

**AMERICAN UNIVERSITY OF ARMENIA**



**Impact of Constitutional Amendments on the Budgeting Process in Armenia**

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## **Abstract**

*At the end of 2015, Armenia underwent a major constitutional reform to revise in its entire governance system. The constitutional amendments apparently also affect the budget cycle and modify the roles of executive and legislative bodies on all stages of the cycle. The aim of this essay is to understand how these amendments affect the budgeting process in Armenia, whether they increase the role of the legislative body in the budgeting process, as well as strengthen the independence of the Chamber of Audit. Firstly, a comparative analysis of the Constitution of Armenia with the amendments of 2005 and the Constitution with the amendments of 2015 is made. Each article related to the budgeting process in the Constitution of 2005 is compared with the corresponding article in the corresponding Chapter of the Constitution of 2015. Secondly, based on the findings of this analysis, interview questions were formulated, and in-depth interviews were conducted with a number of experts in budgeting and public finance, politicians directly involved in the budgeting process, as well as those who participated in the process of drafting the constitutional amendments. The combined results of comparative analysis and interviews prove that the constitutional amendments strengthen the independence of the Chamber of Audit, as well as increase the role of the legislative body in the budgeting process.*

## **Introduction**

The budget is the most vital device of the economic policy of the Government and gives a complete account of the state's prime concerns. (Wehner, Association, & others, 2007) Budgeting procedures range across states due to the state's constitution, different laws, legislative rules, balancing of power, as well as the anticipations of political players and the public. (Gustafson, 2003)

Constitutions are not set in stone; constitutional changes (possibly brought about by the legislative body) or total redrafting cause changes in executive and legislative bodies' roles on the budgeting procedure. Constitutions typically determine the function of the legislative branch and its relations with the executive branch. They develop responsibilities of both branches in the budgeting procedure. (Stapenhurst, 2008)

Being the representative of the people, the legislature is the suitable body to guarantee that the budget corresponds to the state's necessities with accessible resources in most appropriate ways. (Wehner et al., 2007) Being important across nations, the definition of the function of the legislative body in budgeting processes is one of the most crucial elements of reforms, and more often than not one of the most controversial.

Armenia just underwent a crucial reform in its entire governance system. The transformation of the governing system from semi-presidential to parliamentary is a very decisive step, which supposes huge changes in the whole system. Constitutional changes presumably affect the budget cycle and change the roles of executive and legislative branches on all stages of the cycle. The aim of the thesis is to understand how the constitutional amendments in Armenia affect the budgeting process, how the roles of the parliament and the government alter in the budgeting process in Armenia.

## **Literature Review**

### ***The Legislature and the Executive in the Budgeting Procedure***

According to Posner and Park (2008) as well as Wehner (2006), the legislature and the executive are two principal bodies in the budgeting procedure. Their appropriate function and authority in the budgeting procedure are different across countries and are shaped by various determinants, such as the broader political, constitutional and historical circumstances, as well as the legal characteristics of the budgeting procedure itself and inner legislative systems and procedures.

Gustafson (2003) and Posner and Park (2008) state that the separation of accountability between the legislature and the executive has a huge influence on legislative and executive functions in the budget process. In presidential models, as in the United States, the legislature has considerable power in the formulation of policies and the budget process, to a certain extent due to its separate election by voters that differ from those of the executive body. Powers of the Legislature are debatably least strong in the “Westminster system”, where the leadership of the executive comes from the legislative body and where the latter is politically obliged to assist the executive body. There are also altered forms such as the “semi-presidential system” as in Korea, France, the “parliamentary republic” as in Italy, Germany and the “non-Westminster parliamentary monarchy” as in Sweden, the Netherlands. (Lienert, 2005)

Gustafson (2003) and Lienert (2005) argue that the formation of a country’s budget is the primary responsibility of the government. The budget specifies who gets what and when, allocates funds to realize new plans, and in many cases proposes policies. In most of the countries, the executive branch has the greatest power in the budgeting procedure, though there is mostly some space for the legislative body as well to play significant function. Being

important across nations, politically sensitive, and complex, defining the function of the legislative body in budgeting a state's financial assets with predictability and transparency is one of the most crucial elements of reforms, and more often than not one of the most controversial.

According to Lienert (2005), Stapenhurst and Pelizzo (2008) as well as Wehner (2006), constitutions determine the function of the legislative branch and its relations with the executive branch. Constitutions, as well as laws on budgetary systems, develop functions and responsibilities of the legislative branch in the budgeting procedure. Legal restrictions and budgetary procedures differ hugely from country to country. Furthermore, Posner and Park claim that the role of the legislative body is undergoing changes, (Posner & Park, 2008) with parliaments having more operating functions in budget processes, particularly in developing countries. (Lienert, 2010)

According to Gustafson (2003) as well as Posner and Park (2008), in nearly all political systems, it is mainly established that the executive branch has the basic function in forming an annual budget through consolidating individual agencies' requests and introducing it to the legislative body. The latter has the authority of reviewing, debating, in some instances, amending, and approving or rejecting the plan of revenues and expenditures, which have been suggested by the executive body. The role of the legislative branch in the budgeting process has developed gradually over centuries. In England, the dominance of the legislative body as an institution implementing fiscal and political policies was fundamental to the transition from a monarchy to democracy.

As claimed by Posner and Park (2008) and Wehner et al. (2007), in fact, the functions that legislatures presently practice vary extensively. The main impacts involve wider legal,

institutional, and political factors that are not under the authority of legislative bodies, also inner legislative systems and procedures that may be altered by the legislative body itself.

### ***Increasing legislative involvement in the budgeting procedure***

As argued by Harris (1975) as well as Reid (1966), the debate on the involvement of the parliament in financial commitments determined crucial stages in the development and progress of present-day democratic governments.

According to Blöndal (Jón R. Blöndal, Chiara Goretti, & Jens Kromann Kristensen, 2003), as well as Lienert (2010), in both developing and transition states, a huge number of legislative bodies are becoming more active in budgetary processes. Possibly, the main cause of this progress is that the process of democratization and changes in the Constitution have created prospects for the involvement of the legislative body in such systems that had been formerly not open, especially in countries of Central Europe, Africa and Latin America. The Congress in Brazil, which traditionally did not have any remarkable role in the budgeting procedure, may serve as an illustration. The process of democratization at the end of the 1900s has led to changes in the constitution that have empowered Congress to alter the budget and have led to considerable activism.

