
Total number of respondents	78	100
Mean = 2.01, Median = 2.00, Mode = 1, 1 = very effective, 4 = Very ineffective		

**Table 4. Which option is a better solution to existing problems in Armenia?**

	Number of communities	Percentage
Amalgamation	13	28.9
Inter-community unions	31	68.9
None	1	2.2
<b>Total</b>	<b>45</b>	<b>100</b>

**Table 5. Knowledge of community leaders about the legal status of ICUs**

	Yes		No		Undecided		Total	
	number	%	number	%	number	%	number	%
A second level of local self governance	29	21.5	99	73.3	7	5.2	135	100
Private organization working on contractual basis	22	16.3	106	78.5	7	5.2	135	100
A legal body subject to public law	9	6.7	119	88.1	7	5.2	135	100
A NGO that assists LSG	35	25.9	93	68.9	7	5.2	135	100
Equivalent to amalgamation	65	48.1	62	45.9	8	5.9	135	100

**Table 6. According to what principle should ICUs be formed?**

	number	%
Voluntary	97	71.9
Compulsary	10	7.4
Voluntary with some mandatory elements	26	19.3
Undecided	2	1.5
Total	135	100

**Table 7. Which powers should be given to ICUs?**

	Yes		No		Don't know, can't say		Total	
	number	%	number	%	number	%	number	%
Proscribing to ICUs some of LSG mandatory powers	73	54.1	53	39.3	9	6.7	135	100
Proscribing to ICUs delegated powers	81	60.0	43	31.9	11	8.1	135	100

**Table 8. Financial sources for ICUs according to community leaders**

	Yes		No		Undecided		Total	
	number	%	number	%	number	%	number	%
<b>Shares of community budget</b>	110	81.5	18	13.3	7	5.2	135	100
Shares of land and property tax	43	31.9	80	59.3	12	8.9	110	100
Shares from environmental and profit taxes	70	51.9	52	38.5	13	9.6	110	100
<b>Material investments from communities</b>	59	43.7	25	18.5	51	37.8	135	100
<b>Mandatory powers delegated to ICUs financed from state budget</b>	94	69.6	11	8.1	86	63.7	135	100
<b>Subsidies from state government</b>	86	63.7	12	8.9	37	27.4	135	100
<b>Fees for services to population</b>	89	65.9	11	8.1	35	25.9	135	100

**Table 9. Which should be the governing bodies of ICUs?**

	Yes		No		Undecided		Total	
	number	%	number	%	number	%	number	%
<b>ICU board</b>	124	91.9	3	2.2	8	5.9	135	100
Council formed by community leaders only	33	26.6	88	71.0	3	2.4	124	100
Council formed by community leaders and one member of community council	46	37.1	75	60.5	3	2.4	124	100
Council formed by community leaders and several member of community council proportionate to size	39	31.5	82	66.1	3	2.4	124	100
<b>Executive body</b>	67	49.6	18	13.3	50	37.0	135	100



**Table 10. How large should inter-community unions be?**

	number	%
Equivalent to current Marz size	10	7.4
Equivalent to the size of previous regions	70	51.9
Smaller than previous regions	43	31.8
Other answers	8	5.9
Undecided	4	3.0
<b>Total</b>	<b>135</b>	<b>100</b>

**Table 11. Which are the criteria for selection of administrative centers for ICUs?**

	Yes		No		Undecided		Total	
	number	%	number	%	number	%	number	%
The community having the largest population	29	21.5	101	74.8	5	3.7	135	100
The community having the best geographic location, that makes the center accessible for other communities.	71	52.6	60	44.4	4	3.0	135	100
The community having the most roads and infrastructure	23	17.0	108	80.0	4	3.0	135	100
The community that was the previous regional center	39	28.9	92	68.1	4	3.0	135	100

**Table 12. Current community associations in Armenia**

(community associations are arranged in chronological order according to the year of their establishment)

	Name of the association	Year established	Number of communities
1	Sisian Community Association	1999	33
2	Spitak Community Association	1999	23
3	Mkhchyan Community Association	2000	24
4	Meghri Community Association	2000	13
5	Kapan Community Association	2002	37
6	Goris Community Association	2002	24
7	Ijevan Community Association	2003	19
8	Dilijan Community Association	2003	6
9	Noyemberyan Community Association	2003	18
10	Berd Community Association	2003	17
11	"Gugark Inter-Community Union" Community Association	2003	17
11	"Ararat Inter-Community Union" Community Association	2004	15
12	"Vedi Inter-Community Union" Community Association	2004	15
13	"Aparan Inter-Community Union" Community Association	2004	9
14	"Martuni Inter-Community Union" Community Association	2004	17
15	"Mush Inter-Community Union" Community Association	2004	5
17	"Tumanyan Inter-Community Union" Community Association	2004	31
18	"Stepanavan Inter-Community Union" Community Association	2004	18
19	"Tashir Inter-Community Union" Community Association	2005	19
20	"Vayots Dzor Inter-Community Union" Community Association	2005	27
21	"Gavar Inter-Community Union" Community Association	2006	9
	<b>Total</b>		<b>395</b>

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