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Public Sector Reforms in Armenia 1999 – 2005: Achievements and Challenges

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Abstract

Armenia is still at an early stage in the process of post-Soviet state building and is struggling to build a fully functioning national administration using administrative machinery inherited from the Soviet Union and better suited to a local or regional government. This has resulted in a range of governance and institutional weaknesses and constraints that have impacted on public service provision and on poverty reduction since independence in 1991...

<p>The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the Armenian International Policy Research Group. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.</p>

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Abbreviations:

CSC	-	Civil Service Council
DFID	-	Department for International Development
NCE	-	Non-Commercial Enterprises
NGO	-	Non-Governmental Organisation
NSS HS	-	National Statistical Service Household Survey
MTEF	-	Medium Term Expenditure Framework
PRSP	-	Poverty Reduction Strategy Paper
PSRC	-	Public Sector Reforms Commission
UNDP	-	United Nations Development Project

Abstract

Armenia is still at an early stage in the process of post-Soviet state building and is struggling to build a fully functioning national administration using administrative machinery inherited from the Soviet Union and better suited to a local or regional government. This has resulted in a range of governance and institutional weaknesses and constraints that have impacted on public service provision and on poverty reduction since independence in 1991, *inter alia*:

- A confused central government structure leading to overlap and duplication of functions.
- Formal institutions have insufficient strength to act as a check on the informal family/regional networks and on personal ambitions.
- Lack of a clear personnel structure in the civil service, with an absence of career and merit based pay structures, and job descriptions.
- Very low levels of salaries for public employees, encouraging corrupt practices to supplement income.
- Corruption at the national and regional level remains as an obstacle to the development of stable civil society, the effective operation of governance systems, and a private sector growth deterrent.
- Limited policy making and service delivery capacity at all levels of government.
- Very limited public finances and poor public expenditure planning and management capacity at all levels of government.
- An incomplete legal framework and rapidly changing laws. A lack of consistency in application of laws.

- Lack of openness of government operations, lack of involvement of civil society organisations, resulting in alienation of a substantial part of the population.
- The Nagorno-Karabakh conflict has also enhanced the influence of the military and other national security agencies, compromising the government's willingness to confront powerful vested interests and to deliver effective pro-poor policies.

DFID and the World Bank have provided significant amount of technical assistance and financial support to improve the efficiency, effectiveness and integrity of the public sector, the establishment of a structured civil service, as well as in parallel contributing to improving public financial management systems. The research paper, in addition to discussing the above problems, will try analysing the outcomes of the donor assistance in the past years too.

PART I - INTRODUCTORY

Setting The Country Scene

This is the 14th year of Armenia's independence. Since 1991, the country has passed through an arduous process of significant political and economic reforms touching most aspects of people's life. It has faced huge problems related to breakdown of the USSR and the subsequent structural reforms resulting from unpreparedness of the country's institutions to act in a market environment. With the ceasefire on the Nagorno Karabagh front of May 1994, Armenia acquired space and time for re-allocating its resources to the needs and development of its already hugely impoverished population. From 1994 onwards the country has steadily recorded positive signs of macroeconomic change. The Armenian Government took quite bold steps in privatizing the land, industrial property and services. Furthermore, with the help of the International Financial Institutions and donor organisations, the Government embarked on key structural reform programmes in virtually all sectors of economy and balancing its fiscal and monetary performance. These have resulted in relatively high rates of macroeconomic growth and the beginning of the positive annual GDP growth rates period – average of 5% in 1994-2000, then average of 12% in 2000-2005.

Despite these moderate positive signs, the poverty levels remain high (39% according to the latest NSS HS) and inequality indicators increase (Gini coeff. 0.4) - beyond the capital, Yerevan, the progress has been negligible. The migration of the population, albeit to some extent reversed since early 2000, is still a major challenge, in particular, when it comes to the “drain” of young people. With the modern world moving fast in an emerging era of globalization, the new generation of Armenians becomes increasingly unhappy about the slow pace of development and the still, seemingly ever-present, feeling and remnants of decades of the Soviet totalitarian regime.

Rampant government corruption remains one of the main obstacles to Armenia's transformation into a democratic and rule-of-law state. It is also a huge hurdle to economic development. Government connections are important for some forms of economic activity,

and the government does not enforce fair business competition properly. Corrupt practices in the country continue despite repeated government pledges to reduce their scale. No wonder that in recent years the authorities have faced numerous calls from western governments and lending agencies to improve Armenia's business environment. Several laws enacted in 2001 and before in order to tackle the problem did not markedly change the situation on the ground.

Tax evasion results from the corruption and other serious problems with the rule of law, and the western donors are placing growing pressure on the authorities to improve the business environment in the country. Although Armenian authorities took steps in that direction by enacting a number of relevant laws and slightly improving tax collection in the course of 2002, their commitment to serious microeconomic reform remains in doubt. In particular, there was little hope that a comprehensive anti-corruption program, which the government has adopted with the help of the World Bank and other donors, would remedy the situation.

Many independent observers remain convinced that while the reforms might indeed contribute to better governance, low public sector wages will continue to provide fertile ground for corruption and force many civil servants to seek alternative employment elsewhere. Wages are much higher in the military and law enforcement agencies. The president of the republic, ministers, deputy ministers, and judges are the highest-paid public servants in Armenia. In a controversial move, their salaries were doubled in December 2002. The government argued that the measure would discourage those officials from engaging in corrupt practices.

