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INTEGRATING ECONOMIC AND ADMINISTRATIVE REFORMS

Research

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Executive summary

Our research is aimed at revealing key issues related to the integration of economic and administrative reforms and improving the ways of their implementation in the Republic of Armenia. The level of resident expertise and extent of dialogue we are able to create through our network will make a significant impact in future reforms and changes in administrative systems.

Reforming the economic sector by creating democratic forms of governance requires a strategic management framework in order to achieve results valued by stakeholders. Applying strategic management techniques and practices to resolve problems that exist in the public sector requires establishing the systems (policies, rules, procedures, practices, arrangements and processes) necessary for implementing policy changes that realize measurable results and meet intended goals.

Our research is intended to assess whether, and to what extent, the statutory provisions of the Republic of Armenia (*RA Law on Economic Competition, RA Law on the Minimum Consumer Basket, and the RA Law on Taxation*) have been translated into necessary strategic management systems - rules, procedures, practices, arrangements, and processes - for improved economic performance in the Republic of Armenia. The research specifically examines the extent to which management structures and administrative procedures (including knowledge requisites, processes, and supervisory controls) are integrated with the implementation requirements of these laws and assess the impact of changes made in the process of institutionalizing the authority in the polity.

The primary purpose of this research is to assess the degree to which the referenced laws have been translated into implementing regulation, supported by procedures, practices, arrangements and processes for improved economic performance; and to make recommendations for filling existing gaps and upgrading the range and quality of services that must be shouldered by the bureaucracy, including administrative systems, human resources, and delivery mechanisms.

The research methodology uses a mixed approach designed to collect and analyze evidence in a way that can answer specific questions. Our study is intended to be an in-depth, multifaceted investigation using qualitative as well as quantitative research methods to work through the data collection and analysis. Our proposed methodology is intended to describe the changes in regulation and administrative services and products delivered by the government, and evaluate the impact select laws have made in the economy using multiple sources of evidence, with data converging in triangulation. To ensure construct validity, the proposed research uses multiple sources of data that establish a chain of evidence. Sources of data include information gathered from literature review, stratified surveys, interviews, discussion, public forum, official records, and related documents. Considerable attention also focuses on including applicable best practices in our assessment report/recommendations.

PROBLEM STATEMENT AND RATIONALE

It has long been recognized that strategic management - an efficient, results-oriented, transparent, corruption-free public administration and a knowledge-based government system - is an essential prerequisite for the sustenance and institutionalization of democratic values and culture in the polity. There is general agreement among scholars and practitioners that strategic management improves productivity (therefore, results) and is a crucial component of the democratic set-up essential for successful implementation of economic reforms.¹

Reduced to basic principles, strategic management defines the systematic approach to articulating and pursuing goals or directions when many stakeholders are involved. It emphasizes participation by all stakeholders in establishing goals and priorities, in defining measurable objectives and benchmarks, in forging a strategy and mobilizing needed resources to reach these objectives, in carrying out the activities, and in monitoring achievements and revising and adjusting goals, objectives and strategic activities as needed. In the present context, the goal is of course an improved economic climate and a more competitive economy, with objectives and benchmarks being defined in terms of both “hard” and “soft” indicators.

Reforms that are directly related to the economy of the Government of Armenia (GoAM) have been passed in various phases and iterations in the past three decades. Expert reviews of these laws have consistently given high marks for the substance of most while arguing that, although well-founded, laws would have positive impact only when integrated, implemented and enforced effectively. The achievements or degree of transformation realized through these reforms must be evaluated to assess the level of success and degree to which these reforms have actually served the intended purposes. The continued discontent by donor organizations, interest groups, and civil society with respect to the resultant level of economic progress points in the direction of unsatisfactory implementation or inadequate performance and impact. Our recent analysis of the Consumer Price Index in RA, for example, clearly demonstrates that the failure to realize positive impact quite often is attributed to inadequacies within the GoAM administrative structure and lack of sufficient acumen and expertise.

Integrating economic and administrative reforms is one of the priority areas in the Republic of Armenia. The thematic priorities for the EaP CSF are based on: the official EaP agenda (key documents: 20 deliverables for 2020; implementation plans for the EaP Platforms and panels); topics initiated by the CSF based on common interests of its members, regional/multilateral priorities and gaps identified in the official agenda; need to react to rapid and sometimes unforeseen changes in the region, political, social and economic fluctuations in a particular EaP country or the region in general, including elections, civic uprisings, conflicts, etc. The first mechanism is mainly targeting the objective, while application of the second and the third mechanisms contribute to the implementation of the objective and provides the EaP CSF with additional flexibility in terms of both utilizing its expertise and being able to respond to force majeure situations in the region. The major document that sets multilateral priorities is the 20 deliverables which allows for identifying the sets

¹ In this research, the term *productivity* is used to mean the efficiency with which resources are consumed in delivery of public services, including process, infrastructure, and knowledge required for performance improvement (Faucett and Kleiner, 1994).

of thematic priorities for Working Groups of the EaP CSF. Cross-cutting priorities relate to several WGs at once; in addressing these deliverables inter-WG cooperation should be promoted. The table in Annex 1 illustrates the indicative thematic division of 20 deliverables in accordance with the EaP CSF working group division. Detailed description of the CSF interventions for each deliverable will be developed by WGs and will become a part of the WG annual work plans.

