



**Hamazasp
GALSTYAN**

PhD in Economics

In 1989 he graduated from the Faculty of Planning and Economics of Yerevan Institute of National Economy (now ASUE). In 1980-1982 he served in the Soviet armed forces. In 2004 he received the scientific degree of candidate of Economics. In 2004-2003 he taught at the RA Academy of Management, the European Educational Regional Academy and the Armenian Institute of Tourism.

He is a senior researcher at "Amberd" Research Center at ASUE. He is the author of more than three dozen scientific and analytical articles and 3 monographs.

 <https://orcid.org/0000-0001-9014-5892>

ENLARGEMENT IN THE RA COMMUNITIES: CHALLENGES AND OBSTACLES

DOI: 10.52174/2579-2989_2023.6-22

Key words: *enlargement of communities, administrative and fund expenditure, decentralization of powers*

The development prospects of each country and the proportional development of its territorial units primarily hinge on the establishment and effectiveness of the state, territorial administration, and local self-government systems.

In a broader sense, the system of administrative territorial division plays a crucial and indispensable role in fortifying the capacity of communities and advancing the local self-government system. In any country with a stable democratic system, administrative territorial units undergo certain changes over time, aligning with the state's priorities and the resources at its disposal.

No state can achieve effective public administration without stable and functional regional and local self-government systems. At the local level, one of the primary objectives of administrative territorial reforms is to enhance community management efficiency by introducing optimal service delivery structures. This aims to ensure active public involvement in these initiatives and the local self-government process.

The constitutional framework for the local self-government system in the Republic of Armenia (RA) was laid out by the citizens in the 1995 constitutional referendum. The Constitution guaranteed local self-government as a fundamental pillar of democracy in the RA¹, with administrative territorial units defined as marzes and communities. The administrative territorial division is further specified by law².

¹ RA Constitution, Article 9, <https://www.arlis.am/documentview.aspx?docID=102510>

² The same place, Article 121 <https://www.arlis.am/documentview.aspx?docID=102510>

In 1995, the Law "On Administrative Territorial Division" divided the RA into 10 regions and the city of Yerevan³, which holds marz status. However, the high level of fragmentation with 919 municipalities hindered the improvement and development of the local self-government system in a relatively small country like the RA. Many communities with limited resources struggled to build infrastructure, repair roads, or make other capital investments.

To address these challenges, administrative territorial reforms in the RA began in 2011 with the approval of the "Community Enlargement and Formation of Inter-Community Associations Concept" by the RA Government. Over the following five years, the unification of communities with small populations and limited financial resources was actively implemented in stages. As a result, the number of communities decreased from 915 to 64 as of December 1, 2023. However, the reform process is ongoing and has not yet reached its conclusion.

Currently, nearly all communities in all regions of the RA have undergone enlargement, with the exceptions of Shamiram in Aragatsotn region, Verin Dvin in Ararat region, Ferik in Armavir region, Arzni in Kotayk region, Gyumri in Shirak region, as well as Fioletovo in Lori region.



PICTURE 1

The administrative territorial division of RA by regions (on 1.01.2023. as of now)⁴

³ RA Law "On Administrative Territorial Division", Article 2, <https://www.arlis.am/documentview.aspx?docid=25633>


⁴ The data were collected and compiled by the authors based on the RA Law "On Administrative Territorial Division" with revisions of the relevant years, <https://www.arlis.am/documentview.aspx?docid=25633>



Kristine TATOSYAN

PhD student, ASUE

In 2021, she graduated from ASUE Faculty of Management with excellence. Since 2020, she has been involved in research programs on various topics at "Amberd" Research Center of ASUE as a member of the research group. She has authored or co-authored 3 monographs and more than 10 articles throughout researches and scientific activities. Presently, she holds the position of senior supervisor at the Department of Territorial Management and Infrastructure Sector Supervision of the RA State Supervisory Service. Currently, she is pursuing her PhD and is actively involved in teaching at ASUE.