The long-awaited entry into force in 2002 of the Law on Financial Disclosure turned out to be a disappointment. The law obliges high-ranking government officials, including the president and government ministers, to declare revenues and property every year for themselves and their family members. The first such statements were filed to the then Ministry of State Revenues in 2002. However, the content of the income declarations led many local observers to dismiss the whole undertaking as a farce. Even wealthy businessmen holding seats in Parliament posted modest revenues. The law in question, touted by the government as an important instrument in its stated crackdown on corruption, does not require tax authorities to check the veracity of financial statements. Nor does it

envisage strict punishment for providing false information. Furthermore, the law effectively enables top officials to get away with registering expensive property under the names of their relatives, a practice that is widespread in Armenia.

The main legal document of the country – the Constitution - was enacted in 1995, with clear failure to put in place a durable system of checks and balances among the branches of national government. Instead, a disproportionately large set of powers has been vested in the presidency. The post-Soviet constitutional order has precluded the emergence of a strong and independent judiciary and made very difficult for an effective parliamentary oversight of the executive. This, in turn, has had a negative impact on the rule of law, problems which remain among the most acute in Armenia. Armenia's accession to the Council of Europe in 2001 started a long and complex process of constitutional and democratic freedom reforms that culminated on the 27th of November, 2005 when the Armenian government put on popular referendum a set of key Amendments to the current Constitution, which many hoped would render the country's government system more democratic. The Amendments were passed but the process of voting and tabulation of results once again arouse major concerns in regards to massive irregularities.

Among some other challenges are such problems as the absence of a tradition of fair trial and unlawful behaviour of state and law-enforcement officials, coupled with their practical immunity and widespread corrupt practices. Such conditions have both objective and subjective reasons. Among the former is the heavy legacy of the totalitarian past; among the latter are the professional incompetence of many Armenian state officials, judges and law-enforcement officers; the lack of knowledge about fundamental human rights and practical unawareness among wide sectors of the Armenian society of the national and international mechanisms for protecting human rights.

Nevertheless, Armenia has made moderate advances in relation to certain hallmarks of democracy such as freedom of speech, political pluralism, free market and civil society. However, it has failed in others, such as holding free and fair elections, independent and impartial judicial system and, especially, the protection of human rights. At present, many of the reforms seem to be durable: both civil society and the free market show signs of health. That said, however, it is still questionable whether we have yet consolidated our gains to avoid the risk of a sudden disruption of the achievements so far.

Setting The Research Scene

The objective of this paper is to analyse the achievements and the challenges of the past several years of reforms in governance in Armenia, particularly, in the public administration and the civil service. Since the late 1990s to present times, donor organisations, in particular, the UK Department for International Development (DfID) and the World Bank have provided significant amount of technical assistance and financial support to improve the efficiency, effectiveness and integrity of the public sector, and the establishment a structured civil service, as well as in parallel contributed to improving public financial management systems. The Government and the donors embarked on the mentioned reform path to essentially reduce the poverty in country, to reverse the widespread corruption and prepare grounds for a rapid improvement in living standards. The research focuses solely on the public administration and the civil service, discussing where we are now on the reforms agenda, what were the main outcomes of extensive donor assistance in this field in the past years and what are the challenges ahead.

We do not discuss or touch in detail on the reforms and challenges in the public financial management. Likewise, we have avoided dwelling too much on the two major policy papers in country – the PRSP and the Anti-Corruption strategy. These are all vastly important topics, but they require separate research and analysis of the issues therein.

This paper has drawn upon the existing body of recent documentation which has recorded and commented on key aspects of public administration reform and civil service development. Sources included the material from the DFID, UNDP, World Bank, the website of governments and public service institutions in Armenia as well as thematic publications in the locally available literature market. The source documentation is quite limited, actually, and opportunities for cross reference are narrow.

The major part of the publicly available documentation are generally liable to a systemic bias, in its tendency to emphasise the positive outputs and outcomes, and, generally, disguise or even ignore the negative. This is understandable within the context of public administration reform, where a high public profile, strong political interests, rapid and unpredictable change in the status, lack of precedent and experience in handling such far-

reaching transformation, and the vested economic interests which are intertwined with the political, all combine to sustain a self-defensive facade of progress and optimism.

The material presented has therefore been mostly supplemented wherever possible by the personal experience, observation of DFID and other project consultants as well as drawn extensively from the internal unclassified documentation.

PART II - PUBLIC ADMINISTRATION AND CIVIL SERVICE REFORMS

Public Administration Reforms

The Public Sector Reform is a global phenomenon; it is high on the agenda of governments whether they are in developed, transitional or developing economies. The purpose of public administration reform has traditionally been defined as good governance, among other objectives. The focus of concern in this area is the quality of service to the public, measured by its accessibility and openness, its speed of delivery, its fairness and lack of bias across client groups and so forth.

Armenia has been slow in starting the reforms of the government and broader public administration system. The legislative reforms took a while - a symptom of its more complicated parliamentary politics and the need to satisfy more disparate groups. It also shows how much emphasis is laid on the regulations and how little on actually managing the implementation.