The current research is in line with EU-Armenia CEPA provisions. Particularly, according to the Article 1, the following objectives are key areas to consider while conducting research and related activities. The aims of this Agreement are: (a) to enhance the comprehensive political and economic partnership and cooperation between the Parties, based on common values and close links, including by increasing the participation of the Republic of Armenia in policies, programmes and agencies of the European Union; (b) to strengthen the framework for political dialogue on all areas of mutual interest, promoting the development of close political relations between the Parties; (c) to contribute to the strengthening of democracy and of political, economic and institutional stability in the Republic of Armenia; (d) to promote, preserve and strengthen peace and stability at both regional and international level, including through joining efforts to eliminate sources of tension, enhancing border security, and promoting cross-border cooperation and good neighbourly relations; (e) to enhance cooperation in the area of freedom, security and justice with the aim of reinforcing the rule of law and respect for human rights and fundamental freedoms; (f) to enhance mobility and people-to-people contacts; (g) to support the efforts of the Republic of Armenia to develop its economic potential via international cooperation, including through the approximation of its legislation to the EU acquis referred to hereinafter; (h) to establish enhanced trade cooperation allowing for sustained regulatory cooperation in relevant areas, in compliance with the rights and obligations arising from WTO membership; and (i) to establish conditions for increasingly close cooperation in other areas of mutual interest.

In Title II, Article 3, among the other aims of political dialogue it is mentioned:

(g) to strengthen respect for democratic principles, the rule of law, good governance, and human rights and fundamental freedoms, including media freedom and the rights of persons belonging to minorities, and to contribute to consolidating domestic political reforms². In addition, *Article 23 suggests* to that end, that the Parties agree to conduct a regular economic dialogue aimed at:

(a) Exchanging information on macroeconomic trends and policies, as well as on structural reforms, including strategies for economic development³.

Findings on the role of strategic management in implementing economic and administrative reforms

Considering that strategic management is a continuous process in attempting to reform government institutions and delivery mechanisms, in transforming public services and programs, and in abolishing or creating agencies, the government could benefit from information provided by formal

² EU – Armenia CEPA agreement, Title 1, Article 3.

³ Ibid, article 86.

evaluations of implemented reforms through research studies, situation analyses, and recommendations of applicable best practices. In the context of such studies, soliciting feedback from interest groups and end-users of specific policy changes is important to government in designing or reframing economic reforms. Efforts to improve government responsiveness must be tested with respect to organizational and personnel practices to assess their effectiveness in transforming the culture of public administration in Armenia.

Strategic management is a relatively new phenomenon for developing nations, and it is part of an ongoing transformation in public policy making (Bryson, 1988; Osborne and Gaebler, 1992). Scholars suggest that successful public managers have used strategic management to address the distinctive and often challenging characteristics of public sector organizations (Bozeman and Straussman, 1990; Denhardt, 1993). This is a demanding process in the sense that public administrators have to move towards a management strategy that emphasizes *accountability, transparency, efficiency, results-orientation, corruption-free* and a *knowledge-based* government system (Berry, 1994).

Researchers and practitioners have pointed out that strategic management produces multiple benefits, including encouragement of strategic thinking; optimization of performance/productivity while dealing effectively with changing environments (both internal and external); and facilitation of the interaction between policymakers and public managers, civil society and other stakeholders (Liou, 2000). Many posit that these factors optimize the *fit* of the organization with its environment (Bryson, 1995). However, strategic management also comes with several challenges that must be overcome, including the necessity of augmenting the existing knowledge base of public organizations and changing internal administrative structures and resource management practices.

Findings on major issues of administrative reform in Armenia

The importance and substance of various economic reform efforts cannot be denied, as they have aimed to address a number of crucial issues. But our research experience and preliminary findings to date show that several key issues should be taken into consideration in future economic reform efforts to ensure their integration with administrative structures and functional authorities for successful implementation.

Policy Commitments - We have observed that policy objectives and commitments are not always pursued fully, and the institutional mechanisms are too inadequate for ensuring the translation of policy objectives into concrete administrative actions that reflect policy goals, the commitment and political will of government and the people. After all, the impact of most policy changes highly depends upon their successful implementation and enforcement.