Wehner (2004) claims, each year, legislative bodies all over the world develop the yearly state budget and permit governments to increase revenues and perform expenditures. After the execution of the budget, independent audit bodies make reports that notify the legislative body whether the budget that was approved by it had a proper implementation. However, a formalized procedure of observation does not mechanically convert into a relevant budgetary function for legislative bodies. It becomes evident that parliamentarians from country to country are posing



very common enquires as to how they can get involved in a more effective way in the budgeting procedure. Whereas conditions and difficulties are different, many demonstrate a necessity to increase their power. Some legislative bodies have initiated active actions to do so.

Posner and Park (2008) also argue that gradually, the legislative body's right to allocate public funds became the underlying principle of public budgeting and liability, preparing the way for the advancement of budgets by the executive body. The basic function of allocation provided the legislative body determining the impact in appropriating funds between contesting priorities. Legislative bodies exceeded this "*ex ante*" function to acquire "*ex post*" impact on the budget execution procedure and program administration. Executive agencies were commonly obliged to act in accordance with the stages in precise allocation accounts so that to spend funds during the year. The power of the legislative body over the executive was strengthened by overseeing agencies' management and execution process of budgets, either in a straight line or through not dependent auditing offices.

According to Lienert (2010), it is vital to ensure active involvement of the legislative body in the budgeting procedure in order to promote "good governance" and transparency of fiscal policies. When fiscal disciplines and "medium-term" budgeting goals are discussed in parliament, policies and strategies of the budgeting procedure are "owned" more broadly. Nevertheless, more active engagement by the legislative body exposes the possibility that fiscal policy weakens. The latter happens because the "common pool" issue, which can be viewed during the stage of budget preparation, can be extensive at the stage of parliamentary approvals. Particularly, in states where the legislative body has the unrestricted power of amending budgets, the legislature is inclined to make changes that expand expenditures or cut taxes.

Constitutions are not set in stone; constitutional changes (possibly brought about by the legislative body) or total redrafting cause changes in executive and legislative bodies' roles on the budgeting procedure. As it has already been mentioned above, the Congress of Brazil generally performed a very insignificant function in the budgeting process and tax policies. The constitution of Brazil adopted in 1988 hugely extended Congress' function and at present all matters concerning taxes, national debt and appropriations are considered and decided in Congress. Exercising the rights from the newly adopted constitution, government as well as non-government members of the National Congress discover their changes customarily approved. (Jón R. Blöndal, Chiara Goretti, & Jens Kromann Kristensen, 2003)

As stated by Cristina Leston-Bandeira (1999), in a similar way, before 1982, the constitution of Portugal restricted functions of the parliament in budgeting processes to discussion and voting on an expression of intents for the delay yearly budgets. Constitutional changes implemented in 1982 hugely extended the legislative body's authority on the budget platform to debate, amend, and approve the budget. At present, the parliament of Portugal is fully engaged in the budgeting procedure and periodically proposes more than hundred changes to the yearly budget of the government.

Poland illustrates a case of the significance of constitutional amendments. In 1992, amendments were made to the constitution in order to democratize the country, because it had sprung up from communism. However, shortly it became vivid that there was a need for a totally new constitution. As a result of the constitution of 1997, parliament's function in budgetary control has been remarkably expanded. (Gustafson, 2003)

## ***Main Reasons Why the Legislature Should Have a Role in Budget Processes***

### ***The “power of the purse” as an indisputable democratic principle***

Wehner (2004) suggests four main reasons why the legislature should have a role in budget processes. The first one concerns the “power of the purse” as an indisputable democratic principle. This also implies that the legislature has the commitment to warrant that revenues and expenditures it legalizes are fiscally valid, correspond to the necessities of people with accessible resources and that they are performed in proper and efficient ways.

### ***Checks and balances as components of “good governance”***

The second one, which is suggested also by Marshall (1991) and Lienert (2010) is about checks and balances as components of “good governance”. Checks and balances are essential to guarantee “good governance” in budgeting processes in the medium and long periods, which necessitate the accountability of the executive body to the legislative body, and the capability of the latter to take proper steps in the event of malfunctions. This is growingly acknowledged as an important element of a valid budgeting process, as in the OECD’s “Best Practices for Budget Transparency”. (OECD, 2001)

### ***Publicity and transparency of the budgeting process***

The third one, according to Wehne (2004), McGee (2002), and Lienert (2010) is publicity and transparency of the budgeting processes in legislatures. As a tradition, the drafting procedure of the budget in the executive body has inclined to be opposed to publicity. When the budget is submitted to the legislative body, thorough discussions become feasible. Open debates on the components of the budget in the legislative body increase publicity and make possible successful reviews. There is an increasing tendency for legislative bodies to make their procedures and committee discussions available to the media as well as the public.

### *Involvement of broader public and concord building*

Finally, the fourth one is the involvement of broader public and concord building. Legislative bodies can contribute to guarantee equilibrium of perspectives and contributions into budget decision-making, and so ensure a floor for setting up largely based concord in respect of complicated budgeting compromises. In a big number of states, the business community generally has a compelling role during the formulation of budget policies. To complete and stabilize this viewpoint, legislative bodies can act as an entry step into the budgeting procedures for “think tanks”, scholars and civil society. More and more legislative bodies openly urge for proposals on the budget, in respect of the cost of largely based contributions. As a consequence of civil society involvement, some legislatures have been influential in introducing essential new viewpoints on the budgeting process. (Wehner, 2004)

### ***Legislative body’s oversight power***

According to Gustafson (2003) as well as McGee (2002), a legislative body’s fiscal responsibilities are just to some extent discharged while approving the yearly budget. A vital element of the legislature’s fiscal duty is deliberate and continuing oversight of the executive body’s execution of the budget. Many countries have evolved legalized methods for carrying out the oversight by the legislative body, either in a direct way or by establishing other bodies to support it or to function in the interests of itself. Frequently, legislative bodies make use of a composition of inside actions and not dependent tools to carry out oversight activities.