To overcome the slow start, the public administration has emerged as a critical factor in providing the appropriate environment for economic growth, and the essential stimulus to social and political development, in particularly, along the declared aspirations towards joining the family of prosperous European nations. The public administration reform has now been recognised as overdue in Armenia, as a key step in building the environment for change.

The focused and more serious approach to the reforms of the public sector in Armenia really began from 1999. The country made its biggest progress so far in this area when the President took a personal (though low profile) interest in the period before 2003 elections.

Probably, a degree of political motive as well as a general perception of poor public services, related to weak administrative capacity, no doubt influenced this late interest – but the lesson is that it made a difference.

The first signs of a legal framework for civil service can be traced back to 1994; the Concept of the Civil Service developed only in 1997, which became the basis for drafting the Civil Service Law in 1998. After several attempts, the actual final version of the Civil Service Law was enacted as late as January 2002. In between that period, Armenian governments had successfully persisted with the Law despite strong culturally-based opposition, and took pains to get the institutional structures about right. This law set up the Civil Service Council (CSC) as a supposedly independent body responsible for most aspects of the new civil service.

Before the adoption of the Civil Service Law, in 1999, the Public Sector Reform Commission (PSRC) was established by the Prime Minister following the decree on “Major Activities for the Reforms of the Public Administration System of the Republic of Armenia”. Since then, the PSRC has been responsible for implementing public administration reforms in Armenia.

Since then, the overall aims and expected outputs of public administration reforms programme were set up and have been taken into account in developing proposals throughout the past 5-6 years. These are:

- Enhanced effectiveness of the machinery of government in developing and sustaining rational programmes and policies, particularly in the areas of service delivery and regulation;
- Enhanced flexibility and responsiveness of the public sector to changing Government objectives and to changing expectations of customers;
- Improved capacity for prioritisation to meet Government needs;
- Clearer accountability for delivering results;

- Improved transparency of Government so that the public understands the basis for decision-making by Government and can better evaluate its performance.

The reforms have been carried out in three directions:

1. Structural and functional reforms of the public administration system
2. Establishment of the civil service
3. Reforms of the Public financial management system

In fact, all three directions are integrated into a single public sector reforms umbrella that are parts and parcels of a cardinally new state administration system with new improved structure and functions.

The stages in the implementation process of the above reforms agenda have included restructuring the ministries and the state agencies as well as territorial (regional) administration and local self-government bodies. The state agencies and other special administrative bodies - some 21 of them - with direct subordination to the Prime Minister's office were moved and/or merged into government ministries with either keeping their previous status of agencies or being absorbed in the ministry structure as departments, inspections, and state NCEs. The structure of the government was left largely untouched. This major move was supposed to allow ministers to concentrate on strategic policy matters, as well as to ensure the vertical hierarchy of the public governance and to lay down the functional remit and targets for each government entity.

The agencies and separate entities within the ministries were given quite extensive autonomy in carrying out their functions against the centrally driven policies and objectives. The centralisation of the Government agencies' functions allowed the major part of their budget spend to go through unified public procurement system, instead of the previous highly inefficient and dubious procurement processes by each separate government unit. Those agencies, that had then become attached to central ministries, were then able to pay due attention to the implementation of their direct functions under the national legislation, i.e. public regulatory and/or delivery services. Other duties, such as the human resource management, financial management and other administrative duties would then be taken over by the central structures of the relevant ministries.

Besides, as a result of the functional analysis across the government ministries and agencies, many types of functional overlaps and irrelevancies as well as inefficient use of structural resources have been identified and eliminated. Across the Government, including the regional and local government bodies, a newly established civil service, as well as relevant professional services (e.g. diplomatic, military, etc.) have been introduced. This was a major step that allowed demarcating between the political, discretionary and technical posts from the civil and professional service. The Heads of Staff in the ministries and regional administrations became the senior civil servants that, unlike the ministers and deputy ministers, should not have been affected by political changes.

Another major reform area was the re-organisation of several public entities within ministries and government agencies into state NCEs without administrative functions. The management structure of the ministries has been unified to include secretariats, departments and divisions. At last, but not the least, the Charters of the ministries have been finalized and approved in line with the strategic objectives and functions vested in them by the national laws and other legal acts.

Subsequently, in accordance with the Civil Service Law, all the job titles were to be described, classified and assessed by separating the political, discretionary and technical functions as well as the service staff. The basic principles of the civil service, human resource management, training, attestation and a remuneration system were introduced. In addition, and more importantly, a newly formulated position of the Head of Staff, as the highest civil servant, was introduced in the public sector.

Large number of new pieces of legislation were approved and enacted. Among them the laws on public administrative bodies, on NCEs, on the remuneration of civil servants as well as on special services such as tax, customs, military and the police. In addition to new laws, the President, the Prime Minister and the Government have enacted a whole range of decrees, decisions and legal acts to support the laws and prepare the secondary legislation.

As a result of the administrative reforms, functional analysis and restructuring in the central government and regional administrations in the course of three years some 750 jobs were cut. Many positions in human resources, finance departments as well as the service

and maintenance staff were made redundant which allowed saving considerable resources in the Government operational budget.