Provision of Services - Traditionally, a government's role changes with time. In the beginning, the basic purpose is to establish and maintain a social order-and-control state. Subsequently, the administrative system becomes more complex, shouldering new responsibilities in a strategic/regulatory administration that fosters political and economic security. Government at this stage must upgrade its services, using new methodologies and strategic management practices essential for tangible results.

Civil service - The efficient, effective, and equitable role of civil service in a developing democratic polity is of vital importance for managing the affairs of the state and, as such, the involvement of public servants must not transcend the boundaries of a democratic framework where authority and responsibility are balanced. This largely depends on creating a conducive and fitting environment and culture (instituting democratic norms; informed decision making processes; etc.); advocating democratic values in the administrative system; and adopting mechanisms that minimize bureaucratic excesses.

Administrative accountability - Government policy decisions are implemented through administrative mechanisms and, as such, accountability is essential for good governance. In Armenia, there is tendency on the part of the bureaucracy to exercise power in an authoritarian manner whereby democratic values are often lacking: lack of experience and lack of clarity create an imbalance between the role of bureaucracy and the role of public representatives and political leaders in policy making and the overall governance system. As a result, efficiency and accountability suffer. The arrogance of office, unethical behavior, failure to respect legislative intent and apathy towards work are rampant. Measures should be taken to curtail bureaucratic excess and reinforce accountability at all levels.

The logical framework depicts the specific components of this research and the corresponding outputs and outcomes, as well as the projected reach. The following principal goals were set: (a) to assess the degree to which the subject economic laws have been translated into establishing the necessary rules, procedures, practices, arrangements, and processes for improved economic performance; and (b) to articulate the next steps for filling the gaps in policy implementation and upgrading the range and quality of services that must be shouldered by the bureaucracy, including administrative systems, human resources, and delivery mechanisms.

Our research had focused on answering questions posed by the its goals and specific objectives: (a) What are the actual changes in administrative systems that reflect intended changes of these reforms and which components have not been translated into regulatory actions?; (b) What are the shortfalls in the technical/professional capacity and procedural obstacles for full implementation of the laws [whether or not these regulatory reforms are balanced, technically sound, properly calibrated]?; (c) What are the industry's views on key aspects of these regulatory reforms [to understand their thinking and to ensure that user perspectives are heard and translated into equitable actions]?; (d) What international best practices exist, which could provide successful solutions to similar issues under comparable circumstances?

The proposed multi-pronged research strategies span a wide range of approaches that allow collecting information from literature to survey, expert to individual citizen:

- ❑ To conduct background research and implementation audit primarily relying on available documentation and literature specific to the research goals;
- ❑ To perform a gap analysis of the subject laws and corresponding implementing regulation (including procedures, practices, arrangements, and processes);
- ❑ To bring together leaders from government and private sector to discuss implications of these economic reforms for government and industry; to identify the specific remedies that contribute

to improved performance and increased satisfaction; and to understand the degree to which the regulations and supervisory authorities relate to the intent and application of the laws;

- ❑ To assemble in a public forum different segments of the private sector, economic reform champions⁴ and opponents of these reforms inside and outside government;
- ❑ To survey different strata of the population across the country on expectations from these reforms;
- ❑ To organize a roundtable discussion of management reform priorities that lead to improved implementation of economic reforms [donor organizations, government, other experts, etc.]

The main outputs of research are considered the following:

- ❑ Map of the intent of subject laws and corresponding agreement/disagreement or absence of intent in regulatory provisions implemented to date, together with linkage to changes in administrative systems;
- ❑ Analysis of interview responses by type and level of respondent's engagement in economic activity, aggregated by priority ranking of legal provision and corresponding implementing action;
- ❑ Evaluation report delineating the impact of subject laws on the economy and recommendations on rules, procedures, practices, arrangements, and processes for improved economic performance;
- ❑ Opinions analyzed by different strata of the population; and
- ❑ Findings, best practices, and expert recommendations on administrative systems, human resources, delivery mechanisms, etc.

The main outcomes:

- ❑ new approaches to improve implementation capacity and integrity, reduced vulnerability to fraud and error;
- ❑ detailed analysis of prospects of integration of economic reforms and administrative systems;
- ❑ increased positive impact from reforms (measured by tangible differences that touch people);
- ❑ an expert view on how government may adopt key principles of strategic management.

⁴ Champions could include sponsoring international organization and government representatives that have drafted these laws.

Throughout the two months we have collected relevant data, arranged meetings with legislators, representatives of executive power, experts and consumers with coordination on data tracking. During the two months' work we had series of meetings with pre-determined target groups and beneficiaries. Based on our research goals and related activities during the months of August, September and October of 2021 we have worked with the following target groups:

- **Legislators / members of parliament.**



- **Civil servants / members of executive wing of power,**



- **Civil society expert groups.**



- Consumers in Yerevan, and in rural areas.