 <https://orcid.org/0000-0003-4593-3747>

The administrative territorial reforms in the RA, specifically the community enlargement process, have led to an increase in both the administrative territories of communities and their populations.

It is crucial to note that this process is not an end in itself; rather, it is driven by various motives, including:

1. The challenging financial situation faced by small communities in the RA

In general, noticeable socio-economic disparities existed among all the mentioned communities before the enlargement. These disparities were attributed to varying financial capabilities, population sizes, land resources in administrative areas, as well as differing geographical and socio-economic conditions.

For instance, in 2010, a significant proportion of municipal budgets (56.6%, equivalent to 83.6 billion drams) came from the city of Yerevan. Following Yerevan, the highest indices were observed in Armavir (5.9%) and Shirak (5.9%) regions, while Vayots Dzor region had the lowest share at 1.3%.⁵

Furthermore, recent budget analyses

for all the RA communities underscore the precarious financial state of small communities. These studies reveal that only 6-7% of the RA consolidated budget constitutes the municipalities' share, an amount that is notably small in absolute numerical terms. Additionally, at least 45% of municipalities struggle to cover personnel and community maintenance costs, making it financially impractical for these communities to fulfill their legal responsibilities. It is crucial to note that approximately 80% of communities during this period were unable to form a budgetary fund, posing significant challenges to the economic development of these communities.⁶

Prior to the enlargement, a considerable portion of the expenditures in several small communities in the RA were allocated to salaries of municipal employees. The majority of these costs were administrative and primarily directed toward providing general community services. To illustrate, let's examine the case of Tsaghkahovit community in Aragatsotn region, the RA, which underwent enlargement in 2017 and now includes nine

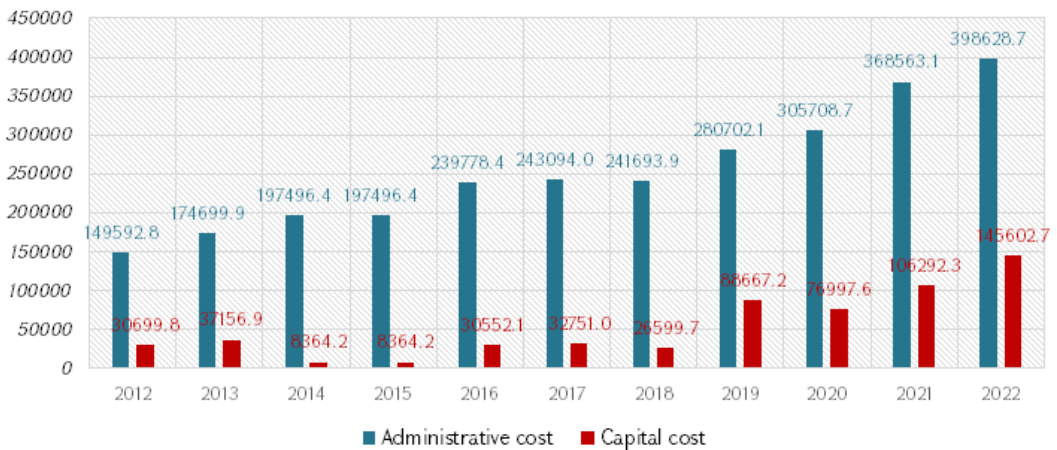


CHART 1

The ratio of administrative and capital cost of Tsaghkahovit community of Aragatsotn region, the RA, 2012-2022 (thousand AMD)⁷

⁵ Website of the RA Ministry of Territorial Administration and Infrastructure, budget revenues of the RA communities, 2010 budget reports, <https://www.mtad.am/pages/budgetary-revenues-ra-communities>

⁶ "Enlarging the communities of Armenia: a preliminary study", Yerevan 2008, Community Finance Officers Association, https://api.cfoa.am/5cb3b02eda3bcConsolidation_last-Arm.pdf

