

AMERICAN UNIVERSITY OF ARMENIA

**LOCAL GOVERNMENT REFORM IN ARMENIA:
CHALLENGES AND PROSPECTS FOR SUCCESS**

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ABSTRACT

This research paper discusses the current challenges of local government in Armenia and prospects of its development, particularly the consolidation of communities and creation of intercommunity unions from the perspective of political actors, state and non-governmental institutions responsible for policy design and execution. The research also tries to reveal whether party affiliation affects the choice of the model for community consolidation and decentralization policy. Finally, the paper looks whether there is a consensus among political actors on community consolidation in Armenia and looks into the political environment for further decentralization of power.

CHAPTER 1: PROBLEM STATEMENT AND METHODOLOGY

BACKGROUND AND OUTLINE OF THE PROBLEM

The process of formation of local government system in Armenia was initiated with the adoption of the Constitution of the Republic of Armenia (RoA) in 1995, the Law on Administrative Territorial Division (1995) and the Law on Local Self-Government (1996), which was the first step of power devolution in Armenia. Since then, Government of Armenia has taken a number of steps to reform and further decentralize the local government system in Armenia.

In 2002, Armenia assumed relevant obligations in the area of local government by ratifying the European Charter on Local Self-government under the auspices of the Congress of Local and Regional Authorities. The Charter promotes adequate political, administrative and financial independence of the local authorities, encourages citizen participation in local governance and the decentralization of power. Thus, Armenia undertook the commitments to promote local and regional democracy, improve local and regional governance and strengthen self-government of local authorities (Council of Europe, 1985). Armenia also joined the Utrecht protocol to European Charter of Local Self-Government in 2013. In line with the requirements of this protocol, the RA Law on Local Self-Government was amended to strengthen citizen participation in local government and enhance the transparency of work of local government bodies. The amended law also introduced a new provision for citizen participation in local affairs allowing them to raise local issues and include them in the agenda of the community council (MTA, 2013).

Over the last eighteen years, the local government system in Armenia has achieved significant development through enactment of international conventions, national legislation and government programs. In this period, capacity building and strengthening measures of local governments have been implemented and the process of decentralization has been

somewhat deepened. Still, serious issues and shortcomings need to be addressed to ensure the sustainable development of the local government system of Armenia (ՀՀ Կառավարություն, 2011).

The existing administrative and territorial division of Armenia, especially the high degree of fragmentation is a major impediment to the expansion and further development of the local government system. A number of small communities lack the financial and human resources to deliver municipal services assigned to them by the legislation. Moreover, the low level of fiscal decentralization leads to dependency on the central government transfers and decreases the accountability of the local officials toward the residents. However, the establishment of optimal administrative and territorial division alone is not enough to solve the current issues of the local government but only in line with the strengthening capacities of local governments, decentralization of power from central to local authorities and other conditions it will ensure the development of effective local government system (ՀՀ Կառավարություն, 2011; USAID and Counterpart International Armenia, 2012; Tumanyan, 2005).

This research paper is an effort to discuss the current challenges of local government in Armenia and prospects of its development from the perspective of political actors, state and non-governmental institutions responsible for policy design and execution.

The paper starts with the outline of the problem, followed by literature review and three chapters. The literature review looks into the international best practices in the field of local government reforms to see what experiences might be relevant for Armenia. Chapter 1 analyzes administrative and territorial division of the country as well as the current situation of the local government system. Chapters 2 and 3 discuss the on-going reform in Armenia. Chapter 2 will draw on the possible solutions for improving local government functioning in Armenia through several scenarios of community consolidation (amalgamation) and discuss the decentralization of power from central government, resulting in better quality of

municipal services and further development of local democracy in Armenia. Finally, chapter 3 will analyze the interviews with the representatives of legislative and executive branches of government to show the perspectives of different political parties, representatives of the government, state and non-governmental institutions on local government reforms in Armenia, community consolidation and further decentralization of power. The paper will then make conclusions and policy recommendations.

This study is significant as it analyzes a widely discussed and much debated issue of local government development in Armenia. Moreover, the issue has become even more topical with the pilot consolidation of communities planned to be implemented beginning from 2014. This study might be beneficial for students and policy implementers who study community consolidation and decentralization of power from different viewpoints. It might also serve as a future reference for researchers on the subject of public policy and comparative studies.

RESEARCH QUESTIONS

RQ 1: What are the current issues and challenges in local self-government system in Armenia?

RQ2: How does the party affiliation affect the choice of the model for community consolidation?

RQ 3: What role will the intercommunity unions have after the consolidation of communities?

RQ 4: What are the positions of the major political parties on decentralization policy?

RQ 5: What are the main causes that lead to the need for community decentralization?

RQ 6: What are the main political and economic challenges to decentralization policy in Armenia?

RQ 7: What are the possible/projected means of cooperation with the European/international institutions on the decentralization reform?

HYPOTHESES

H1: There is no consensus among political actors on community consolidation in Armenia.

H2: There is a favorable political environment for further decentralization of power.

METHODOLOGY

Qualitative method of research has been used to conduct the study. Two data collection instruments used for the research are review of primary and secondary sources and semi-structured interviews. The secondary sources and documents that provided the information base include the data from statistical analyses, reports, statements, etc. collected and published both by the government and non-government actors in Armenia. In addition, eleven semi-structured interviews were conducted with the representatives of major political parties and Ministry of Territorial Administration, as well as the Chairman of Union of Communities of Armenia and the Chairman of the Committee of Territorial Administration and Local-Self Government of Public Council in order to gain insight into the positions of various Armenian officials on the current state and prospects of development of local government in Armenia.

The limitation of the study is that not all the political parties have a developed platform on the issue of community consolidation and decentralization policy, therefore many respondents avoided to introduce the position of the party, but rather presented their own opinion that did not contradict with that of the party.

CHAPTER 2: LITERATURE REVIEW

The creation of democratic and effective local government is regarded as a crucial aspect of public administration throughout the world (Nemec, 2007). According to the European Charter of Local Self-Government “Local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population” (Council of Europe, 1985).

Decentralization of governance is one of the universally used reform approaches and has been an important part of the process of transformation in Central and Eastern European countries. It represents the transfer of responsibilities, planning, management and the allocation of resources from central to sub-national government. Looking into the implementation of decentralization reforms in Central and Eastern European countries, Nemec argues that the most significant issue in decentralization is the subsidiarity principle which conveys that to achieve quality and better understand public needs, public administration should work on the lowest possible level (Nemec, 2007). Illner complements this viewpoint arguing that decentralization brings government closer to citizens and eliminates information weaknesses connected with central coordination and can increase openness and public participation. Moreover, besides political and administrative dimension, decentralization also presumes economic, social and cultural changes promoting local accountability (Illner, 2000).

Several different ways of addressing different aspects of decentralization have been promoted, among which the most common classification differentiates among the processes of ‘deconcentration’, ‘devolution’ and ‘delegation’ and is based on the concerns of public policy, administration and finance. ‘Deconcentration’, also known as ‘administrative decentralization’, is the transfer of certain decision-making, financial and management

functions to the lower-levels of government under the jurisdictional authority of the central government. 'Devolution' implies the transfer of authority from the central government to local government units. 'Delegation' which is sometimes referred to as 'fiscal decentralization' is the transfer of decision-making and administrative authority over certain tasks to local governments with subsequent financing for the services (Cohen and Peterson, 1999).

Scholars of public administration propose opposing views on the obstacles and opportunities of decentralization, looking at the issue from different government perspectives. According to Swianiewicz territorial fragmentation is one of the major obstacles of decentralization and effective functioning of the local government system. Swianiewicz argues that territorial consolidation provides the opportunity for receiving cheaper services in larger local government units as has been observed in Poland, the Czech Republic, Hungary and Bulgaria. Also, he argues that territorial consolidation reduces income disparities among municipalities and can be more effective in planning and implementing economic development policies. Territorially consolidated local governments tend to eliminate problems of free-riding and the mismatch between administrative boundaries and provision of services. Larger local governments have more financial resources and capacity to provide a wider range of services, so the citizens can be more involved in local politics and promote local democracy (Swianiewicz, 2010). On the other hand, Houlberg puts forward the argument that in smaller communities the link between the citizens and the local government is tighter and thus the citizens have more opportunities to participate in the decision-making process or be involved in local politics. He claims that citizens' interest in local public affairs is best expressed by the turnout in local elections which is usually higher in smaller communities. Another argument is that the flow of information is easier in smaller communities and the local governments tend to be more accountable to the population. Thus,

there rises the dilemma that larger municipalities can provide more effective services but are less democratic, whereas smaller communities are less efficient but can be more democratic (Houlberg, 2010).