The above mentioned target groups were considered as the main beneficiaries of the research. This implies we have involved them in the overall process of examining the legal framework of economic and administrative reforms and taken their opinions into account. Based on the observations of all target groups we have arranged **«brainstorming sessions» with the representatives of the expert society.**





Our further research was focused on discovering the shortcomings of economic and administrative reforms and designing steps to be taken for increasing the efficiency of reforms.

Conclusions and recommendations

Our research aims to support the overall process of economic reforms in Armenia by evaluating the efficiency of implementing economic laws, as well as identifying key areas where mentioned laws may allow the society to participate in any way in decision-making process and increase the level of economic competitiveness of national economy and the quality of people's life. However, the given time frame was not sufficient to reach ideal results in terms of designing precise policy recommendations based on in-depth analysis and reliable data.

The Laws of the Republic of Armenia on Economic Competition, on the Minimum Consumer Basket, and on Taxation have been translated into necessary strategic management systems - rules, procedures, practices, arrangements, and processes - for improved economic performance in the Republic of Armenia. Our research had specifically examined the extent to which management structures and administrative procedures (including knowledge requisites, processes, and supervisory controls) are integrated with the implementation requirements of these laws and assess the impact of changes made in the process of institutionalizing the authority in the polity.

We observed the low degree to which the referenced laws have been translated into implementing regulation, supported by procedures, practices, arrangements and processes for improved economic performance.

We discovered, that the reforms directly related to the economy have been passed in various phases and iterations in the past three decades. Expert reviews of these laws have consistently given high marks for the substance of most while arguing that, although well-founded, laws would have positive impact only when integrated, implemented and enforced effectively. The achievements or degree of transformation realized through these reforms must be evaluated to assess the level of success and degree to which these reforms have actually served the intended purposes. The continued discontent by donor organizations, interest groups, and civil society with respect to the resultant level of economic progress points in the direction of unsatisfactory implementation or inadequate performance and impact. Our recent analysis of the Consumer Price Index in RA, for example, clearly

demonstrates that the failure to realize positive impact quite often is attributed to inadequacies within the Government's administrative structure and lack of sufficient acumen and expertise. Therefore, the Government's administrative structure and related acumen and expertise need to be further improved.

The importance and substance of various economic reform efforts cannot be denied, as they have aimed to address a number of important issues. But our experience and research findings to date show that several key issues should be taken into consideration in future economic reform efforts to ensure their integration with administrative structures and functional authorities for successful implementation.

In order to assess the degree to which the Laws on Economic Competition, Minimum Consumer Basket, and the Law on Taxation have been translated into establishing the necessary rules, procedures, practices, arrangements, and processes for improved economic performance, our study had started from background research and implementation audit. Stakeholder views on priorities for implementation of these economic reforms had been taken into consideration and public forum involving different segments of the private sector, champions and opponents of these reforms inside and outside government has been arranged. In particular, knowledgeable and experienced experts and various stakeholders, including public policy makers and national and international experts' views on economic reform had been considered. Also, we had met business representatives, economists, policy makers, government monitoring commissions, opinion makers and different consumer groups. Our research started from the gap analysis mapping the intent of the subject laws against implemented changes and outstanding issues. In addition, we had examined the impact of subject laws on the economy and recommendations regarding rules, procedures, practices, arrangements, and processes necessary for improved economic performance.

In an assessment phase meeting were arranged with local government representatives and National Assembly members and other interested representatives/stakeholders, as well as expert meetings helped to prioritize the goals and use existing resources more efficiently. We also included in research work detailed environmental scanning and situation analysis, followed by assessment findings reported and accepted by community.

In order to make the work more professional, we suggest this research to be continued, specialized workgroups to be formed and trained by the research team explaining the major goals and expected outcomes from this activity. This, in turn, will allow to gather requested baseline data, analyze assessment findings against baseline, validate baseline and pass to the next phase of summarizing findings aligning issues with existing and needed capabilities and delineating gaps.

Since some laws are lacking proper implementation, further corresponding surveys and interviews need to be conducted to identify gaps and make a list of possible corrective actions and competencies needed to fill existing gaps. With the help of set values and guiding principles relevant mission and vision is required to develop in accordance with major goals for each of the 4 C's, and objectives for specific goals. Finally, in order to make the process continuous, research shall be carried out in other

rural areas with the main findings reported to the community at large by press-conferences and round tables arranged in almost all marzes of Armenia.

Additional time and resources are required to work on action plans for filling the critical gaps and upgrading the range and quality of services that must be shouldered by the bureaucracy, including administrative systems, human resources, and delivery mechanisms.

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