As stated by both Blöndal et al. (2003) and Gustafson (2003), the oversight by the legislative body very often “takes a backseat” to budgeting as it is complicated, from time to time too long, and legislative bodies may not observe it as satisfying, in a particular if they are

members of the major party. It, it is a major chance for productive legislative participation. As a matter of fact, where chances for a legislature's function in the budgeting procedure are scarce (for example, no authority to amend), oversight may make up a basic measure of having an impact on the fiscal actions of the government. Via the oversight procedure, legislative bodies can promote strengthened government effectiveness, identifies fields in a necessity of raised or cut financing, and make a careful observation of the government's performance.

The main function of the legislature's oversight is to secure that public funds are spent as defined in the budget and to put into force remedial actions if funds are spent as defined. In general, the measures accessible to parliaments to launch remedial actions are grouped into five classes:

**“Identify fiscal irregularities”**-Drawing the government's attentiveness to the fields of concern is often sufficient to make possible remedial actions.

**“Public exposure”**- Public opinion is a grave inducement for a government to tackle issues posed by a parliament.

**“Legal action”**-A parliament can request that “legal activity” be taken against individuals who wrongly manage governmental funds.

**“Legislative action”**-Danger of key alterations to a government's budget and other legislative correctives is a grave inducement for reactive “fiscal management”.

**“Vote of no confidence”**- Made use of not often, but a feasible consequence of serious, extensive corruption revealed by oversight actions. (Gustafson, 2003)

As claimed by Gustafson (2003) and Stapenhurst, (2008) many vital ingredients of oversight have been illustrated, which include elaborate, precise budget reports which were set forth by the executive body and the possibility to put questions to ministers and other

governmental officials both in oral and in written ways. Many legislative bodies make use of their committee system (mostly “a public accounts committee”) and a not dependent outer auditor (generally named “an auditor general”) to fulfill this overseeing function.

### ***Evaluating the Influence of Legislative Involvement***

According to Wehner (2004), and Posner and Park (2008), the function of the legislative body is different significantly from country to country. This part of the literature review is to illustrate some of the distinctions in terms of the degree and character of involvement. The first one concerns the *degree* to which a legislative body can affect budget policy, the second one its *consequences* on budget results.

#### **Degree of the influence of budget policy**

Legislative bodies can be differentiated with regard to the degree of influence of their budget policy. The most influential legislative bodies are those that have the power to draw up the budget.

<b><i>A classification of the influence of budget policy of legislative bodies</i></b> (Adapt. from Norton, 1993)
<b>Legislative bodies that make budget</b> have the power of amending or rejecting the budget request of the executive body, and the power of formulating and substituting their own budget.
<b>Legislative bodies that influence budget</b> have the power of amending or rejecting the budget request of the executive body, but are deprived of the power of formulating and substituting their own budget.
<b>Legislative bodies that have little or no influence on the budgeting process</b> are deprived of the power of amending or rejecting the budget request of the executive body, and of formulating and substituting their own budget. They are limited to approving budget as it is submitted to them.

### Influence on budget results

What is the influence of legislatures' actions on budget results? As stated by Schick (1998), and Wehner (2004), the theory of the management of public expenditures proposes three interconnected goals: the preservation of fiscal discipline, the prioritizing of funds in compliance with policy and program productiveness, and viable competence in the budget implementing process. These three goals are also connected to budget revenue. Fiscal discipline is not feasible in the absence of sufficient revenues and a precise calculation of accessible assets. Decisions about allocations have less attention on revenues when tax incidence is considered – the allocation of the “tax burden” among various sectors as well as individuals. Moreover, the effective administration of taxes is vital to making certain that the greatest number of revenues is accessible within the framework established by tax and fiscal policies.

Wehner (2004) argues, that if a legislative body makes a decision to deal with decisions about allocations, it will have to do it via “*ex ante*” examination during the stage of approval of the budgeting procedure. On the contrary, issues of viable competence are first and foremost observed by the legislative body through “*ex post*” examination on the basis of audit results presented by the supreme audit body after the budget implementing process. That is to say, “*ex ante*” examination concentrates on the subject matter and general aim of budget policy, and “*ex post*” examination on the value of its implementing process. If the procedure is productive, legislative bodies can make use of the experience obtained from audit results while considering future budgets.

Legislative bodies have to decide what equilibrium of “*ex ante*” and “*ex post*” examination is best suitable in certain contexts. For instance, the concentration of legislatures on altering budget policies during the phase of approval may have weak influence if operative

management is not strong and governments have an insufficient record of the implementing process of budgets. Concentration that incorporates control over impoundments by legislatures, continual oversight over execution and efficient “*ex post*” examination may be more suitable for these kinds of conditions than attempting to affect the course of budget policies that are not executed. (Wehner, 2004)

### ***Illustrating Dissimilarities***

According to Krafchik and Wehner (1998), a question may arise why there are such dissimilarities in legislative influence on budgeting processes from country to country? It is feasible to determine many factors that interplay to shape the capability of parliament to involve with budget matters. These associates with the legislatures’ predetermined by the Constitution function, also its political, legal, and technical ability to manage budgets. The existence of an essential number of empowering preconditions is required to provide for efficient involvement by the legislative body. However, a single variable is not enough on its own, and the importance of and interplay among factors may be different across different cases.

### ***Presidential in contrast parliamentary governments***

The essence of the state has basic fiscal indications. The difference in the comparative impact of the legislative body on the budget with regard to the executive body is mostly a role of the governmental system. Parliamentary systems of government are inclined to be, on account of their structure, useful for a collaborative relationship between the executive and the legislative branches. The executive straightly depends on majority approval in the legislative body. As a consequence, the structure of the legislative body and the executive body are intrinsically connected. For the legislative body to radically revise the whole proposal of the executive budget



would be equal to “a vote of no confidence” in the executive body. (Haggard & McCubbins, 2001)

On the contrary, the division of powers in presidential systems of government can cause intense friction in the relationship between the executive and legislative bodies. The legislative body is prone to criticize more budgets and proposals for different policies proposed by the executive body with which it can have little in common. Some of the most severe fights over budget have happened in states that have presidential systems, like the US (Williams & Jubb, 1996) or Nigeria. (Wehner, 2002)(Aiyede & Isumonah, 2002) The division of powers does not directly cause an intensive dispute between the legislative and the executive. However, it has developed such a tendency when it is accompanied by a “separation of purpose”, for example, in cases of separated government or in cases when “the party political glue” between the executive and the legislative is not strong. (Haggard & McCubbins, 2001)

## **Research Design and Methodology**

The aim of the essay is to understand how the constitutional amendments in Armenia will affect the budgeting process and how the roles of parliament and the government will alter in the budgeting process in Armenia. Thus, the research question will be about the impact of the amendments on the budgeting process in Armenia.