Swianiewicz, claiming that larger communities have more resources and capacity to provide a wider range of public services, argues that the allocation of more functions to the local level does not guarantee decentralization. It is possible that the territorial reform is not followed by granting new responsibilities to the local level as has been observed in the case of Georgia. Also, it may happen that small jurisdictions with many functions have problems with delivering a wide range of services and are looking for solutions as in the case of Hungary. Swianiewicz further argues that there is not a clear answer whether consolidation of communities is better than territorial fragmentation. While consolidation is usually seen as a tool of increasing efficiency or improving the provision of public services, fragmentation is defended on the grounds of local democracy. Thus, the answer depends on the values and political agendas of local governments (Swianiewicz, 2010).

The first wave of European territorial consolidation reforms started in the 1950s in Scandinavia, the Netherlands, the United Kingdom, and Germany. Robert Bennett, studying the development of local government systems in post-socialist countries, suggests the following classification of local governments: fused, dual and split-hierarchy systems. In his classification he refers to A. F. Leemans original work "Changing Patterns of Local Government" (1970). The fused system refers to the local government where the council is locally elected and subject to strong central supervision. This system was instituted by Napoleon and in its original form the mayor was centrally appointed. In the current form the mayor is elected. In countries with a fused system like France and Spain mayors are directly elected by the local council, whereas in some parts of Germany the mayor is elected by and from council members and in Italy, mayors are elected by the citizens. England has a dual

system of local government where the mayor is only a ceremonial figure. Authority belongs to the council; however councilors are dependent on specialist committees of councilors advised by officers who have no independent authority. Split systems are characteristic to Nordic countries and comprise elements of both fused and dual systems. The central government appoints the members of provincial government and has a significant power over its decision-making, but the local councils are autonomous within their areas and act more like in dual systems with collective decision-making (Bennett, 1997).

Bennett argues that the post-socialist countries have adopted local government systems combining both Western and their traditional models (Bennett, 1997). Swianiewicz believes that the territorial fragmentation that was perceived as a major challenge to decentralization and effective functioning of the local government systems after the collapse of the communist regime in Slovenia, the Czech Republic, Macedonia, Slovakia, the Baltic States, Georgia, Moldova and a few other countries was mainly a consequence of an earlier consolidation imposed by the communist governments (Swianiewicz, 2010).

Processes of decentralization and development of local governments are characterized by large time and scale differences among Central and Eastern European transition countries (Illner, 2000). After the fall of the Soviet Union, the Republic of Latvia took steps to transform the Soviet command-and-control system to a more democratic society. A key challenge on the way to democracy was local government reform. During the Soviet rule the local government system in Latvia consisted of two levels. Twenty six rural and seven urban units comprised the second-level of local government while the Soviet *rayon* was the district organizational unit (King et al., 2004). In the first years after regaining independence, there was much debate on the number of levels of local government system. Some heads of municipalities supported the abolition of district governments creating a single-level local governance system. However, the two-level system continued to exist with

more strictly defined roles for each level and a reduction of the district's authority over the municipality (Vanags, 2005). In 1993 the Cabinet of Ministers accepted the Concept of Local Government Reforms with the objectives of decentralizing the state power and increasing local governments' accountability and citizen participation in decision-making processes, as well as improving the quality of public services (Vanags et al., 2006).

The Law "On Local Governments" that passed in May 1994 became the basis of local government system in Latvia. The law clarified local government functions, including the right to participate in entrepreneurial activities, to conclude agreements and engage in private transactions, to provide municipal services and public housing, to regulate the use of public lands and waters, to deliver welfare programs, to provide education, and to promote cultural development, etc. In addition, the local government bodies had the responsibilities of managing local public transportation, construction and maintenance of roads and streets, ensuring public health as well as ratifying the municipal budget and taxes. Municipal and district governments have specific administrative, socio-economic and cultural functions. Their responsibilities are too narrow, and they don't have a stable revenue base (King et al., 2004).

In addition to district governments, there are representative offices of a number of ministries or state institutions like the police department, environmental inspection office, revenue service, agriculture department and others that carry out functions that require uniformity and central regulation. The representative body of local governments is the council. The municipal council is comprised of directly elected council members whereas the district council is not directly elected but comprises the chairs of municipal councils since 1997 (Vanags, 2005).

Despite several amendments in the law, neither the local governments nor the district organizations managed to provide a good level of government services. Scholars and

political analysts propose that the main reason is that the range of local government functions is too wide and the smaller communities lack sufficient financial resources and sometimes qualified staff to fulfill all the mandatory functions (King et al., 2004, Vanags, 2005). Reformers suggested that the number of municipalities should be reduced to an optimal number of 100 local governments and 5 regional governments. These observations led to the third wave of reforms and the 1998 law on consolidation (Vanags et al., 2006). Consolidation of local governments was carried out in two stages. The first stage relied on local government initiative for voluntary consolidation. The second stage proposed compulsory consolidation to improve the efficiency and effectiveness of local governments, quality and scope of public services. The process of implementing the reform has been very slow as by the end of 2005 there were only 26 newly consolidated municipalities, 7 republican city municipalities, 53 town municipalities and 444 rural municipalities. The second level included 26 district self-governments and 7 republican city municipalities. The cities were represented at both levels (Vanags, 2005). With the amendment to the law on Administrative-Territorial Reform in 2005, the administrative-territorial division of the country was drafted and the consolidation of communities entered a new stage (Ministry of Culture, 2009). The regional administrative reform that was completed in 2009 abolished the system of two-level municipalities and a one-level local government system was established. Since 2009 there are 109 local governments (consolidated municipalities) and 9 republican cities, instead of more than 500 administrative units. The functions of districts are fulfilled by amalgamated local municipalities and only transport systems are organized within planning regions. According to the Regional Development Law there are five planning regions that ensure the planning and co-ordination of regional development and co-operation between local government and other state administrative institutions (Ministry of Culture, 2013).

In a comparative framework it's interesting to look into the local government system in the Netherlands which is the most important level of subnational government in the decentralized system of the Dutch state. The structural basis of the three-tiered government system goes back to 1848-1851 and the drafting of the constitution, the provincial Government Act and the Local Government Act. The state structure is not so much hierarchial but rather unitary, adjusted among three levels of territorial government: national, provincial and local. The role of the local government is more important in terms of policy implementation and provision of services. Local government in the Netherlands has a large degree of freedom to initiate any policy that it considers important for the local community. The council is the representative body of the local government with the board of burgomaster and alderman as the executive committee of the council (Hendriks, 2003).

Marteen Allers, in his study of decentralization of local governments in the Netherlands, notes that in a highly decentralized local government system, there is not a design that guides the consolidation process but the communities are merged on an ad hoc basis. Smaller municipalities cannot always cope with their new responsibilities or do not have adequate resources or capacity to fulfill their mandates. As a result, smaller municipalities merge with others often. In 1980, there were 811 municipalities while the number of municipalities decreased to 418 in 2011 and the end of this process is not yet foreseeable (Allers, 2011).

Discussing the local government reforms in Georgia, Melua states that during the Soviet rule Georgia was extremely centralized and all the decision-making was in the hands of the Communist Party's Politburo. After gaining independence in 1991 the Georgian government adopted three laws: the Law on Local Administration; the Law on the Elections of Local Bodies; and the Law on Prefectures. This established the three-tier system of administration. Villages and cities formed the lowest tier, districts were the second tier and the third tier comprised the autonomous republics. This system had several weaknesses such as the high

degree of centralization and subordination of executives to the president's appointees, limited responsibilities of the local governments and lack of financial resources to fulfill their responsibilities. However, this was a transitional model and there was no local administration from 1992-1994 (Melua, 2010).

After the political instability in the post-independence period, a four-tier system of governance was introduced that was adopted in the Law on Local Government and Self-governance in 1997. This model was also complex and too centralized comprising the Autonomous Republics of Adjara and Abkhazia at the upper level, 9 regions with appointed governors at the third level and Tbilisi which was granted a special status, 65 districts at the second level and the lowest level comprised 48 cities and up to 1,000 villages. Practically, local self-governance was introduced only in villages and towns as the larger cities were under the control of the central government. The latter also had significant power over the districts which comprised of appointed executives and elected representatives. Economic as well as legal and social pressures, combined with the lack of capacity of local governments, that had almost ceased to function, led to the collapse of the system. There seemed to be a wide consensus that Georgia needed to take steps toward territorial consolidation (Melua, 2010).