According to the PSRC Concept of the Public Administration Reforms, in the second stage of reforms that started in 2003 it is planned to introduce and further improve the public services management models and mechanisms. This stage has the key task of ensuring the transition to a more efficient system of management by streamlining the whole range of issues regarding the distribution of powers and duties within the public sector, the decentralization of functions and their classification. The cross-agency modernization program started in both legislative and institutional areas. It is supposed to provide for the integration of the whole system of public administration and to address the existing problems, in particular:

1. Re-defining the concept of public service to develop a package of proposals to bring together different types of public services, formulation of relevant legislative frameworks and application of higher standards in the provision of public services - drafting a Law on Public (i.e. state-provided) services.
2. Submitting proposals regarding decentralization of public services and the new functions and organizational schemes applicable in regional administrations; the testing of pilot models of decentralized management and capacity building in regional administrations.
3. Formulating proposals concerning the financing of the government bodies and the financial settlements due to the Treasury from the proceeds of duties and payments charged for various types of public services.
4. Re-drafting of the Law on Supervision that requires separation of external and internal supervision functions and the establishment of authorised supervisory entities.

Improvements in the decision-making and administrative processes are conditional on the continuity of public sector reforms and imply proper implementation of anti-corruption and

poverty reduction strategy programmes, the optimization of the structure of government and NCEs providing public services.

The Civil Service

Armenia does not have much experience in civil service. During the First Republic (1918 - 1920), a rudimentary civil service system was created, but with the establishment of the Soviet system in Armenia in 1920, a Soviet model of cadre policy took over, some elements of which are still in place. After the break-up of the Soviet Union, most of the newly independent republics attached great importance to civil service and adopted corresponding legislation. In Armenia, however, essential steps were not taken for the development of a civil service system. The absence of an institutionalized civil service system has led to a number of negative consequences, in particular, to the instability in state organizations and their frequent restructuring, arbitrariness in recruitment, promotion, grading, and displacement, and an inflated state apparatus, constant personnel turnover (in some Ministries, from 20 to 40% annually), and lack of professionalism and qualification of civil servants.

The present civil service in Armenia, in place since the adoption of the Civil Service Law in 2001, is based on a number of important principles, including

- independence from changes in political leadership,
- continuity and stability of personnel,
- legal, economic, and social security,
- merit-based promotions, based on competition, classification, qualification, grades, training, and enhancement of qualifications,
- ensuring the required level of knowledge, management skills, and ethical attitudes, through training and professional development.

These principles need to be fully implemented as key building blocks in the reform of public administration. Generally speaking, if implemented properly, the Civil Service law is essentially about management in the public service. Its purpose is to promote the creation of a new professional ethic built on accountability and transparent values, dedicated to the delivery of public services in a cost effective way, to the best standard, for the whole population. The detail of the law concerns definitions, authority, rights, responsibilities and so forth, but the goals are to facilitate good governance, to ensure the delivery of public benefits, impartially and at reasonable cost, and to establish government as a model employer.

The Law on Civil Service defines the public service as implementation of duties assigned to the State by the Legislature. Given that, public service is an extensive concept and includes:

1. Implementing policy by the state and local self-government bodies;
2. State service and service in the local self-government bodies or municipal service;
3. Civil service in the state and local self-government bodies.

The state service includes the civil service, judicial and special services, namely in the defense, national security, police, tax, customs, emergencies, as well as diplomatic and other services envisaged by the laws.

Municipal service includes implementing policy by local self-government bodies and is regulated by the Law on Municipal Service adopted this year.

Civil service is a professional activity independent from the changes in the correlation of the political forces. Being an inseparable part of the complex system of the public service, the civil service bears many similarities with it. This has to do with the fundamental principles underlying both services, the procedure by which a vacant post is occupied, attestation, legal status, promotion, accountability, dismissal from post and other issues.

Equal accessibility of the civil service for citizens in accordance with their professional knowledge, expertise and working skills is one of the fundamental principles of the civil service system. Competition is the universal criteria for entering civil service. The law defines several criteria, requirements and restrictions for occupying a civil service post.

The civil service posts are filled with staff recruited on competitive bases and are broken down into categories of senior, chief, leading and junior posts. The group of highest civil service posts are broken into Subgroups 1 and 2, and the groups of the chief, leading and junior civil service posts are classified into Subgroups 1, 2 and 3. Subgroup 1 of the civil service posts is considered to be the highest subgroup of any given group. When assigned to a civil service post, the civil servant is also granted a relevant civil service classification grade.

The senior civil servants are appointed by the head of the respective government entity. Exceptions to this are the heads of staff of the line ministries, who are appointed to and released from their posts by the Armenian Government; the heads of staff of public governance bodies under the Government as well as chiefs of staff of marzpetarans (and the Yerevan municipality) are assigned to and released from their posts by the Prime Minister of Armenia.

Competitions for civil service posts and attestations of civil servants are held by the Civil Service Competition Commission and Attestation Commission respectively. The members of the Civil Service Competition Commission and Attestation Commissions are randomly selected from CSC members (1/3), representatives of the respective ministry or agency (1/3), and representatives of academic institutions and public associations (non-governmental organisations; 1/3). The latter provision has been amended stripping the NGOs of their right to participate in the Competition and Attestation Commissions.