### ***Research Question and Hypotheses***

**Research Question:** How do the constitutional amendments of 2015 affect the budgeting process in Armenia?

In an attempt to answer the research question raised in the study, it is hypothesized that the constitutional amendments strengthen the independence of the Chamber of Audit, as well as increase the role of the legislative body in the budgeting process.

**Hypothesis1:** After the constitutional amendments of 2015, the Chamber of Audit acquired a more independent functioning status.

**Hypothesis2:** The constitutional amendments of 2015 increase the involvement of the legislative body in the Budgeting Process.

### ***Methodology***

This research design is explanatory because it aims at defining the relationship between the two variables of the constitutional amendments and the budgeting process in Armenia. The data was collected by a qualitative method.

Firstly, a comparative analysis was made of the most important legislative acts outlining the budget process in Armenia. These are the Constitution of the Republic of Armenia with the

amendments of 2005 (chapter 4 (National Assembly), articles 75, 76, 77, 83.4; chapter 5 (Government of Armenia), articles 89, 90), the Constitution of the Republic of Armenia with the amendments of 2015 (chapter 4 (National Assembly), articles 88, 109, 110, 111; chapter 13 (The Chamber of Audit), article 198). Each Article of each Chapter on the budgeting process of the Constitution of 2005 was compared with the corresponding Article of the corresponding Chapter of the Constitution of 2015. Differences, similarities, additions and exclusions were identified.

Secondly, based on the findings of this analysis, interview questions were formulated, and in-depth interviews were conducted with a member of the President-affiliated Specialized Committee on Constitutional Reforms, the head of the Budget Office in the NA, a former Minister of Finance, as well as independent experts in public finance and budgeting. The combined results of comparative analysis and interviews helped to answer the research question of the study.

### ***Sampling Strategy***

The sampling strategy of the research is the purposive sampling. The Constitution of the Republic of Armenia of 2005 and of 2015 were selected for the comparative analysis as the purpose of the research is to find out the influence of the Constitutional Amendments on the budgeting process in Armenia and as the Constitution is the most important legislative act outlining the budget process in Armenia.

For the interviews, the sampling strategy is again the purposive sampling. The interviewees were selected with the purpose of interviewing those people who are the most aware of the budgeting process in Armenia, who work in the field of budgeting and public

finance, and who are directly involved in the budget process as well as in the process of drafting the constitutional amendments.

### ***Limitations of the Study***

One of the limitations of the study is the fact that the constitutional amendments in Armenia were adopted only at the end of the year 2015, and naturally, no previous research has been conducted on this topic. Thus, the time does not allow examining the practical implementations of the changes. If the research had been conducted over a longer period, the results would be more robust; it would be possible to determine the impact of the changes on the budgeting process not only theoretically, but also practically.

## Analysis and Findings

### *Comparative Analysis*

The aim of the thesis is to understand how the constitutional amendments in Armenia have affected the budgeting process and how the roles of parliament and the government have altered in the budgeting process in Armenia. For this purpose, firstly, a comparative analysis was made of the most important legislative acts outlining the budget process in Armenia. These are the Constitution of the Republic of Armenia with the amendments of 2005 (chapter 4, articles 75, 76, 77, 83.4; chapter 5, articles 89, 90), the Constitution of the Republic of Armenia with the amendments of 2015 (chapter 4, articles 88, 109, 110, 111; chapter 13, article 198).

First of all, the corresponding articles on the budgeting process in Armenia of both the Constitution of the Republic of Armenia with amendments of 2005 and the Constitution of the Republic of Armenia with the amendments of 2015 were compared and analyzed. Thus, in the Constitution of the Republic of Armenia with the amendments of 2005 articles on the budgeting process in Armenia are incorporated in chapter 4 on the National Assembly of Armenia and chapter 5 on the Government of Armenia. While in the case of the Constitution of the Republic of Armenia with the amendments of 2015 articles on the budgeting procedure are embodied in chapter 4 on the National Assembly of Armenia and chapter 13 on the Chamber of Audit of Armenia.

The **Article 75** of chapter 4 on the National Assembly of the Constitution of the Republic of Armenia of 2005 stated that with the decision of the Government “the National Assembly shall adopt the draft laws reducing the state budget revenues or increasing the state budget expenditures by the majority of the total number of votes of the Deputies.” (RA Const., amend. 2005, Ch. 4, Art. 75) This article is preserved in chapter 4 of the Constitution of the Republic of

Armenia of 2015, but it is incorporated in the **point 3** of the **Article 109** on “*Legislative Initiative*.” (RA Const., amend. 2015, Ch. 4, Art. 109, point 3)

The **Article 76** of chapter 4 on the National Assembly of Armenia of the Constitution of the Republic of Armenia of 2005 stated that the National Assembly “shall adopt the state budget upon its submission by the Government.” (RA Const., amend. 2005, Ch. 4, Art. 76) This is preserved in chapter 4 of the Constitution of the Republic of Armenia of 2015, but it is incorporated in the **point 1** of the **Article 110** on “*Adoption of the Budget*.” (RA Const., amend. 2015, Ch. 4, Art. 110, Point 1) The same **Article 76** also stated that in case “the budget is not adopted by the start of the fiscal year, all expenditures shall be incurred in the same proportions as in the previous year’s budget.” (RA Const., amend. 2005, Ch. 4, Art. 76) This is preserved in chapter 4 of the Constitution of the Republic of Armenia of 2015, in the **point 3** of the **Article 110** on “*Adoption of the Budget*.” (RA Const., amend. 2015, Ch. 4, Art. 110, Point 3)

The same **Article 76** also stated, “the procedure for debate on and adoption of the state budget shall be prescribed by the Law on the Rules of Procedure of the National Assembly.” (RA Const., amend. 2005, Ch. 4, Art. 76) However, in the Constitution of the Republic of Armenia of 2015, there is no specification of these procedures. The reason is that the constitution has one general article (**Article 88, point 5**) which states that the NA operates based on its rules of procedure. (RA Const., amend. 2015, Ch. 4, Art. 88, Point 5) In the previous Constitution, the **Article 62** stated the same thing. (RA Const., amend. 2005, Ch. 4, Art. 62) It is a change of editorial nature, which does not presuppose semantic changes. Thus, it was redundant in the previous case.