⁷ Tsaghkahovit community: 2012-2022. budget reports, <http://aragatsotn.mtad.am/community-budgetary-expenditure/Acquaintance>. Tsaghkahovit community of Aragatsotn region, RA: 2012-2022. the income analysis was carried out by combining these data, in particular, before the enlargement, before 2017 the Tsaghkahovit community and the former 9 communities included in it, the data necessary for the analysis (income, expenditure) were added together in order to make the comparison with the incomes of the enlarged Tsaghkahovit community after 2017 comparable.

settlements: Berqarat, Geghadir, Geghadzor, Gegharot, Lernapar, Tsilkar, Hnaberd, Norashen, and Bardablur.

As we are aware, municipal budgets are structured into administrative and fund budgets of the municipality to ensure the adequacy of powers exercised by local self-government bodies and their funding⁸. Administrative costs are allocated for addressing the community's current issues, while fund costs are primarily directed towards implementing capital expenditures, such as constructing kindergartens, improving roads, and asphalt paving. Consequently, the more a community invests in fund expenditures, the more it sets the stage for long-term economic development.

The data presented in Chart 1 indicates a significant increase in capital costs in the Tsaghkahovit community after enlargement. Moreover, it is worth noting that, in addition to absolute values, fund costs have also seen a rise in relative values post-enlargement, accounting for 12%, 11%, 26%, 22%, 25%, and 31% of total costs from 2017 to 2022, respectively. In contrast, or 2012-2016, before enlargement, were 17%, 18%, 4%, 4%, and 12% in respective years, relative to total costs. This suggests that after enlargement, the Tsaghkahovit community experienced a significant increase in capital costs, signaling

positive efficiency due to the scale effect of enlargement.

2. Problems of increasing the efficiency of the provided public services and ensuring their availability among the residents of the community

In broad terms, enlargement can yield both positive and negative effects on the efficiency of local self-government in communities and the accessibility of public services to residents. Public services whose organization falls under the jurisdiction of local governments by law are termed community services. Consequently, ensuring the proper provision of community services stands out as one of the primary responsibilities of local governments.

Summarizing the data presented in Chart 2, it is evident that in the Tsaghkahovit enlarged community during the period of 2012-2022, the per capita total for community services amounted to 11,700, 11,440, 13,340, 13,340, 15,600, 17,000, 12,800, 15,800, 15,500, 17,850, and 17,700 AMD. Notably, there is an observed increase in these costs after the enlargement, raising the possibility of a correlation with a higher rate of inflation. This complexity suggests that making an unequivocal claim about the optimal management of per capita administrative costs post-enlargement is challenging.

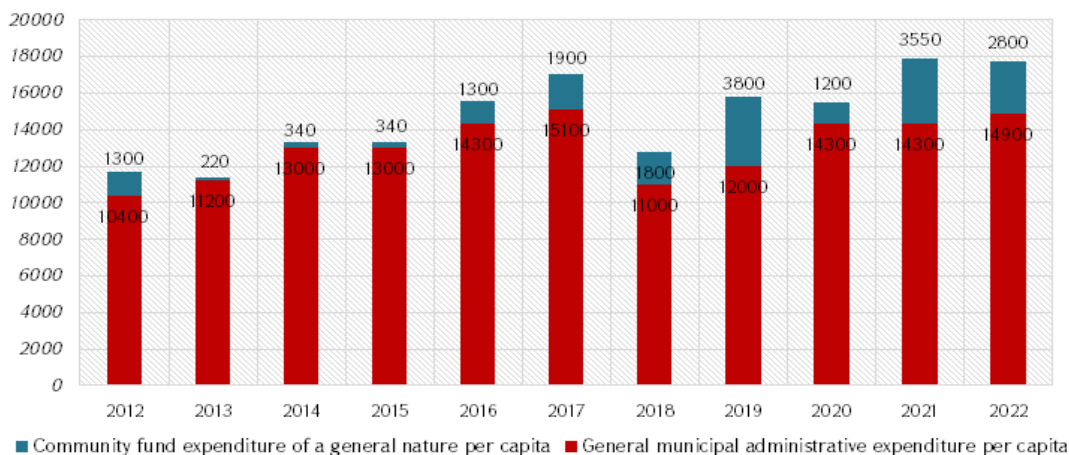


CHART 2

General community services per capita of Tsaghkahovit community of Aragatsotn region RA, 2012-2022 (AMD)⁹