The distinctive feature of the Armenian civil service is that service relations are regulated by two set of institutes: the CSC, which carries out a uniform state policy, and the Heads of Staff, that implement the policy in their government bodies. The Council is composed of seven members and its members are appointed to and released from their post by the Armenian President upon submission by the Prime Minister. The Civil Service Council is supposed to ensure civil service independence by protecting government employees

against arbitrary dismissals. The absence of such protection had forced many bureaucrats to side with the ruling regime in political battles. A provision in the Law on Civil Service empowers the council to select staff for the most government agencies and regularly check the professional fitness of government officials.

The heads of staffs, with the exception of Heads of the Government and the President's Staff, are senior civil servants. A head of staff is appointed to the post for a four-year term. The official (or body/entity) authorised to appoint him/her to this post may renew the term once, i.e. by four years as long as s/he has not crossed the threshold of 65 years of age. One of the difficulties here is the unwillingness of political and discretionary post holders (deputy ministers, advisers, etc., i.e. non-civil servants) to accept the new role of the head of staff, who traditionally continue to deal with issues that are not their responsibility. In most cases some officials are not used to the new principle of devolution of power.

The civil service system has an open structure, which means that the system may be entered at and exited from any level, from respective civil service group or subgroup, as well as by any citizen who meets the requirements as defined by a given job passport. Training and enhancement of specialized skills and expertise of civil servants is attained through a relevant attestation system as well as filling vacancies through open competitions. Regular attestation is carried out once in three years. A remuneration scale differentiated according to groups and subgroups of posts is applied, and specialized skills and length of service are factored into the scale. Unfortunately, there are many issues besetting the social protection of civil servants, specifically pension security, life insurance, medical insurance, and other social protection issues. The present socio-economic conditions make it impossible and do not provide resources for addressing these challenges.

On the whole, other types of public service, such as tax, customs, diplomatic, police, rescue, service for the parliamentary staff, etc. are based on civil service principles with some modifications. Specifically, a closed system underlies entry into the service and promotion through it, i.e. staff is recruited from lower-level groups, and closed competitions and attestations are relied upon as mechanisms for professional promotion and advancement. From among these, social protection problems and issues related to salary size confronting special services differ from the corresponding set of challenges

facing civil service. In discussing the differences, we may point out that in the case of some services appointments are made by the head of the respective service. Here, the role of the head of staff prescribed by law is limited to the scope of authorities over the civil servants employed by that system only.

The Civil Service Law provides a framework for setting up the basics in the government employment and management; however, adopting legislation alone does not naturally entail implementation. There are plenty of examples between adopting a law and implementing a law abound in the traditions and mentality of the transitional countries, including Armenia. This is important, because the creation of a modern public administration and civil service is not only about changes in laws or regulations, but about changing people's attitudes, culture, styles and attitude to work. It is about how the public service is organized and how human resources are managed and developed.

Municipal Service

The successful establishment of a municipal service system is a huge undertaking. The Municipal Service law envisages the creation of entirely new systems and methods. To understand this and implement it successfully entails extensive training across the country, so that all municipal servants gain sufficient skills and knowledge.

The relations with the public supposed to be enhanced by the launch and implementation of the municipal service system do not differ in their essence from the similar links stemming from the civil service system. Moreover, civil service and service in the local self-government bodies may be described as two relatively autonomous areas of public service.

The Municipal Service Law follows the general format and principles of the Civil Service Law. However, whilst there are many similarities between the civil service and municipal service, there are also important differences. Specifically, similarities may be distinguished in the principles of civil and municipal services, posts and grades of civil and municipal services, the procedures for occupying posts, attestation and training in the two systems. As said, there are also very distinct features. In fact, the possibility of creating a unified national body for the management and organization of municipal service is ruled out.

Nevertheless, according to the Civil Service Law, the scope of authorities granted to the body responsible for the management and organization of the civil service, i.e. the Civil Service Council, are quite extensive and diverse. Such a comprehensive set of authorities for municipal service cannot be accorded to any existing state government or local self-government body. This is why the scope of authorities is decentralized and broken down among various state government bodies.

Regulating relations in some areas are carried out based on a uniform principle whereby model rules and regulations adopted by the government are localized and adapted to the respective local self-government bodies and serve as a guide for future activities. These are the general descriptions of each municipal service, roster of posts as well as of posts in each group and of equivalent posts, the rules of ethics that apply to municipal servants, the procedure for filing notice or reporting about assignments, procedures for personal record-keeping and filling out the register, relations with and among municipal servants, etc. Organising and holding competitions and attestations may be included in the third group. These tasks should be delegated to municipal bodies.

Defining the eligibility criteria of people who may serve in self-government bodies is of fundamental importance. In view of the fact that community governments are understaffed with specialists with good qualifications, it is reasonable to establish some minimum requirements. Thus, not only residents of a given community may serve in local self-government bodies but also residents of other areas, including refugees.

The Law on Civil Service needs to be amended so as to include a statement to the effect that municipal service history is considered to be equivalent to civil service history and vice versa and the same-level grades in civil service and municipal service are equivalents.

Civil Society and the Public Sector

Armenia entered the post-Communist period with strong prerequisites for a vibrant civil society, with hundreds of non-governmental organizations (NGOs) emerging after the first democratic elections in 1990. However, subsequent developments resulted in social polarization and the absence of a strong middle class which have weakened the country's nascent civil society, thereby easing public pressure on the ruling oligarchy.