The **Article 77** of chapter 4 of the Constitution of the Republic of Armenia of 2005 stated that the National Assembly “shall oversee the implementation of the state budget, as well as the

use of loans and credits received from foreign governments and international organizations.” (RA Const., amend. 2005, Ch. 4, Art. 77) This is preserved in chapter 4 of the Constitution of the Republic of Armenia of 2015, in the **point 1** of the **Article 111** on “*Oversight of the Execution of the State Budget.*” (RA Const., amend. 2015, Ch. 4, Art. 111, Point 1) The same **Article 77** stated that the National Assembly “shall examine the annual report on the execution of the state budget and adopt the report based on the findings of the Chamber of Control.” (RA Const., amend. 2005, Ch. 4, Art. 77) This is preserved in chapter 4, in the **point 2** of the **Article 111** on “*Oversight of the Execution of the State Budget.*” (RA Const., amend. 2015, Ch. 4, Art. 111, Point 2)

The **Article 83.4** of chapter 4 stated, “the Chamber of Control of the Republic of Armenia shall be an independent body, which shall oversee the use of the budget resources and the state and community property.” (RA Const., amend. 2005, Ch. 4, Art. 83.4) This article is preserved in the Constitution of the Republic of Armenia of 2015, but it is incorporated in the **point 1** of the **Article 198** on “*Functions and Powers of the Chamber of Audit*” of chapter 13 on “The Chamber of Audit.” (RA Const., amend. 2015, Ch. 13, Art. 198, Point 1) Thus, the name of the Chamber has been changed from the “Chamber of Control” to the “Chamber of Audit.” Most probably, this renaming presupposes certain changes in the functions and powers of the Chamber. Namely, the power of controlling has been extended to the power of auditing as well.

However, there are also some differences and additions in the wording. Thus, in the new version, it is specified that “the Chamber of Audit shall audit the lawful and efficient utilization of state and municipal budget funds, loans and borrowings received, ....., in the field of public finance and public ownership.” (ibid.) Moreover, a new specification has been added about the

functions and powers of the Chamber of Audit, which states “the Chamber of Audit may conduct inspections of legal entities only in cases prescribed by law.” (ibid.)

The same **Article 83.4** of the old version of the Constitution stated, “the action plan of the Chamber of Control shall be *approved by the National Assembly*.” (RA Const., amend. 2005, Ch. 4, Art. 83.4) Yet, in the case of the new version of the Constitution, the **point 2** of the **Article 198** on “*Functions and Powers of the Chamber of Audit*” of chapter 13 on “The Chamber of Audit” states that “the Chamber of Audit shall operate *based on its program, which was approved by it*.” (RA Const., amend. 2015, Ch. 13, Art. 198, Point 2) This indicates the increasing level of the Chamber’s independence.

The **Article 83.4** of the old version of the Constitution also stated, “the Chamber of Control shall at least once a year submit a report on the oversight outcomes to the National Assembly.” (RA Const., amend. 2005, Ch. 4, Art. 83.4) While in the new version of the Constitution, the **point 3** of the **Article 198** on “*Functions and Powers of the Chamber of Audit*” of chapter 13 on “The Chamber of Audit” states that “the Chamber of Audit shall present to the National Assembly: an annual communication about its activities; conclusion about the execution of the state budget;” (RA Const., amend. 2015, Ch. 13, Art. 198, Point 3) as well as “interim conclusions—in cases prescribed by law.” (ibid.)

The **Article 83.4** of the old version of the Constitution also stated “the law shall define the regulations on the procedure and powers of the Chamber of Control.” (RA Const., amend. 2005, Ch. 4, Art. 83.4) This is incorporated in the **point 4** of the **Article 198** on “*Functions and Powers of the Chamber of Audit*” of chapter 13 on “The Chamber of Audit”, but it is specified as “the powers, procedure of operation, and safeguards of activities of the Chamber of Audit.” (RA Const., amend. 2015, Ch. 13, Art. 198, Point 4)



According to the **Article 83.4** of the old version of the Constitution, the Chairman “shall be appointed by the National Assembly upon the recommendation of the President of the Republic for a six- year term.” (RA Const., amend. 2005, Ch. 4, Art. 83.4) While in the Constitution of 2015, the **point 2** of the **Article 199** on “*Formation Procedure and Composition of the Chamber of Audit*” of Chapter 13 states, “the Chamber of Audit chairman and other members shall, upon nomination by the competent standing committee of the National Assembly, be elected by the National Assembly for a six-year term by at least a three-fifths majority vote of the total number of parliamentarians.” (RA Const., amend. 2015, Ch. 13, Art. 199, Point 2)

It was also specified in the **Article 83.4**, “any person complying with the requirements for the Deputy can be appointed Chairman of the Chamber of Control,” (RA Const., amend. 2005, Ch. 4, Art. 83.4) as well as, “the same person may not be elected for the post of the Chairman of the Chamber of Control for more than two consecutive terms.” (ibid.) Both sentences are preserved in the Constitution of 2015, under the **point 2** and the **point 3** of the **Article 199**; however, these conditions apply for not only the Chairman but also other members of the Chamber. (RA Const., amend. 2015, Ch. 13, Art. 199, Point 2) Also, a new specification has been added: “Additional requirements may be prescribed by law for members of the Chamber.” (RA Const., amend. 2015, Ch. 13, Art. 199, Point 3)