⁸ RA Law "On the Budget System", Article 28, <https://www.arlis.am/documentview.aspx?docid=75497>

⁹ Tsaghkahovit community: 2012-2022. budget reports, <http://aragatsotn.mtad.am/community-budgetary-expenditure/>

3. Decentralization of powers

In the process of community enlargement, focusing on local economic development necessitates an expansion of the capabilities and opportunities available to communities. This expansion goes beyond merely increasing financial resources; it also involves quantitative and qualitative changes in powers. However, certain communities face challenges in pursuing economic development due to the absence of relevant sector powers. Moreover, some communities encounter difficulties in fully implementing the powers delegated to them by law.

Consequently, a community conducts its ongoing activities using both self-assigned powers aimed at addressing mandatory and voluntary community issues and those delegated by the state. The delegated powers are subject to mandatory funding from the state budget, as specified by the "Local Self-Government" law.¹⁰

The community possesses a range of inherent powers, encompassing the protection of citizens' and economic entities' rights, financial activities, defense organization, urban planning and communal economy, land use, transport, trade and services, education, culture, youth work, healthcare, physical culture, sports, agriculture, as well as nature and environmental protection. However, municipalities, particularly prior to the enlargement, often face challenges due to insufficient financial resources for executing these powers. Additionally, there is a lack of an evaluation mechanism to assess the ongoing effectiveness of implementing the powers outlined in the law.

Within the analysis conducted in the enlarged community of Jermuk, a comparison of community expenditures was made based on the areas of authority of the community leader. The findings revealed that since 2016, the Jermuk community has predominantly allocated its costs to the following key sectors: general public services, education, transport, environmental protection, and waste collection. However, a significant portion of the powers mandated by law, directly linked

to the community's long-term and sustainable development, saw limited implementation. The community continued to primarily function as a provider of basic services, despite a slight shift in recent years. For instance, there was a decrease in housing construction costs (from 0.36% of the total in 2018 to 0.1% in 2020) and community development costs. Nevertheless, aspects crucial for the community's sustainable development, such as enhancing the business environment, allocations for community property management, business environment improvement, tourism development, and healthcare systems, remained at negligible levels.

Consequently, post-enlargement, despite an increase in municipal budget inputs and the availability of financial resources, the community is constrained to invest primarily in infrastructure construction and deliver essential public services. Key areas such as public services, education, transportation, environmental protection, and garbage collection continue to account for a substantial portion of the budget expenditures in the Jermuk community.

Attributing this challenge solely to insufficient financial resources may be oversimplified, as the enlargement of municipalities, accompanied by expanded budget revenues and economies of scale, did not result in significant quantitative changes in powers. It is plausible that the community may not be prepared to assume such powers even with adequate financial resources. Therefore, the extension of legislative requirements uniformly mandating the exercise of powers to address mandatory problems across all communities, without considering their unique characteristics, renders their practical feasibility unrealistic.¹¹

Therefore, the administrative territorial reforms in the RA should logically progress by introducing effective mechanisms for expanding powers and providing corresponding financial support. Considering the 5-year experience of certain municipalities post-enlargement

¹⁰ RA Law "Local Self-Government", Article 10, <https://www.arlis.am/documentview.aspx?docID=73271>

¹¹ K. Tatosyan, "The impact of the enlargement of communities in the context of the effective implementation of local government powers (by the example of the enlarged Jermuk community)", BANBER ASUE, 2022.2, pages 69-73.

and the potential for relatively efficient allocation of financial resources resulting from enlargement, the logical next step in municipal enlargement should involve the

decentralization of powers and the implementation of an evaluation system to assess their effectiveness.