The organic Law of Local Self-governance passed in December 2005, established two types of local government units in Georgia. The first type is the municipality which refers to both urban and rural settlements and the second type are larger cities with special status. According to the law, the territorial boundaries of the municipalities should be the same as those of the former districts. Thus, the new model comprised 64 municipalities and 5 cities with special status - Tbilisi, Rustavi, Kutaisi, Batumi, and Poti. The Law didn't change the territorial division and the autonomous republics and regions kept their status, with the exception of Tbilisi, which has an unclear status. There are many disparities between the

municipalities in terms of their size and number of population. The Kazbegi municipality, which is the smallest unit, has only 5,000 inhabitants, whereas the Gori municipality is the largest with 120,000 inhabitants. Among the cities, Tbilisi is the largest with a population of 1.4 million and Poti is the smallest comprising 27,000 residents (Melua, 2010).

The control of local government is in the hands of council heads and the chief executives. The chief executive is the one that develops local budgets and is in control of important decisions. Thus, under the new system, local council is weaker than before. Also, the functions of the former districts were transferred to municipalities though it remains unclear what government body supervises these municipalities. Moreover, the dependence of local governments on the central government has increased by way of changes to tax and budget rules (Melua, 2010). Thus, as Swianiewicz argues, the decentralization of government responsibilities didn't follow the territorial reform and little progress has been made in terms of releasing the central government's control of revenues and power (Swianiewicz, 2010).

The analysis of local government reforms in Latvia, Georgia and the Netherlands suggests that there is no one single model of decentralized governance and just positive reform mechanisms can be applied to all countries congruent to local conditions. Decentralization should be introduced with respect to country-specific reform environment in order to avoid unexpected negative consequences of the implementation (Illner, 2000).

CHAPTER 3: GENERAL OVERVIEW OF THE LOCAL GOVERNMENT IN ARMENIA

3.1. ADMINISTRATIVE-TERRITORIAL DIVISION AND GOVERNMENT STRUCTURE OF THE COUNTRY

The government structure and territorial division of Armenia is regulated by the RoA Law on Administrative-Territorial division (1995). Armenia is divided into 10 marzes while the capital city, Yerevan, has the status of a community. Marzes in Armenia comprise 915 communities, divided into 49 urban and 866 rural communities (The Law of the Republic of Armenia on Administrative-Territorial division, 1995). There are significant differences between the communities in terms of the population and territory, as well as social and economic infrastructures. Nearly half of the communities (441 communities) have less than 1,000 inhabitants among which 196 communities have less than 300 inhabitants and 29 have less than 100 inhabitants. There are only 77 large communities, where the population exceeds 5,000 inhabitants, of which only 22 communities have more than 15,000 and more inhabitants (Counterpart International Armenia, 2012).

As the Constitution of Armenia stipulates, local government is administered in the communities while marzes represent central government in the regions and implement state policies. They are not a separate level of governance since they do not have their own budgets and elected officials but are governed by *marzpets* or regional governors, who are appointed by the decision of the Government and are validated by the President of the Republic. (The Constitution of the Republic of Armenia, 1995, article 88.1). The activities of the regional governors' offices (*marzpetarans*) are developed along the main lines of implementing territorial policies of the government, supervising activities of the local governments as well as ensuring the link between the government and local government authorities (Tumanyan, 2005).

The local government system of Armenia can be characterized as Mayor-Council type: strong central supervision combined with locally elected Mayor and Council. The local government in Armenia is administered by the community mayor, the executive body, and the Council, the representative body. In Leemans' terminology this model of local government is closer to the French fused system, with some characteristics of German legislation (Drampian, 2004).

The main powers of the community council include the adoption of community policies and decisions on local issues, approval of the community development program and community budget, as well as supervision of the performance of the community budget among others. The community mayor is entitled to solve community issues in accordance with the law and based on the decisions of the community council (The Law of the Republic of Armenia on Local Self-Government, 2002).

3.2. CURRENT ISSUES IN THE LOCAL GOVERNMENT IN ARMENIA

The experience of the past years has revealed a number of drawbacks in the local government system that need to be addressed. A major issue since the establishment of the self-government system in Armenia has been the high degree of territorial fragmentation. The extensive fragmentation of the territorial system of the country has resulted in a number of small communities that do not have the capacity and resources to provide the services prescribed to them by the law. A recent study done in this field reveals that the type, quantity or quality of the services delivered in the communities is very much dependent on the population number. The majority of communities (87.4% of all communities) fail to fulfill their mandatory powers, whereas in communities with small number of inhabitants only administrative expenditures like payment of salaries and mandatory social insurance are

made. Thus, the population of a community is decisive for the number of sectors to be financed by the community budget (Counterpart International Armenia, 2012). In spite of the varying range of the communities, the Law on Local Self-Government grants all the communities with equal powers and authorities. As a result, small and weak communities are not able to provide municipal services in the lack of human and financial resources (ՀՀ Կառավարություն, 2011). Studies indicate that municipalities lack professionals with relevant education, qualification and skills (Counterpart International Armenia, 2012).

Another significant issue is the distortions in interrelations between the communities and marzes. The extent and measures of administrative supervision of marzes over local government bodies quite often goes beyond the scope provided by the Law on Local Self-Government (chapters 7 and 7.1). Sometimes it is due to very weak institutional and professional capacities of the local government. As a consequence, marzpetarans increase the level of involvement in the local issues hindering the development and strengthening of the local government (Counterpart International Armenia, 2012).

There is also a significant misbalance of power between the community mayor and the Council. Council is supposed to check and balance mayor's authority. In a real life the institution of the Council is not adequately developed and despite their broad legislative powers council members are mostly inactive. Studies indicate that community mayors do not view the Council as a check or balance institution but rather an "advisory board" and often bypass the council when making or solving community decisions (ՀՀ Կառավարություն, 2011).

3.3.FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT UNITS IN ARMENIA

Financial sustainability and independence of communities is a crucial factor for building strong local governments. Municipal budgets in Armenia are formed of tax revenues and duties, non-tax revenues and official transfers. Tax revenues mainly include taxes levied from the land and property located in the administrative borders of the communities, as well as state and local duties. Non-tax revenues are formed from the rent of the land or property owned by municipality, local fees or other local charges assigned to community budgets by law (The Law of the Republic of Armenia on the Budgetary System, 1997). The major share of own-source revenues of communities is generated from the tax revenues and duties, however there are problems associated with revenue collection. In many rural communities the rate of collection is below 50% and the communities cannot collect sufficient own revenues, which hinders the implementation of even their mandatory powers (ՀՀ Կառավարություն, 2011). Delinquencies in local taxes brought to accumulation of a bulk of arrears which burdened municipal budgets and delayed implementation of projects of vital importance to the residents. Even though in 2012 the National Assembly by its special laws provided most taxpayers with land tax arrears an amnesty from taxes, fines and penalties as of 31 December 2008, still, large amounts of land tax arrears exist in community budgets and most communities are not able to clear them (Counterpart, 2012). Only two types of state duties are included in the community budget: duties for registering vital records (birth, death, marriage, divorce) and for notary services. The rates of the local duties is introduced by the community mayor and approved by the Council before the approval of the annual budget (The Law of the Republic of Armenia on Local Self-Government, 2002).

The large share of revenues of community budgets comes from the official transfers. The two types of government transfers are subventions and equalization subsidies. Subventions,

which are state budget allocations earmarked for specific projects, are of insignificant amount and are not yet a common practice (Tumanyan, 2006). Moreover, the legislation does not provide a procedure with clear criteria for reviewing the subvention requests, thus the decisions on providing subventions are not transparent and sometimes discretionary. Financial equalization subsidies have far greater importance than subventions, accounting for 38.2% of the total budget revenues of communities in 2010. In 2008, the share of the state subsidy in total budgets revenues of smaller communities accounted for 60% in 281 communities, 90% in 26 communities and even reached 100% in some others (Counterpart International Armenia, 2012).