A few more additional details and specifications have been added concerning the Chamber of Audit. First, according to the **point 4** of the **Article 199**, “the incompatibility requirements prescribed for parliamentarians shall apply to members of the Chamber of Audit,” (RA Const., amend. 2015, Ch. 13, Art. 199, Point 4) as well as “additional incompatibility requirements may be prescribed for them by law.” (ibid.) Second, the **point 5** of the same article

states, “during their term in office, members of the Chamber of Audit may not be members of any party or otherwise engage in political activities,” (RA Const., amend. 2015, Ch. 13, Art. 199, Point 5) also, “in public speeches, they shall exercise political restraint.” (ibid.) Finally, according to the **point 6** of the same article, “in case of violating any requirement of Paragraphs 4 or 5 of this Article, the powers of a member of the Chamber of Audit shall be terminated by the National Assembly by at least a three-fifths majority vote of the total number of parliamentarians.” (RA Const., amend. 2015, Ch. 13, Art. 199, Point 6)

The **point 2** of the **Article 89** of chapter 5 on “the Government of Armenia” of the old version of the Constitution stated that the Government “shall submit the draft state budget to the National Assembly for approval, ensure the execution of the budget and submit financial reports on the budget execution to the National Assembly.” (RA Const., amend. 2005, Ch. 5, Art. 89, point 2) While in the **point 3** of the **Article 88** on “*Status and Functions of the National Assembly*” of chapter 5 on the National Assembly of the new version of the Constitution, it is stated that “the National Assembly shall exercise oversight of the executive power, shall adopt the state budget, and shall perform other functions stipulated by the Constitution.” (RA Const., amend. 2015, Ch. 5, Art. 88, point 3)

The **Article 90** of chapter 5 stated that the Government “shall submit the draft of the state budget to the National Assembly at least ninety days prior to the beginning of the fiscal year.” (RA Const., amend. 2005, Ch. 5, Art. 90) This is preserved in chapter 4, in the **point 2** of the **Article 110** on “*Adoption of the Budget*.” (RA Const., amend. 2015, Ch. 4, Art. 110, point 2)

The same **Article 90** also stated that the Government “may request that this draft be voted on prior to the expiration of the budget deadline with any amendments it may adopt.” (RA Const.,

amend. 2005, Ch. 5, Art. 90) However, in the new version of the Constitution, this part is eliminated.

The same **Article 90** of chapter 5 of the old version of the Constitution stated “the Government may put forward a motion of its confidence in conjunction with the adoption of the state budget.” (ibid.) It was also stated in the **Article 90** “if the National Assembly does not express no confidence in the Government in conformity with the procedure set forth in Article 75 of the Constitution, then the state budget as well as the amendments approved by the Government shall be considered adopted.” (ibid.) Moreover, according to the **Article 90**, “if the National Assembly expresses no confidence in the Government in conjunction to the draft of the state budget, the new Government shall submit the draft state budget to the National Assembly within a period of ten days after the approval of its program.” (ibid.) Furthermore, the **Article 90** states “this draft shall be debated and voted on by the National Assembly within a period of thirty days in accordance with the procedure defined by this Article.” (ibid.) However, there is no reference to “a motion of confidence in conjunction with the adoption of the state budget” in the new version of the Constitution. Probably, the reason is the fact that the **Point 1** of the **Article 156** on “*Question of Confidence in the Government*” of chapter 6 on “the Government of Armenia” states “the Government may put forward the question on confidence in the Government with respect to the adoption of a draft law submitted by the Government.” (RA Const., amend. 2015, Ch. 6, Art. 156, point 1) As the adoption of the state budget is a law, this article implies the adoption of the state budget as well.

### ***Interviews Analysis***

Based on the findings of the comparative analysis of the Constitution of RA of 2005 and the Constitution of RA of 2015, interview questions were formulated. In-depth interviews were conducted with a member of the President-affiliated Specialized Committee on Constitutional Reforms (an expert on Constitutional Law), with a member of the Parliamentary Budget Office, with a former Minister of Finance and Economy of RA, with a member of the Standing Committee on Financial - Credit, Budgetary Affairs of the National Assembly, with an Elected Deputy of the National Assembly, the head of “Freedom” party, with three experts of the project “Public financial management in the South Caucasus”, as well as other independent experts in public finance and budgeting.

The key concepts that are the most important for answering the research questions proposed at the beginning of the study are generalized based on the analysis of all the interviews and presented below.

#### ***The role of the National Assembly in the budgeting process***

NA was in charge of legislative consideration of the budget according to all versions of the Armenian constitution. Two important circumstances shape a different role for the NA after 2015. First, the type of the budget will change to programming since 2018, which requires a different level of understanding on how and why the government spends. However, this change was planned long time ago and is not directly stemming from recent constitutional amendments. Thus, the transition to program budgeting and the constitutional amendments coincided but not intentionally. The second change is connected with the enhanced role of the Chamber of Audit. It depends on how the National Assembly will operate its functions. However, constitutional

amendments are a long-term process, and the whole practice of oversight and approval is changing.

In the case of a parliamentary governing system, the role of the parliament is increasing to some extent. Thus, the oversight functions of the parliament over the activities of the Government, mainly in the process of the state budget execution are significantly rising. The tools through which the legislative body performs that oversight functions are broadly used in international practice, and irrespective of the constitutional amendments, a major part of those tools is given to the parliament. As the concentration is changing, the parliament will use those tools given to it previously to the maximum extent possible and particularly the ones that have been added after the changes of 2015.

On March 25, 2015, after the second reading, a legislative package was adopted in the NA on making changes in “Rules of Procedure in the NA”, according to which three main tools, widely used in international practice, were added. The first one is the creation of the budget office, which is widely used in some developed countries of the world. The next set of tools is the discussions of the report about the process of budget execution by the Government in the Committee on Financial - Credit, Budgetary Affairs every trimester. The third set of tools is the discussions of the current reports of the Chamber of Audit in the same committee, which also enables to have some ongoing discussions before the discussion of the annual program execution. As the “Chamber of Control” is transforming to the “Chamber of Audit”, a new law will be drafted about it. Some regulations are made about the discussions of the current reports. Thus, the role of the parliament is increasing in the budget process because it gets more leverage for the oversight of the Government’s activities.