REFERENCES

1. RA Constitution, <https://www.arlis.am/documentview.aspx?docID=102510>
2. RA Law "On Local Self-Government", <https://www.arlis.am/documentview.aspx?docID=73271>
3. RA Law "On Administrative Territorial Division", <https://www.arlis.am/documentview.aspx?docID=25633>
4. RA Law "On the Budget System", <https://www.arlis.am/documentview.aspx?docID=75497>
5. Website of the RA Ministry of Territorial Administration and Infrastructure, budget revenues of RA communities, 2010 budget reports, <https://www.mtad.am/pages/budgetary-revenues-ra-communities>
6. Tsaghkahovit community: 2012-2022. budget reports, <http://aragatsotn.mtad.am/community-budgetary-expenditure/>
7. Tatosyan K., The impact of the enlargement of communities in the context of the effective implementation of local government powers (by the example of the enlarged Jermuk community), BANBER ASUE, 2022.2
8. Enlarging the communities of Armenia: a preliminary study, Yerevan 2008, Community Finance Officers Association, https://api.cfoa.am/5cb3b02eda3bcConsolidation_last-Arm.pdf

Համազասպ ԳԱԼՍՅԱՆ

ՀՊՏՀ «Ամբերդ» հեղափոխական կենտրոնի ավագ հեղափոխող, Կրկեսագիտության թեկնածու

Քրիստինե ԹԱԹՈՍՅԱՆ

ՀՊՏՀ ասպիրանտ

ՏԱՐԱԾՔԱՅԻՆ ԶԱՐԳԱՑՈՒՄ

ՀՀ ՀԱՄԱՅՆՔՆԵՐԻ ԽՈՇՈՐԱՑՈՒՄԸ. ՄԱՐՏԱՀՐԱՎԵՐՆԵՐ ԵՎ ԽՈՉԸՆԴՈՏՆԵՐ

Յուրաքանչյուր երկրի զարգացման հեռանկարները և տարածքային միավորների համաչափ զարգացումը նախևառաջ պայմանավորված է նրանով, թե որքանով են կայացած տվյալ պետության պետական, տարածքային կառավարման և տեղական ինքնակառավարման համակարգերը:

Առհասարակ, վարչատարածքային բաժանման համակարգը լուրջ և էական գործոն է համայնքների կարողությունների ամրապնդման և տեղական ինքնակառավարման համակարգի զարգացման համար և յուրաքանչյուր կայուն ժողովրդավարական համակարգ ունեցող երկրում ժամանակի ընթացքում վարչատարածքային միավորները ենթարկվում են որոշակի փոփոխությունների՝ հարմարեցվելով պետության գերակայություններին և առկա ռեսուրսներին:

Հիմնաբառեր. *խոշորացում, վարչական և ֆոնդային ծախս, լիազորություն*

Амазасп ГАЛСТЯН
*Старший эксперт исследовательского центра «Амберд», АГЭУ,
кандидат экономических наук*

Кристине ТАТОСЯН
Аспирант АГЭУ

РЕГИОНАЛЬНОЕ РАЗВИТИЕ

УКРУПНЕНИЕ ОБЩИН РА: ВЫЗОВЫ И ПРЕПЯТСТВИЯ

Перспективы развития каждой страны и пропорциональное развитие территориальных единиц зависят прежде всего от того, насколько сформированы системы государства, территориального управления и местного самоуправления данного государства.

В целом система административно-территориального деления является серьезным и существенным фактором укрепления потенциала общин и развития системы местного самоуправления. В каждой стране со стабильной демократической системой административно-территориальные единицы с течением времени претерпевают определенные изменения, адаптируясь приоритетам государства и имеющимся ресурсам.

Ключевые слова: *укрупнение, административные и финансовые расходы, полномочия*