The registration of Armenian NGOs with the Ministry of Justice is a fairly easy process. According to the Ministry of Justice, there were some 3,500 registered NGOs in Armenia as of November 2005. Only a fraction, though, actually operate in practice. Many groups exist thanks to Western and other donor grants and financial assistance from the Diaspora. This is particularly true of Armenian charities. On paper, there are hundreds, but few manage to operate without external sources of funding. Locally funded philanthropy is confined largely to wealthy individuals, as most Armenians are too poor to help others.

The civil society itself is moderately diverse. There are more than 50 registered women's organizations. Armenia has several trade unions that show little sign of activity. Far more active are business associations. Other groups represent the interests of small businesses. Despite these opportunities, the impact of NGOs on government policies remains limited, although slight positive changes for the better could be observed recently. Armenian civic groups have not been very active in lobbying the government or Parliament for passage of legislation.

In this context the government policy of the recent years was directed to the implementation of the main provisions of the law on freedom of information. The ministries need support to have relevant services for ensuring public relations and involving NGOs in the process of information dissemination. As a new approach and a new culture, citizens' charters have been adopted and NGOs have participated in their development. The ministries lacked such basics as leaflets on services provided by the ministry. The new Government building (No. 3) as well as several of the regional administrations set up, with donor assistance, effective means for service delivery and information dissemination – infocentre / receptions. This structure made it easy to work with the citizens, to regulate their appointments with relevant officials, to receive information on their interested issues.

There have been essential developments in the area of information access and participation. In particular, the participative approach was widely used in the process of development and implementation of PRSP and Anti-corruption strategies. Establishment of professional units attached to different government bodies also gave an opportunity to

widen the participation of the NGOs. Various participatory public governance mechanisms were devised and applied in this period, which set a precedent and were later implemented partially and are currently used in developing various strategy papers. In this regard, the current challenge is to localise the experience gained due to the developing the PRSP and the Anti-Corruption Strategy Paper at the level of ministries, territorial administration bodies and local-self government bodies. The Armenian state governance bodies occasionally provide consultancy services and undertake some measures to receive feedback (e.g. discussion of draft legal documents, seminars, round-table discussions, public opinion polls, etc). Whereas in the past, such events were only organized on the initiative of and assistance from donor organizations, in recent years a number of ministries and agencies have been undertaking such activities on their own initiative.

PART III – PRESENT CHALLENGES

Summing up the issues presented and discussed so far, we can say that the state policy for improving the efficiency of the civil service was limited to the consolidation of the main principles and provisions of the newly adopted civil service legislation. Specifically, the initial stages of the reforms focused on improving the civil service legal framework, the procedures for competition, recruitment, attestation, and so on, consolidating the structure of personnel management subdivisions in government bodies. We will now discuss the key challenges currently faced by the emerging civil service establishment.

Selection and recruitment

Organisation of the selection process of the civil servants through competitions has generally received the most attention from the CSC. The amendments made to the civil service legislation in the past three years directly or indirectly refer to the organization of competitions for recruiting civil servants. A written test and a verbal interview are the initial stages; the names of those short-listed applicants are presented to the head of the respective administrative body for the final selection. This process needs to be improved as it contains a number of loopholes for subjective decision-making.

Firstly, the final selection by the head of the respective governance body is not made according to any defined principles; the decision is totally at the discretion of the head of government body. This opens the stage for using party membership to be a factor in recruiting candidates to fill civil service posts.

Secondly, the body in charge of conducting the competition is also a cause for concern. Competitions for senior and chief civil service groups are organized and held by the CSC, which is essentially tasked with performing coordination and regulation functions. This creates a conflict in the policy development and implementation stages. There is no other entity to monitor the compliance of the CSC with the rules and procedures of holding these competitions. This lack of control and oversight depletes the trust and credibility of other public governance bodies for which staff is recruited in the eyes of the society.

Thirdly, and finally, the contents of written tests and verbal interviews are not clearly delineated. The questionnaires of the written tests are essentially based on the Armenian Constitution and the legal documents regulating a given sphere. The same materials are also used for the interview, when the Commission members ask questions randomly pre-selected by computer. Based on the sum of right or wrong answers a decision is made by an open vote. It is clear that there is no delineation between the interview and the test. The interview should be aimed at discovering the applicant's potential and skills, assessing his or her professional qualities and the results of the written test should check the applicant's level of knowledge. Besides, it is recommended that the interviews be held by commissions composed of representatives of the respective government bodies who will have an opportunity to select suitable candidates for their activities.

Generally, it is advisable to remove the duty of recruiting civil servants from the CSC saving it from unnecessary organizational burden and instead giving more space for policy-making and strengthening its oversight functions over other state governance bodies. These measures will help focus the competitions on professional criteria for civil servants as stipulated by law.

Transfers within the Civil Service

Adoption of laws on civil and other special services and consolidation of these systems will necessitate a conceptual review of the civil and public service in general. Creation of separate specialised services has been chosen as the mechanism for the implementation of these concepts. At present, it is imperative to streamline and harmonise these services and to create linkages to make transfers from one type of service to another possible. Since entry mechanisms to these systems vary from service to service and the eligibility requirements have not been standardized, in transferring from one system to another, the initial workplace is lost together with the associated grade and privileges. The present state of affairs requires that the legislation of public service be clarified and be based on uniform principles underlying the public service. In this context, a comprehensive and complete description of the public service system must be developed where the requirements set for both political and discretionary post-holders as well as state officials.