In a parliamentary system of governance, the parliament has an exclusive function in the process of governing the state. From this derives the implementation of one of its three most important missions, that is, the oversight function. The three functions of the parliament are the representativeness (according to the Constitution, the only body that directly has the people's mandate), the legislative function (the formulation of a legal environment) and the oversight function. The new constitution states that committees are created in the parliament to control the Government. Thus, the oversight function is increasing. The Government has two functions in the budgeting process; it is responsible a) for developing the executive budget and submitting it to the legislature and b) execution of the budget. The parliament oversees both functions. The parliament adopts the budget as a law, discusses and approves the report on the implementation of the budget.

The constitution of 2005 stated that the NA "approves" the budget; in the new version, the formulation has been changed: the NA "adopts" the budget. In all cases, the role of developing and submitting the budget document belongs exclusively to the Government, as it is in a wide range of countries. However, the influence of the NA on the budget law increases because it will have the possibility to present any suggestion connected with the budget. Thus, the words "approve" and "adopt" presuppose important semantic change. The constitution does not specify how this will be regulated, how influential the role of the NA will be in presenting suggestions, changing the program of the Government. These will be illustrated in the budgetary law and the rules of procedure of the NA. (One important change is that the law on rules of procedure will be adopted with 3/5 majority (previously it was adopted by a simple majority), as a Constitutional Law.

The Government cannot reject suggestions on changes proposed by the NA and insist on voting in the format it wants. In any case, NA deputies will have the right to propose changes, which should be discussed. The **Article 90** of the previous constitution stated that it was the right of the Government to accept or to reject the suggestions. (RA Const., amend. 2005, Ch. 5, Art. 90) The present constitution does not provide the Government with such a power regarding this issue. There is a problem connected with the initiative of the legislation. The **Article 109** has preserved the paragraph, which states, “if, according to the conclusion of the government, a draft law significantly reduces revenues of the state budget or increases state expenditures, then the Government may demand that the National Assembly adopt such law only by majority vote of the total number of parliamentarians.” (RA Const., amend. 2015, Ch. 4, Art. 109) In any case, the role of the Government in the adoption of the state budget is still high even in the new version of the Constitution. However, the powers of the NA deputies have increased, and the Government does not simply approve the program proposed by the Government but adopts the budget.

### *The Chamber of Audit*

The renaming of the Chamber of Control to the Chamber of Audit, as well as the power to approve its program independently, in our opinion, implies that the level of its independence and flexibility is rising. In international practice, the supreme audit body itself approves its programs. Initially, the Armenian constitution of 1995, did not state that the Chamber of Control was an independent body. After 2005 constitutional amendments, the Chamber was given a status of an independent audit body. There were discussions on whether the Chamber should approve its program itself. However, as the Chamber had just gained its independent status, it

was decided to introduce the corresponding changes deriving from its new status gradually. At this point, the Chamber is reaching the next level, which is widely known in the whole world as the capability of the supreme audit body to approve its program. The important point here is compliance with international standards that is the provision of the audit body with the highest possible independent status.

Another important condition is the standards of the International Organization of Supreme Audit Institutions (INTOSAI), which aims at promoting development and transferring knowledge, improving state audit and enhancing professional competence. It has four standards, the first one is called “founding principles,” the second one “prerequisites for the functioning of supreme audit institutions.” The program of the Chamber is aimed to meet these two standards, that is, how to audit, on what principles, by what methods. Also, it is important to follow the best practice of the EU, particularly Estonia. The principle is to fill the law with as much information as possible, as there will be no other legislative acts on the Chamber.

As an independent body, the Chamber will substantiate its professionalism. The Chamber will have a risk-based methodology, which will make the process efficient. It has two main deliverables; the first one is the conclusion of the annual budget execution report, the other one is its annual program.

The functions of the Chamber of Audit are presented in more detail. Previously they were not so clear; they indirectly derived from the **Article 77**. (RA Const., amend. 2005, Ch. 4, Art. 77) In the amended Constitution, the **Article 198, point 1** provides that the Chamber of Audit has power “to audit the state budget, municipal budgets, loans and credits, efficiency and legality of using state and municipal assets.” (RA Const., amend. 2015, Ch. 13, Art. 198, point 1)



The Chamber of Audit may also inspect legal entities only in cases defined by law. According to an expert on Constitutional Law, this concerns those legal entities of private law, which made some type of business with government bodies. That is why a necessity arises that the Chamber of Audit checks their activity. A few eligibility criteria for becoming the member of the Chamber of Audit are outlined in **Article 199, point 3**. However, according to the same article, the law can provide additional requirements to the members of the Chamber of Audit. (RA Const., amend. 2015, Ch. 13, Art. 199, point 3)

In the case of the transition to the program budgeting, the audit should be done based on results. This transition will change the budget-parliament relations more than the constitutional changes. The question is to what extent the legislative body in Armenia will be ready to this new relationship. On the one hand, it is a formal change; on the other hand, from the point of political culture, it is a more complicated process. Nowadays, more time and effort are devoted to the process of adoption of the state budget rather than implementation and control. However, implementation and control are not less important than adoption.

The next two concepts that will be highlighted are the budget office and the program budgeting. Although these two innovations are not connected with the constitutional amendments, it is necessary to address them, as they are changes happening approximately at the same period with the amendments and significantly affecting the budgeting process in Armenia. That is why it is important to illustrate what consequences will be as a result of a new budgeting system and a new body in the NA that deals exceptionally with the budgeting process.

### *The budget office*

The initiative to establish a budget office in NA was born before the constitutional amendments were passed. The process had been going on, but the bill on making changes in “Rules of Procedure in the NA” was passed on March 25, 2015, according to which a budget office in the NA was to be established, and the office remains understaffed since January 15 of 2016.

In international practice, a budget office is an important unit in parliaments, and its functions are primarily to assist deputies, factions, standing committees of the NA by providing necessary information.

In Armenia, the creation of the budget office also implies an expansion of analytic capabilities of the NA. For several years, there had been attempts to create an analytical center in the NA on the prototype of the budget office in the Connecticut General Assembly with huge investments from the international community. Now, the budget office is in its initial, nascent stage (as recommended by international specialists) with the perspective for further development. However, much depends on the demand for the services provided by the budget office in the NA.