The procedures of allocation and rate of subsidies to local budgets are defined in the Law on Financial Equalization and the Law on Local Self-Government. With the aim of ensuring harmonious development of the communities, the state budget provides subsidies to community budgets which may not be less than 4% of the actual revenue of the RA consolidated budget during the penultimate budget year (The Law of the Republic of Armenia on Local Self-Government, 2002). The main advantage of the distribution of subsidies is the clarity, transparency and the full discretion of the municipalities over the use of the subsidies. However, this framework fails to address the specific needs of communities as the subsidies are provided to all communities irrespective of their actual need of financing. Another drawback is that the Law on Financial Equalization regards the population size of the community as the main criterion for the distribution of subsidies and all communities with population less than 300 people receive 3,5 million drams, while communities that have slightly larger population but virtually the same capacities receive even less than that (ՀՀ Կառավարություն, 2011). In 2010, amendment was proposed to the Law on Financial Equalization, which introduced other criteria of distribution of subsidies. However, the bill passed only the first reading and was not presented for the second reading.

Considering the current issues and challenges in the local government system in Armenia, a number of relevant measures need to be implemented to ensure the harmonized development of the local government system. The development of local government system should be viewed in line with the consolidation of communities, strengthening capacities of local governments, improving the legislative framework, decentralization of power from central to local authorities, as well as the allocation of financial resources adequate to their power (Tumanyan, 2005). Beginning from 2012, the Government of Armenia started to finance implementation of capital projects in marzes and communities from its reserve fund. These funds are channeled through marzpetarans and directed at construction or renovation of social infrastructures, roads, and housing.

CHAPTER 4: PROSPECTS OF DEVELOPMENT OF LOCAL GOVERNMENT IN ARMENIA

4.1. DECENTRALIZATION AND DEVOLUTION OF POWERS FROM CENTRAL GOVERNMENT

The process of decentralization in Armenia began with the adoption of the Constitution in 1995. Since then a few phases of decentralization efforts have been carried out to strengthen the local governments through expansion of the institution of community property, transfer of new powers to the local authorities and streamlined interrelation between central and local governments. To evaluate the degree of decentralization in Armenia, two main measurable indicators can be outlined: the share of local budget expenditure in public expenditure or GDP of the country and the number of powers assigned to the local governments (Tumanyan, 2004).

Comparative data of the European Union countries provides an opportunity to understand the levels of decentralization and financing powers of the local governments in EU countries and compare those with the indicators of Armenia. The Dexia report on the “EU Subnational Governments: 2010 Key Figures” draws on the data extracted from Eurostat and provides country-specific information on the share of the local government budget expenditures in the public expenditures and the GDP of the country. According to the report, the average European subnational public sector expenditure accounts for 16.9% of GDP and 33.5% of public expenditure which can be explained by a number of factors like the administrative-territorial division of the country, the level of decentralization and the nature of responsibilities assigned to the local governments (Dexia, 2012). As the table below outlines Armenia is significantly behind in terms of the share of local budget in both public expenditures and the GDP of the country. Moreover, it has to be considered that the majority of the expenditures of the consolidated local budgets are incurred in Yerevan, accounting for 60% of the local consolidated budget¹. Thus, this taken into consideration, the share of local budgets without Yerevan accounted for only 4% of the public expenditures and 0.9% of the GDP in 2013 which speaks about the extremely low level of fiscal decentralization in Armenia, limited competencies of local governments and the strong presence of the central government.

Table 1: Share of Local Budget Expenditures in Public Expenditures and GDP in Some European Countries (2010 Data)²

Country	% of Public Expenditures	% of GDP
Denmark	37.6	64.3
Sweden	25.5	48.2
Spain	24.3	53.2
Finland	22.5	40.6

¹Source: <http://www.mta.gov.am/files/docs/470.pdf>

²Source: EU Subnational Governments: 2010 Key Figures, Dexia.

Belgium	22.1	41.8
Germany	21.1	44.1
Austria	17.9	34
Netherlands	17.2	33.6
Italy	15.7	31.3
Poland	15	33
United Kingdom	14	27.8
Hungary	12.7	25.6
Czech Republic	11.9	27
France	11.8	20.9
Latvia	11.4	25.6
Lithuania	11.3	27.6
Slovenia	10.2	20.4
Estonia	10	24.7
Romania	9.8	23.9
Armenia(2013)³	8.7	2.4
Slovakia	7.3	18.2
Portugal	7.2	14
Bulgaria	6.9	18.1
Ireland	6.9	10.3
Luxembourg	5.3	12.5
Greece	2.8	5.6
Cyprus	2.2	4.8
Malta	0.7	1.5

The powers of local government bodies in Armenia are divided into mandatory and voluntary powers and powers delegated by the State. Both mandatory and voluntary powers are financed from the community budget; however the exercise of voluntary power depends on the community budget resources and the urgency of the expenditure. The legislation prescribes 19 powers delegated to communities by the state; however, there are not special provisions on the forms and procedures of reimbursement for exercising delegated powers. As a consequence, the state budget does not reimburse for all delegated powers prescribed by law and the communities, deprived of financial resources fail to exercise the powers

³Source:<http://www.armstat.am/am/?id=01001&nid=126>

delegated to them (Counterpart International Armenia, 2012). The main public services that the local government bodies in Armenia provide include water supply⁴, waste collection and disposal, pre-school education, maintenance of cemeteries, construction and maintenance of road and other engineering structures in the community, public transport as well as landscaping and municipality improvement.

Table 2: Distribution of powers among different tiers of government, by sectors

Countries	Pre-school education		Primary Education		Secondary Education		Social Security		Health		Transportation		Culture, sports and leisure		Local Planning		Water Supply and Waste Disposal	
	CG	LG RG	CG	LG RG	CG	LG RG	CG	LG RG	CG	LG RG	CG	LG RG	CG	LG RG	CG	LG RG	CG	LG RG
Armenia		√	√		√		√	√	√	√	√	√	√		√	√	√	√
Austria		√		√		√		√		√	√	√	√		√			√
Belgium		√		√		√		√	√	√	√	√		√				√
Bulgaria		√		√		√		√		√		√		√				√
Cyprus	√		√		√		√	√	√	√	√	√	√		√			√
Czech Republic		√		√		√		√		√		√		√				√
Denmark	√	√	√	√	√	√	√	√	√	√	√	√	√	√				√
Estonia		√		√		√		√		√		√		√				√
Finland		√		√		√	√	√	√	√	√	√	√		√			√
France		√		√		√		√		√		√		√				√
Germany		√		√		√	√	√	√	√	√	√		√				√
Greece	√		√		√		√	√	√	√	√	√	√	√	√	√	√	√
Hungary		√		√		√		√		√		√		√				√
Ireland	√	√	√	√	√	√	√	√	√	√	√	√		√				√
Italy	√	√	√	√	√	√	√	√	√	√		√	√	√				√
Latvia		√		√		√		√	√	√	√	√	√		√			√
Lithuania	√	√	√	√	√	√		√	√	√		√		√				√
Luxembourg		√		√	√		√	√	√	√		√		√				√
Malta	√	√	√	√	√	√	√	√	√	√		√		√				√
Netherlands	√		√		√	√	√	√	√	√	√	√	√		√			√
Poland		√		√		√		√	√	√		√		√				√
Portugal		√		√		√		√		√		√		√				√
Romania		√		√	√	√	√	√		√		√		√				√
Slovakia		√		√		√		√	√	√		√	√	√			√	√
Slovenia		√	√	√	√		√	√	√		√	√	√	√			√	√
Spain		√		√		√		√	√	√	√	√	√		√			√
Sweden	√	√	√	√	√	√		√		√	√	√	√	√				√
United Kingdom		√		√		√	√	√	√	√	√	√	√		√			√

CG – Central Government, LG – Local Government, RG – Regional Government

Source: European Union, 2012. Study on the Division of Powers between the European Union, the Member States and Regional and Local Authorities.

⁴ Water supply and wastewater disposal to 450 municipalities in Armenia are provided centrally through one of the 5 water supply companies operating in the country.

Looking into the distribution of competencies among central and local/regional governments in the European countries, it becomes clear that distribution of power between the central and local governments is rather disproportionate; the total number of powers of the local governments in Armenia is small and in some instances the local governments share their competencies with the central government which violates principles of European Charter of Local Self-Government (Table 2).