Clear definitions will make it possible to have a clearly classified roster of posts organized by types and groups of service with the corresponding title of the posts. The latter is a problem for civil service and especially for other special services. There is still a need to clearly delineate administrative and professional (specialised) posts and their classification. Specifically, all posts in the civil service system have been allotted into 1st class, 2nd class specialist, specialist, leading specialist, chief specialist, as well as administrative posts - head of division, head of department, head of secretariat, head of agency, head of inspectorate, head of staff and their deputies. This classification is not reflective of the performance by the post-holders. It does not fully reflect and describe their work. It is recommended to link specialized posts with the content of the work performed and to change the title of the post to reflect the nature of the work responsibilities involved.

Appraisal and Attestation

As it has already been mentioned, the attestation process in the civil service system does not differ in any way from the procedures of entering the system. This does not encourage civil servants to mobilize their resources to perform better at their tasks and assignments. There is no direct link between the work responsibilities and job passports of civil servants, on one hand, and material and career incentives, on the other. This is directly linked to the introduction of an appraisal system for performance. Initiatives have been launched and

research is currently underway to explore the international experience as well as the successful model of the Central Bank of Armenia in human resource management.

Training and Development

The next direction for the consolidation of the civil service system is the establishment of a training system for civil servants. The training and education are the engines of change within the public service – key pre-requisites for achieving a modernised civil service capable of promoting the economic, social and political transformation essential to the long term viability of Armenia. International experience shows that the provision of civil servants without the implementation of a corresponding training system is ineffective. The reform of public administration, and the implementation of a Civil Service Law and its associated secondary legislation or regulatory instruments, must be built on the development of human resources that implies a large investment in training and education.

Donors assistance to the establishment of a training system has been multi-dimensional. By building upon the results of the previous projects, the DFID projects have provided assistance to the Armenian State Academy of Public Administration. In addition to the 24 training modules for developing governance capacities, another 10 modules were developed. For the modules to be taught at the Academy properly, about 14 professors from the Academy and other educational institutions were trained. In the framework of these modules, pilot training courses were organised for the senior and chief civil servants in ministries and marzpetaran administrations. In view of the fact that the training programmes for civil servants approved by the CSC include courses aimed at developing governance skills only to a limited extent, it is proposed that starting from 2006 these courses be included in the compulsory training programmes.

Despite the availability of new civil service training programmes and opportunities, the CSC pursues its passive training programme policy due to which all civil servants pass the same two-week training course centred mainly on the principles of the civil service legislation. Opportunities for specialised training are virtually non-existent at present. Even if such courses are made available through assistance by a number of international and donor organisations, the CSC refuses to incorporate these into the compulsory training programme. This leads to budgetary constraints and limits the training opportunities, and

feeds into dogmatism. Civil servants find themselves under administrative pressure because if they fail to memorise the training materials, they may not pass their attestation, which does not differ in any way from the competition for recruiting civil servants. Thus, adopting a new concept note for the training system and its liberalisation, easing of administrative pressure will result in a civil service system staffed with knowledgeable citizens who are encouraged to pursue specialized training opportunities.

Political Posts vs. Civil Servants

The clear delineation of political and administrative specialised service in the state governance bodies is the cornerstone in the civil service development policy. Institutional development and enhancement of the Head of Staff post, as well as establishment of planning and policy-making councils within ministries will be of fundamental significance. This will enable improving strategic planning and delineating in non-ambivalent terms the roles of discretionary and political officials in decision-making processes.

Among the discernable obstacles to clear delineation of political and administrative posts in state governance bodies is the traditional culture and mentality due to which political and discretionary officials acquiesce in their new roles with much reluctance and traditionally try to continue their involvement in processes that should be irrelevant to them. In many cases, some officials have not come to terms with the new principle of delineation of powers.

Clear delineation of political and administrative services within the state government bodies requires building capacity for governance. This particularly applies to inculcating strategic thinking and planning practices in political and discretionary post-holders; and in reference to the administrative-technical personnel, this pertains to proposing methods and mechanisms for implementing strategic plans, and recommending tactical solutions. In view of this consideration, the newly created post of the head of staff needs to be reviewed. The latter is still viewed as a post tasked with solving logistical and administrative problems. Due to this, political and especially discretionary post-holders assume a professional manager's role, whereas they are appointed based solely on political criteria and are tasked with major policy decision.

Besides, the current heads of staffs are not in charge of all management/governance issues of their entity, although they are considered to be heading the administrative body of staff. The latter discrepancy is reflected in the fact that the senior and chief civil service posts are appointed by the head of the respective body, i.e. the minister. There arises a conflict when the head of staff is recognized as the immediate head of a structural subdivision given that he or she is not authorized to make appointments. Moreover, s/he is not granted the authority for human resource planning, efficient distribution and use of other resources. This undermines the consolidation of the principles of professional governance in state government bodies. The same reservation applies to managing staff; financial and logistical resources, procurement and, most importantly, professional development of staff.