The creation of the budget office will also improve the activities of deputies; ensure the provision of information. In case deputies need additional information or professional analysis, the budget office will help them precisely and explicitly to formulate their questions to address to the Government, as well as interpret the answers. Thus, it will make easier and more dynamic the interaction between the Government and the NA, as well as between the NA and the Chamber of Audit.

As stated by most of the interviewees, the creation of the budget office also supports the NA to implement the **Article 111** of the Constitution (RA Const., amend. 2015, Ch. 4, Art. 111)

(the **Article 77** of the previous Constitution), (RA Const., amend. 2005, Ch. 4, Art. 77) which states that the NA oversees execution of the state budget. The budget office has no direct responsibility for oversight function. However, its main function is to provide the NA with the necessary information, which in its turn has an important function to control the budget execution. Thus, though not directly, the budget office contributes to control function over the budget execution. The essential condition is that the budget office will remain non-partisan. The increase of the legislature's role is considered an indicator of democracy. Thus, the budget office will provide independent information and analytical consultation to show the real state of the economy.

### *Program Budgeting*

The transition to program budgeting was planned to take place much earlier, but it has constantly been postponed. The process started even before the Constitution of 2005 was adopted; in 2004-2009, the methodology of the program budgeting was drafted and piloted in selected ministries.

In 2013, 175 budget programs were developed based on the program budgeting, as a pilot. It was decided to append the program budget to the budget document submitted to the National Assembly just for information, without a need for approval. According to the strategy of the program budgeting, adopted in June 2015, the legislative package as a basis for the program budgeting introduction will be adopted by the beginning of the budgeting process of 2019.

By the new Constitution, in a parliamentary system of governance, it will be inappropriate if budgets of different sectors are not adopted on a justifiable base. Thus, program

budgeting will be a completely formalized mechanism. In the case of program budgeting, it is important to ensure that the budget is based not on the volume of expenditures, but the results achieved.

The program budgeting is aimed to improve the transparency and accountability of the budget adoption and execution, the efficient planning of expenditures. In the program budgeting, means will be directed based on priorities and programs will be completed. If a program is approved, it will be necessary to complete it. There will be a set of financial and non-financial indicators (key program indicators – KPI), which will ensure that citizens will be given the possibility to oversee how the program is implemented.

### **Recommendations for future research**

As the main limitation of the research is the fact that the constitutional amendments in Armenia were adopted only at the end of the year 2015 and this condition has not allowed to study practical implementations of the changes, the research is theoretical, based on the examination of the legal framework. That is why the main recommendation is to conduct an evaluation study in a few years to find out to what extent the changes defined and prescribed by the constitutional changes are practically implemented and to define the degree of their efficiency.

## **Conclusion**

Constitutional amendments can play a significant role in the whole governance system affecting different aspects of governance. In the case of Armenia, they imply major transformation. That is why this research aimed at defining the relationship between the constitutional amendments and the budgeting process in Armenia.

In order to find out how constitutional amendments affect the budgeting process in Armenia, it was hypothesized that the constitutional amendments strengthen the independence of the Chamber of Audit, as well as increase the role of the legislative body in the budgeting process.

In an attempt to test the hypotheses proposed at the beginning of the research, qualitative research was done, involving a comparative analysis of the Constitutions of 2005 and 2015. Afterward, based on the results of the comparison, in-depth interviews were conducted with people who work in the field of budgeting and public finance and who are directly involved in the budget process as well as in the process of drafting the constitutional amendments.

The generalized results of the analysis reveal important issues necessary to define the impact of the amendments on the budgeting process. Firstly, the renaming of the Chamber of Control to the Chamber of Audit (which implies the function of auditing), as well as the power to approve its program independently, implies that the level of its independence and flexibility is rising. At this point, the Chamber in Armenia is reaching the highest level of independence of the audit body, which is widely known in the world as the capability of the supreme audit body to approve its program.

Secondly, in the case of a parliamentary governing system, the role of the parliament is increasing. Thus, the oversight functions of the parliament over the activities of the Government,

mainly in the process of the state budget execution are significantly rising. An essential change is that in the Constitution of 2015, the formulation of the actions of the NA towards the state budget has been changed: the NA “adopts” the budget, while previously it “approved” the budget. The influence of the NA on the budget law increases because it will have the possibility to present any suggestion connected with the budget. Therefore, the words “approve” and “adopt” presuppose important semantic change.

Thus, the combined results of the analyses helped to prove both hypotheses.

**H<sub>1</sub>:** After the constitutional amendments of 2015, the Chamber of Audit acquired a more independent functioning status. Accepted.

**H<sub>2</sub>:** The constitutional amendments of 2015 increase the involvement of the legislative body in the Budgeting Process. Accepted.

However, as the amendments were made only at the end of 2015, the research did not have the possibility to examine the practical implementations of the changes; it is more theoretical, based on the examination of the legal framework. Even among the experts in the field, no unanimity on the real image of the changes was observed. Thus, only in a few years, it will be possible to state to what extent the legal framework is practically implemented.

## **Appendix**

### ***Interview Questionnaire***

1. How the constitutional amendments affect the budgeting process in Armenia? What will be different under parliamentary form of governance?
2. According to the article 76 of the 2005 Constitution, “the procedure for debate on and adoption of the state budget shall be prescribed by the Law on the Rules of Procedure of the National Assembly”. In the new Constitution it is not mentioned, how the procedure shall be prescribed. Is it unchanged? Why is not it specified? Please comment.
3. The 2005 Constitution stated that “the action plan of the Chamber of Control shall be approved by the National Assembly,” while according to the recent amendments to constitution “the Chamber of Audit shall operate based on its program, which was approved by it.” What implications does this shift have? Please comment.
4. How does the creation of the budget office in NA combined with the constitutional amendments affect the functions and role of the National Assembly in the budgeting process?
5. It was planned to implement a partial transition to the program budgeting already in 2016 and to finish the full transition in 2018. How this transition is interconnected with the changes in the budgeting process caused by the constitutional amendments? What implications does it have?
6. How does the parliamentary form of governance affect the level of public expenditures and public debt?

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