To streamline the relationship between the local and central governments, there is a need to prescribe new powers, as well as financing mechanisms to the local governments in Armenia. In line with the decentralization policy, the new essential powers to be prescribed to the local governments can include the participation in the governance of primary and secondary education, accounting and registration of population, granting more power in delivering special social services, health care and others (Counterpart International Armenia, 2012). However, at the current stage of local government system it is impossible to deepen the decentralization process in the country or to allocate new powers to communities since most of them are not in a position to implement even those that are currently in their responsibilities. Financial allocations alone cannot be an efficient means of solution to the problem; it would rather be a waste of already scarce public finance. The devolution of power from central to local governments should be accompanied by implementation of an optimal administrative-territorial division of the country, creation of intercommunity unions, fiscal decentralization, legislative improvements and other components to establish an efficient local government system in the country. The most widely discussed solutions to the problems of local government system are the consolidation of communities and the introduction of the intercommunity unions.

4.2. CONSOLIDATION OF COMMUNITIES

The need for the community consolidation and reform on the administrative territorial division of the country has been on the agenda for many years. Currently there are two main possible scenarios of community consolidation discussed among the government, experts and the non-governmental organizations engaged in this field. One of the much discussed scenarios is the consolidation of communities in *clusters* based on economic, geographic, cultural and other peculiarities of the communities. This model of enlargement supposes consolidation of communities based on clearly defined principles and criteria outlined in the *Concept Paper on Enlargement of Communities and Establishment of Inter-community Unions* approved by the Governments of the RA in 2011. The principles of community enlargement include the economic relevance, securing delivery of public services and their accessibility for population, autonomy of local government bodies, municipal transport communication, participation of population, expanding the scope of delegated authorities and others. In order to avoid subjectivity and ensure manageable process of the community consolidation certain criteria have been designed including the indicators of population and distance between the communities and the center, minimum infrastructures necessary for implementation of mandatory powers of the local governments, compatibilities and similarities in mentality of the population in the consolidated communities, etc. (ՀՀ կառավարություն, 2011).

Based on these principles and criteria, community enlargement schemes have been designed in five Marzes of Armenia which are expected to yield the following outputs:

Marz	Number of Communities before Enlargement	Number of Communities after Enlargement
Vayots Dzor	44	8
Syunik	109	18
Ararat	97	25
Kotayk	67	20
Aragatsotn	114	35

Thus, a total of 431 communities existing in selected five marzes will be consolidated and enlarged into 106 communities. Generalizing the results of these schemes, experts and policy makers conclude that if this model of community enlargement is implemented, there will be around 235 communities in Armenia (ՀՀ Տարածքային կառավարման նախարարություն, 2013).

The other scenario of community enlargement is the *regional consolidation* which proposes consolidation of communities within the boundaries of former *rayons* (districts) existing during the Soviet period. This scenario itself supposes a few options of community consolidation. The first two options suppose the consolidation of communities exclusively based on the borders of the 37 former Soviet administrative districts. The first option considers granting Yerevan, Gyumri and Vanadzor with a special status whereas the second option adds Hrazdan and Ejmiadzin to the list of communities with special status in line with the 37 former administrative districts. The third option suggests forming the communities based on the borders of the former Soviet administrative districts and separating those communities that have a great development potential even without consolidation. Thus, this option offers adding Jermuk, Dilijan and Tsaghkadzor to the list of separate communities of the second option in line with the 37 former Soviet administrative districts. The fourth option suggests that besides those communities that have individual potential for development, also the communities with population of more than 75 thousand people (6 more communities will be added to the list of separate communities outlined in the third option) should be separated

from the consolidated communities based on the borders of the former Soviet administrative districts. Also, in case of the first option, the minimum number of the population in a separate community will be 100.000, whereas in other cases the number of population in the separate community should not exceed 50.000. In all the options of this scenario Yerevan is considered as a separate local government unit with a special status (ՀՀ Տարածքային կառավարման նախարարություն, 2013).

Having outlined the territorial division that these two scenarios of community consolidation offer, it is important to consider the impact community enlargement will have on capacity building of communities and further decentralization of power. As the studies indicate the level of decentralization strongly differs in two scenarios of community consolidation (ՀՀ Տարածքային կառավարման նախարարություն, 2013).

The consolidation of communities in clusters will provide an opportunity to increase the number of communal services and execute all the powers assigned to them by the legislation. Nevertheless, the majority of newly formed communities will not be able to undertake new responsibilities which is reasoned by the fact that the transfer of new powers assumes more developed infrastructure and even larger communities than the ones formed by consolidation in community clusters. Unlike the first scenario, the regional consolidation of communities will provide the opportunity not only to exercise their full responsibilities but also assume new powers. Most of the public services including education, health care, social services and other competencies that are ascribed to marzpetarans and territorial branches of the central government will be transferred to local governments. The devolution of power to the local governments also assumes the provision of adequate financial resources which together with qualified human resources is an essential prerequisite to increase management efficiency, improve the quality and accessibility of services (ՀՀ Տարածքային կառավարման նախարարություն, 2013).

The consolidation of communities cannot be viewed without considering economic efficiency. In order to better design the consolidation policy economic analysis has been conducted to measure the benefits of each scenario of consolidation. The consolidation of communities will lead to reduction in the number of administrative employees, as well as the infrastructure, and economic benefits generated from reduced maintenance costs and fewer salaries are estimated to be around 10.604 million AMD in case of the first scenario and around 13.874 million AMD in case of the second scenario. The concept of the economies of scale, which indicates that with increasing scale of production the cost per unit of output generally decreases, is also applicable in the case of consolidated communities and implies that the larger the community is, the cheaper are the services delivered by the community. In terms of the economies of scale, the efficiency of local services will be more tangible in case of the second scenario of community consolidation (ՀՀ Տարածքային կառավարման նախարարություն, 2013).

It is also important to consider the possible negative effects that the consolidation of communities can bring. With larger communities, the link between the citizen and the local government can weaken (as described earlier in the literature review) and the needs of small villages might be prone to neglecting. In addition, the citizen participation in public affairs might decrease. The reduction in the number of administrative employees can generate negative public sentiment and decrease in the income level or quality of life for those affected. Furthermore, considering the specificities of local identities and strong attachment to local names and settlements, the negative perception of population towards community consolidation can increase (TCPA, 2013).

4.3. INTERCOMMUNITY UNIONS

The establishment of intercommunity unions is another possible solution to the problems of local government system in Armenia. Intercommunity cooperation is based on the common community interests and implies joint implementation of certain powers of the local governments. The Law on the Local Self-Government states that with the aim of solving certain problems and reducing the related costs, the communities have the right to form intercommunity unions (ICUs) and will be recognized as legal entities (The Law of the Republic of Armenia on Local Self-Government, 2002). With the objective to fulfill intercommunity goals, ICU creates a Council formed by the community mayors and a Chairperson elected by the Mayors. However, the existing legislature does not define the responsibilities and duties of intercommunity unions, nor does it provide a clear regulation of the cooperation among communities which is an impediment to the development of these unions. Another persisting challenge is the lack of financial capacities. As a result of scarce financial resources there is a lack of skilled personnel and often one worker is forced to implement functions of several other workers. Other problems that impede the development of these structures are insufficient own resources to sustain intercommunity cooperation, the lack of necessary assets and equipment, lack of transportation to member communities, lack of online communication among communities which could promote information sharing and cooperation, concern of being neglected by the small communities and general lack of awareness of population about the intercommunity unions (Counterpart International Armenia, 2011).

Currently there are 22 unions of communities registered as non-commercial organizations (unions of legal entities) and such status significantly restricts their powers. There are also 36 intercommunity offices without any state registration and there is hardly any information on their activities and duties (their major function is maintenance of joint tax bases). The

intercommunity cooperation through direct contracts is mainly limited to maintenance of property and land tax databases. Other functions may include the delivery of municipal services like the domestic solid waste collection and disposal, providing advisory services to communities, assisting in designing action plans in agriculture, environment protection, etc. (Counterpart International Armenia, 2011).

The Government concept paper on establishment of community unions and consolidation of communities, approved in November 2011, outlines relevant changes and amendments, as well as implementation measures to develop the intercommunity unions in Armenia, though no practical work has been done to this end. Particularly, the paper envisages making legislative changes on the rights and procedures of establishment of intercommunity unions, clearly defines their duties and responsibilities, as well as financial viabilities of these structures (ՀՀ Կառավարություն, 2011).

According to the Concept paper certain powers of the communities should be transferred to intercommunity unions. These unions will have the mandatory powers to organize water management, solid waste collection, renovation and construction of roads, bridges and other engineering facilities, operation of community transportation, administration and collection of local taxes, health care, sports and physical culture, urban planning and other powers assigned by the legislation. Similarly, the fiscal capacities of the unions will be enhanced. The financial resources of an inter-community union shall be generated from 15% deductions from both land and property tax collection of the member communities, mandatory fees for the services delivered to member communities, state budget appropriations for implementation of the powers delegated by the state, 50% of subsidies envisaged in the framework of financial equalization subsidies, state transfers and subventions, rentals and user fees from community owned lands and assets of the inter-community union and other sources (ՀՀ Կառավարություն, 2011).

The Concept paper separates 24 urban communities with a population of 15,000 and more that shall not enter into intercommunity unions as they have the necessary financial, economic, technical and human capacities to execute powers assigned to them by the legislation. The remaining communities will be combined into 40-42 intercommunity unions that are characteristic of the second tier of local government. Thus, the bodies delivering services and delegated powers will diminish from 915 to 62-64 and ensure more efficient public administration in the country (ՀՀ Կառավարություն, 2011).

CHAPTER 5: DATA ANALYSIS AND FINDINGS

Semi-structured interviews were conducted with the representatives of the central government and the National Assembly (NA), major political parties of Armenia, as well as the actors that have certain role in the design and execution of the local government policy (see the questionnaire in the Appendix A). The respondents expressed their views concerning the current situation of the local government in Armenia, issues and challenges, prospects of community consolidation and decentralization policy. The interviewees touched upon various issues and discussed the challenges and opportunities of local communities from social, economic and political perspectives.

Discussing the current situation of the local government in Armenia and the main challenges facing the communities, the interviewees expressed different, complementary and even opposing ideas. Still, all the interviewees shared the same opinion that irrespective of the size, all communities are granted equal powers, whereas the community budgets, mainly formed of state subsidies, are enough for covering mainly the administrative expenses. Thus, especially small communities do not have the capacity to execute all the powers assigned to them by the legislation.

Arayik Hovhannisyan, member of the NA, affiliated with the Republican Party, states that despite various challenges that the country and local government has undergone since 1996, there is every precondition for successful administration of local government in Armenia, including the legislation on local government. The spheres of local government where he thinks there is still a need for further improvement are the decentralization of power from central to the local level and coordination of power and responsibilities between the community mayor and the Council in line with the development of the Council's institution.

Stepan Margaryan, member of the NA representing the Prosperous Armenia party, the Chair of the Standing Committee on Territorial Management and Local Self-Government, considers that the main problem of the local government in Armenia lies in the disproportionate development of the country and the lack of harmonious economic development in communities. He claims that most of the financial turnover in the country is concentrated in Yerevan, whereas in some communities practically there are not economic initiatives. Therefore, Mr. Margaryan believes that talking about local governance is not adequate for communities that cannot collect their own budget to execute all their powers ascribed by the legislation but only manage to maintain their municipal staff on behalf of the equalization subsidies given by the state. He suggests that there is a need for creating development plans for the communities which will outline the favorable area of development for each community. He is confident that without community development strategies implementing a territorial-administrative reform cannot be effective.

Nikol Pashinyan, member of the NA representing Armenian National Congress, member of the Standing Committee on Territorial Management and Local Self-Government, shares the same concern as Stepan Margaryan about the low level of capacities and lack of economic potential of small communities to be able to form their own budget. He further argues that communities are part of a hierarchical pyramid of power and not independent.

Hence, he also claims that in practice it is hard to say whether there is local governance or not.

Edmon Marukhyan, member of the NA, non-partisan, further complements the idea that there is no local governance in Armenia as such: the Council does not execute its responsibilities and the community is not capable of executing its powers due to lack of financial resources. Estimating the role of the Community Council, many of the interviewees, including Nikol Pashinyan, Stepan Margaryan as well as Ashot Giloyan, the head of the Local Self-Government Department in the Ministry of Territorial Administration and Tevan Poghosyan, member of the "Heritage" Faction, share the same opinion that this institution is underdeveloped. Mr. Pashinyan explains that the role of the Community Council as an institution is not clear. He notes that the Council members are unpaid and perform their functions on a voluntary basis, which makes their work unprofessional. He also observes that in spite of being the governing body of the community, the members of the Council usually do not come up with their own initiatives to solve community issues but rather act upon the instructions of Community Mayor. Stepan Margaryan believes that one of the reasons that the institution of the Council is underdeveloped is the small number of Council members. Ashot Giloyan shares the same concern as Stepan Margaryan about the sense of irresponsibility of the Council towards the community, especially in small communities. Nevertheless, he expresses his hope that the consolidation of communities will create competition among the members of the Council which will promote the strengthening and establishment of the Council. According to Nikol Pashinyan, another significant issue pertaining to the Community Council is that there is no limit to the number of times the head of the community can be re-elected. As to him, the problem is not in persons but in the possibilities of change, which is the main precondition for making a progress. Edmon Marukhyan also tackled this issue and as an illustration talked about the case of Vayots Dzor where the Mayor

has been re-elected five times and it is fifteen years that he has been the Mayor. Another issue related to local elections was put forward by Tevan Poghosyan, who expressed his concern about the level of fairness and transparency of local elections. He argues that in small communities there is always the high probability that the candidate with a large family and relatives can receive the necessary amount of votes to become a Mayor.

Artsvik Minasyan, member of the NA, affiliated with Armenian Revolutionary Federation, member of the Standing Committee on Territorial Management and Local Self-Government, names artificial the separation of communities which took place in the 90s, which did not consider several important circumstances. First, the peculiarities of regional and local governance in Soviet period were based on certain social and economic principles which were not maintained after post-independence administrative-territorial division and the link between the communities and their social and economic basis was cut. As a result, over 940 communities were created which neither had the financial viability to implement their responsibilities nor ensured their effectiveness. The second drawback that Mr. Minasyan emphasizes is the electoral system which is absolutely dependent on the scope of family and relatives. This is more evident in small communities where the lack of fair electoral system leads to the inefficiency of the local government. The third major issue that he indicates is related to the inefficient distribution of power between the regional and local governments. Mr. Minasyan claims that the community Mayor together with the Council is subordinate to higher-ranking officials. He noted that regional governors have a dictating role and are more concerned with maintaining and improving the regional indicators of development and are not efficient at the local level. Thus, certain powers of local government are being manipulated by the regional government.

Emin Yeritsyan, Chairman of Union of Communities of Armenia, expressed the idea that it is necessary to implement frequent reforms in the local government system to ensure the

successful governance of the local level. According to him, political decentralization was ensured with the introduction of the current system of local government in 1996 according to which community is managed by elected mayor and the Council. However, he argues that from the perspective of local powers and public resources, we are not even close to decentralization. Mr. Yeritsyan further demonstrates his argument by highlighting the fact that only 10% of all the taxes collected on the local level are left for the community. The next issue that he raises relates to the community problems that cannot be solved at the local level. At the same time he argues that the competencies to tackle those issues should not be in the jurisdictions of the regional governments because of the local nature of the issues. Citing the European Charter of Local Self-Government, he claims that the public responsibilities shall generally be exercised by those authorities which are closest to the citizen, the lowest possible level of governance. Thus, he argues that one level of local governance cannot ensure decentralization and there is a need to create the second tier of local governance. Mr. Yeritsyan assures that all other issues of local governance derive from these two basic drawbacks.

Mher Shahgeldyan, member of the NA representing the Rule of Law party, expressed the view that the problems of the local government lie in the administrative-territorial division of the country. He is concerned that initially the traditions of the Armenian villages were not studied when making the administrative-territorial division. Moreover, he observes that the formation of local government took place in times of war and blockade, when the problems of security and life support was critical and no real effort was made to study every detail of public administration. According to him, Armenia faces a demographical challenge with migration leading to a significant decrease in the number of population. He believes that this creates the urgent need for making territorial-administrative as well as economic reforms.

Almost all of the interviewees raised the need for introducing territorial-administrative reform in the country. Particularly, consolidation of communities was regarded as a potential solution for many problems. Nevertheless, different, sometimes even opposing ideas were expressed for the possible models and principles of consolidation.

Some of the respondents considered that the consolidation of communities should not be an aim in itself and too much importance should not be given to the choice of the model, but rather the contextual reforms should be considered that will serve the local population.

Some others considered that a few models can be implemented simultaneously. Ashot Giloyan, one of the bearers of this view, assures that consolidation in clusters does not contradict the regional model of community consolidation. To illustrate his point, Mr. Giloyan points out Meghri as an example of community that was a former separate region and has also been considered as a potential community for consolidation in clusters. However, the consolidation of communities in clusters cannot work in all cases: several villages near Ashotsk have to be consolidated based on the regional model.

Arayik Hovhannisyan observed that considering the semi-war situation in bordering regions, administrative-territorial reform is a delicate issue and needs to be studied in detail. Moreover, local awareness campaigns have to be organized for the local population to explain them about the anticipating changes and benefits. Particularly, he expressed the view that at the moment consolidation of communities in clusters is preferable as it has fewer risks. On the other hand, Stepan Margaryan argues that consolidating 5-10 small communities in one local government body cannot bring in a serious change in terms of the solutions of local issues. He suggests that larger local government units need to be created similar to the former regions or even larger. He recalled the former regional councils that had certain independence and formed their budgets. Mher Shahgeldyan and Koryun Araqelyan shared the same opinion

expressing their hope that the regional model of consolidation might work due to recollections of the successful regional governance during the Soviet times.

Artsvik Minasyan also regards the regional consolidation of communities as a preferable model and thinks that the regional consolidation, unlike the consolidation of communities in clusters, can be effective in solving the problem of social and economic underdevelopment. Recalling the division of Armenia during the Soviet times, Mr. Minasyan observed that there were six social-economic regions, each of which consisted of around 5-6 regional governing systems. These were not only historically interconnected regions but also units based on economic peculiarities and specific development trends. Above all, he indicates that this model proved to be quite successful during the Soviet times. Mr. Minasian believes that if the electoral system of Yerevan is also incorporated in the regional governance, effective and efficient model of local government will be ensured to promote the development of communities.

Nikol Pashinyan who also regards regional consolidation as a better option, argues that consolidation of communities in clusters may seem an easier model at first sight, but there may rise the issue of choosing a central community among two or more neighboring villages which may cause certain grievances and discrepancies. If villages are formed around a town this may probably raise less problems. Mr. Pashinyan notes that an interesting political aspect of the regional model of consolidation is that the existence of regional governments becomes irrelevant. However, he is concerned that without state financing, the newly consolidated regional units may have the issue of budget formation and thus turn to huge tax absorbing bodies.

In line with these problems Mr. Pashinyan expresses his concern about the future of the unemployed people that will lose their jobs as a result of reduction in the number of administrative positions as a consequence of community consolidation. He expressed his fear

and concern that reduction in administrative positions may result in a new wave of migration and claimed that steps should be taken to provide opportunities for people to live in their local communities. He further argues that the problems are numerous and even if theoretic solutions are given to these problems, it is still hard to what results can be practically achieved.

Above all, Mr. Pashinyan expressed his view that only community enlargement cannot be a solution to the problems of the local government. There are more general political problems like the weak economy and unequal development of communities. He believes that a certain sequence of actions has to be carried out in line with the consolidation of communities.

Emin Yerityan is of a completely different opinion about the necessary reforms of the local government system. He argues that the selection of the model of community consolidation based on the argument of efficiency is very weak. If the consolidation of communities does not result in decentralization, it does not have any sense. Thus, he argues that the consolidation of communities throughout the country is not correct. According to him, consolidation should be implemented in communities where there is an urgent need. As a further demonstration of his argument, he brings the example of Byureghavan and Nor Hachn communities, which have grown one into another. He further urges that such cases have to be considered for consolidation unlike villages that are 15-20km far from each other. Also, he proposes that communities can have at least common administration to provide efficient and quality work without disrupting the identity of a community.

Mr. Yeritsyan counteracts the argument that the consolidation of communities will ensure harmonious economic development as far as the communities do not have economic levers for development. He insists that the strategy of economic development has to be developed on the regional level. As to him, the solution is not in consolidation of communities, but rather in introducing a second level of local government that will be elected and have a

separate budget to become the driving force for economic development. His approach to the reforms of the local government is that two-level local governance has to be created: no changes need to be made in communities but a second level has to be created that will provide the opportunity to distribute the powers adequately. Moreover, the second level can be as large as the current regional units so as to become a strong economic leverage and have the potential to make political decisions. Thus, he argues that the best solution is the establishment of two-level local government system.

Reflecting on the idea of creating two-level local government system in Armenia, Artsvik Minasyan regarded it as acceptable only if the first level of the local government ensures the effective administration of the community and the second level ensures the social and economic development of the region. All the other respondents rejected the necessity of creating two-level local governance in Armenia and reasoned that it cannot be effective for small countries like Armenia. Nevertheless, some of the respondents, particularly Nikol Pashinyan and Tevan Poghosyan, turned to the problem of regional governments, naming them as ineffective institutions with an ambiguous role that practically do not improve the situation in communities but are a hindrance to the community development.

The interviewees did not express clear ideas on the role that intercommunity unions can have after the consolidation of communities. Some of them regarded their role as an intermediate link between the local and central governments that assist in exercising the local powers. Some others named the unions as artificial or poorly functioning institutions that cannot implement significant powers. Also, opinions were expressed that intercommunity unions have a transitional nature and especially in case of the consolidation of communities, the services they provide can be delivered by the communities. Discussing the future of the intercommunity unions, Artsvik Minasyan expressed the idea that the culture of joint governance of communities is not developed in Armenia and the voluntary union of

communities that could achieve effective results has not been significant. Still, he notes that a number of funded projects aimed at strengthening of intercommunity unions reveal that if the target is made on creating unions based on common interests and not the transfer of local powers to the intercommunity unions, the role of the intercommunity unions can be useful. As a demonstration of his argument Mr. Minasyan illustrates the case of the six communities of Armavir Marz that have common interests in social or cultural events and jointly develop cultural or sports projects. He believes that if this experience is shared and disseminated in other communities, intercommunity unions can prove to be successful.

The representatives of political parties, public and state institutions responsible for policy design and execution also discussed possible mechanisms that can boost the consolidation of communities and introduction of intercommunity unions. Stepan Margaryan insists that the government should develop a strategy to stimulate people to start businesses in communities. He argues that economic initiatives in the local level can be promoted through either investments or beneficial loans and grants by certain foundations. He also claims that differential tax policy should be introduced and taxing privileges should be given to local people to boost the local economy. Other interviewees also considered that amendments should be made in the tax system. Particularly, Artsvik Minasyan insists that profit tax should form part of the community budget and certain deductions should be made from the income tax. Nevertheless, he gives more importance to the redistribution of resources claiming that the disproportionate development of the country has led to the concentration of financial resources in Yerevan and big cities.

Discussing the possible financial mechanisms to promote community development and consolidation, Mr. Minasyan also talked about the necessity to encourage community initiatives and cooperation. He notes that there is no such a joint-stock company or a commercial organization owned by the community, the profit of which contributes to the

formation of community budget. He explains this phenomenon by the lack of culture of corporate partnership. To illustrate his argument, he recalled the common attitude of privatization of land by a local villager who aims to meet his social problems and does not use its resources in a way to also promote community development. Thus, he believes that the same villager is not ready to combine the ownership of the land in order to produce better results that will also boost the community development.

An important target of the interviews was to reveal the approach of the political parties, public and state institutions towards the decentralization of power in Armenia. All the interviewees agreed that decentralization of power is an important precondition for successful governance however views differed on the level and challenges of decentralization in Armenia. Ashot Giloyan, states that the logical sequence of the consolidation of communities should be the decentralization of power. He noted that the competence for providing education will be transferred from central to local level and healthcare provision will be transferred from regional to the local levels. Others, though accepting the need for decentralization, were not certain about the extent and level of decentralization to be implemented in Armenia. One of the proponents of this view, Stepan Margaryan objecting the approach that all decision should be made centrally, argues that decentralization of power should be implemented at the largest possible level. Opinions were expressed that decentralization promotes democracy and that without decentralization communities cannot be established. Koryun Arakelyan, talking about the need for decentralization, claims that decentralization has to be manageable. As a further explanation he highlighted the transfer of land property to the local level and expressed the view that because of the lack of resources and capacities to manage lands, additional challenges have been created.

Artsvik Minasyan noted that decentralization of power is considered as one of the basic principles in the modern governing system throughout the world; however the power in

Armenia becomes more centripetal as we talk more and more about decentralization. The constitutional amendments of 1995 and 2005 gave the opportunity for enlargement of the scope of local powers; still, the actual picture is the opposite. Mr. Minasyan argues that the central government is not able to address all the problems in time and effectively, thus the separation and distribution of powers will provide the opportunity for better and more effective solutions.

Mr. Minasyan argues that to make decentralization of power possible, first democratic elections have to be ensured. Decentralization also needs to go along with the improvements of fiscal capacities; particularly the communities should have the capacity to collect their own revenues and not depend on state subsidies which makes the position of the central government crucial.

Another observation made by Mr. Minasyan was that under the administration of all presidents in Armenia, the development of communities has been directly connected to the level of loyalty of the local population and Mayors to the central authorities. He claims that this is not democratic and leads to distortions of social and economic aspects of the community as well as relationships between people.

Nikol Pashinyan also saw an obvious need for decentralization. However, he brought up a number of challenges to the decentralization of power including formulation of the local budget, local government financing, the share of the own revenues in the total municipal budget and the state subsidies for the communities. Furthermore, he believes that the cause of these problems is not the model of governance but rather the poor economic performance of the country.

Artsvik Minasyan also brought up a number of challenges and obstacles related to the decentralization of power. He believes that adequate financial and human capacities are necessary for decentralization. Furthermore, he thinks that an important aspect for successful

decentralization is the political will of the authorities. Only those authorities who are ready to lose their power in democratic elections can introduce decentralization. Another challenge that he mentioned is the people's stereotypes concerning their role in public decision making. He stated that if every citizen believes that his/her opinion can be decisive in making political decisions or policies, and the local mayor or the president is not elected because of his/her benefits, then a step will be made towards successful decentralization of power.

Discussing the challenges to decentralization a number of opinions were expressed that regarded the lack of harmonious development of communities, unemployment, migration, lack of opportunities for taking loans as main obstacles for further decentralization of power.

Stepan Margaryan noted that powerful regional governors are an obstacle for further decentralization of power. Similarly, Emin Yeritsyan regards administrative-territorial division as the main challenge and as already discussed, suggests creating the second level of local governance, which if combined with the political will and legislative reforms can make the decentralization of powers possible.

The interviewees were asked to present the framework of expected cooperation with the international actors and organizations regarding the local government reforms. Statements were made that the cooperation with the Congress of Regional and Local Authorities has been productive in revealing the current issues in the local governance in Armenia and progress has been made in meeting those challenges. Also, the role of international organizations was valued in providing consultancy in terms of local affairs. Some of the interviewees expressed their hope for a strong cooperation with the regional governments of different European countries not only in terms of the exchange of experience and financial assistance but also with the prospect of future development of the local government.

CONCLUSION AND RECOMMENDATIONS

Within the framework of this research the possible paths and scenarios of local government reforms were discussed, particularly community consolidation and further decentralization of powers, in line with the challenges and opportunities of the local government system in Armenia.

The research shows that without strong local government institutions, solution cannot be given to systemic community problems like the lack of financial and human capacity to execute the powers assigned to them by the legislation, lack of financial resources to form their own budget, weak electoral system, inferior role of municipal councils, etc.

The interviews with the representatives of the government and major political parties show that party affiliation has distinct role in their approaches towards the possible scenarios of the local government reforms in Armenia. The representatives of the ruling Republican party are quite optimistic about the current state of the local government in Armenia but still admit the need for further improvements. On the other hand, the representatives of major opposition parties and also non-partisan members of the National Assembly regard the root causes of challenges to local governments, like the disproportionate development of the country and the lack of harmonious economic development in communities not at the local but rather at the state level. This approach of representatives of opposition parties goes so far as to regard the local governments are part of a hierarchical pyramid of power and therefore not independent.

There is an overall positive environment among the interviewees for the implementation of local government reform in Armenia. Particularly, all interviewees generally believe that optimizing administrative-territorial division will become a potential solution for many community problems, greatly contribute towards the development of mayor's and council's institutions, as well as increase the level of the autonomy of the community, which are key

prerequisites of decentralizing the government system. Nevertheless, different, sometimes even opposing ideas were expressed for the possible models of community consolidation. This year, 2014, pilot project of community consolidation in clusters is expected to be carried out in several marzes in Armenia and the representatives of the Republican Party consider this model of consolidation preferable for its fewer risks and potential benefits. The majority of the interviewed representatives of the opposition parties regard the regional model of community consolidation preferable, whereas some others do not prescribe much importance to a specific model of community consolidation. Another approach states that there is no need for implementing community consolidation but two-level local governance should be introduced in Armenia to ensure the harmonious development of the country. In contrast to this view, the majority of the interviewees do not see any need to introduce two-level local government system in Armenia.

Political actors also have an ambiguous stance regarding the role of the intercommunity unions after the consolidation of communities. Some of them regarded their role as an intermediate link between the local and central governments, some others claim they are artificially created and not well established institutions that cannot execute significant powers, while others believe that intercommunity unions have a transitional nature and especially in case of the consolidation of communities, the services they provide can be delivered by consolidated communities.

Thus, the first hypothesis which assumed that there is no consensus among political actors on community consolidation in Armenia is accepted as the content analysis and the interviews revealed that political and public actors are eager to make local government reforms; however, there is no distinct model or a path of reforms, particularly consolidation of the communities.

One of the most significant findings is the respondents' willingness to further decentralize the power from central to local levels as an important precondition for successful governance. Nevertheless, the majority of the respondents are not certain about the extent and level of appropriate decentralization. Among other results it should be noted that the interviewees had different perspectives on the challenges of decentralization, including the lack of harmonious development of communities, strong regional governors exerting their power on communities, unemployment, migration, lack of opportunities for taking loans, etc. Moreover, some of the respondents regard the current administrative-territorial division as the main challenge to decentralization and particularly creation of the second level of local governance is seen as a means to make the decentralization of powers possible.

Thus, the second hypothesis of the paper assuming that decentralization policy is not high on political actors' agendas is accepted as the results of the interviews revealed that the decentralization of power is not a priority issue in the political agenda, though the content analysis as well as the interviews indicated the importance of provision of bigger autonomy to the local governments in Armenia. Moreover, considering the recent political developments and the current situation in the country, namely the resignation of the Prime Minister and yet to be formed government, it is still difficult to project the course of the future developments of the local government reforms and further decentralization of power.

Within the scope of the current research, several recommendations should be made based on the analysis and policy options discussed above.

- Organize further consultations and discussions among the political actors as well as between the state and non-governmental experts to come to a consensus on community consolidation in Armenia.

- Considering the favorable political environment for introducing local government reforms, initiate active implementation of community consolidation and decentralization policy in 2014.
- Organize public awareness campaigns and introduce the benefits of community consolidation to the local population.
- Involve civil society organizations, business community and other stakeholders in the process of policy formulation to avoid public disenchantment.
- Conduct knowledge, public perception surveys to reveal the public attitude towards the local government reforms, community consolidation and decentralization of power.

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APPENDIX A

INTERVIEW QUESTIONNAIRE

1. What are the current issues and challenges in local government system in Armenia?
2. Currently, there are two widely discussed scenarios of community consolidation: regional consolidation of communities and consolidation of communities in clusters. Which scenario of community consolidation is more acceptable for your party / government / institution?
3. What is your attitude towards introducing the second tier of local government in Armenia?
4. The government 2014 program of activities plans implementation of pilot projects of community consolidation. When can the outcomes of the pilot projects be studied?
5. What role will the intercommunity unions have after the consolidation of communities?
6. What mechanisms can be used to financially boost the community consolidation and creation of intercommunity unions?
7. What is the position of your party / government / institution on decentralization policy?
8. What are the main political and economic challenges to decentralization policy in Armenia?
9. What are the possible/projected means of cooperation with the European/international institutions on the decentralization reform?

APPENDIX B

LIST OF INTERVIEWEES

Members of the National Assembly:

Arayik Hovhannisyan	Republican Party
Artsvik Minasyan	Armenian Revolutionary Federation
Edmon Marukhyan	Non-partisan
Mher Shahgeldyan	Rule of Law Party
Nikol Pashinyan	Armenian National Congress
Stepan Margaryan	Prosperous Armenia Party
Tevan Poghosyan	Heritage Party

Ministry of Territorial Administration

Ashot Giloyan	Head of the Local Self-Government Department in the Ministry of Territorial Administration
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Non-governmental Organizations

Emin Yeritsyan	Chairman of Union of Communities of Armenia
Koryun Arakelyan	Public Council member, Chairman of the Committee of Territorial Administration and Local-Self Government