Pay and remuneration

The salary scale and bonuses or incentive schemes are important factors that cannot be overlooked. At present, the salaries paid to civil servants are not competitive as compared with the private sector. The average salary of a civil servant is around \$60 p/month. The gap between comparable posts is estimated to be up to ten times, the higher salaries being paid by the private sector. As the private sector develops, this will lead to the outflow of highly qualified specialists into the private sector. This may be a commendable public investment in the private sector, however in the long run this may lead to a degradation of the public sector unless compensatory flow-back from the private sector into the public sphere takes place. This requires to have a strategy for public sector remuneration geared towards facilitating transition from one type of service to another within a unified system of public service, as well as shifts from the private sector to the public and vice versa. The experience and best practices of the developed European countries and, particularly, the UK may serve as the best benchmarks.

Ethics code

Another crucial direction specified among measures aimed at improving the efficiency of the civil service is the introduction of a code of ethics for civil servants. This will also build anti-corruption mechanisms into the civil service system. Currently, the ethical

norms governing the activities of civil servants are summarized by the CSC on a single page only; the mechanisms and structures for their implementation and enforcement have not been devised. The concept of conflict of interest is still alien to the predominant part of the Armenian civil service, although the Law does contain a number of useful provisions. Nonetheless, both the CSC and the management bodies of individual services lack the leverage and mechanisms they need to enforce the concept of conflict of interest.

Human Resources Management

Developing a system for human resources management is one of the directions for improving the civil service system. Although the CSC does not list this among its top priorities, however, it harbours no objections against building the human resource management capacities of the respective subdivisions of governance bodies. There are favourable conditions for such activities to be launched in the future. Specifically, training courses on human resources management have been organised for the human resources management subdivisions of a number of ministries, marzpetarans, government staff, and the CSC staff. Assistance is being provided to the ministries for preparing the job passports for newly established structural units and, most importantly, for appraising/evaluating these. Such appraisal is being conducted for the first time and we surmise that this may serve as a good foundation for the CSC to appraise and evaluate the total of approximately 7,500 civil service posts at present.

PART IV – DONORS ASSISTANCE

Public administration reform has started with donor assistance. But the piecemeal nature of this assistance, probably as a response to the extraordinary complexities of the public administration structures and associated political environment, and the need to disaggregate the field into manageable domains, has resulted so far in a fragmented approach to the reforms and the potential loss of a strategic perspective.

The UK DfID had a significant input and role in organising and providing methodological guidance and consultancy for the implementation of reforms in the public sector or public governance system of Armenia. The DfID consultants worked directly with state government entities/authorities and the Armenian Public Sector Reform Commission.

Back in 1999, the DfID, jointly with the Armenian Government, launched the Armenia Public Sector Reform Project (APSREP). The objectives of the first phase of the above-mentioned reforms in Armenia's public sector were accomplished by 2003, with the adoption of civil service law, structural and functional reforms in the ministries, etc. The objective of phase II of the project is to promote improved efficiency at all levels of public governance; to introduce and develop mechanisms ensuring responsibility, transparency and accountability in civil service. The project also seeks to help engage representatives of the civil society in the public policy-making processes by cooperating with the three partners of the APSREP: Ministries of Education and Science, Health, and Labour and Social Affairs.

The DFID has also provided assistance to the Armenian Government for the reforms in the Public Financial Management, specifically, in planning and projecting the medium term expenditures, due to which Armenia has already developed and the Government has already approved the MTEF for 2006-2008. At present, work is underway to help introducing a programmatic budgeting system which will enable the Government to apply a programme-focused approach in planning budgetary expenditures and defining the methods and criteria for achieving the sectoral framework goals.

In 2003, the PSRC also received assistance from the World Bank in the framework of the Public Sector Internal / External Control and Audit Project. Proposals were made to the Ministry of Finance and Economy, the President's and the Government Staff and the Chamber of Control on the structural and institutional enhancement of the internal/external audit systems; staff training and skills upgrading needs were defined. In 2005, the National Assembly ratified the Agreement on Public Sector Modernisation Programme Loan signed between Armenia and the International Development Association. The project has already been launched and is underway.

It is primarily aimed at the achievement of the public sector goals as defined in the Armenian Government's plan of activities, increased transparency, accountability, efficiency in the public sector. The project activities seek to improve the efficiency in selected public sector bodies, develop and introduce innovations, such as a more robust governance system of civil service, introduction of an inter-ministerial management information system, management of ministry staff and services provided by local

authorities, capacity building of institutions engaged in financial control and auditing activities, as well as building public awareness systems in public sector institutions, improving the efficiency and transparency of the private sector management procedures.

Besides DfID and the World Bank, the EU has also had an input in the public sector reforms since 2000: with funding received from the TACIS programme, it has provided technical assistance to the Public Sector Reform Commission in introducing civil service in territorial administration and local self-governance structures as well as the Armenian School of Public Administration in consolidating the training system and developing training programmes for public servants and providing assistance to university lecturers and specialists/experts of other educational institutions engaged in the training programmes.

Involvement of other donors, such as USAID, UNDP in public sector reforms, has been directed at establishing favourable conditions for the initiation of administrative reforms rather than being directly linked to the launch of the reforms. Specifically, these activities focused on the democratisation of the society, development of the local authorities, and consolidation of civil society institutions.

PART V – RECOMMENDATIONS AND CONCLUSION

Despite the fact that progress has been made in the implementation of reforms in administrative structures and that optimization of institutions has led to the elimination of a significant portion of overlapping functions, there is still a need to consolidate governance capacities. The ministries lack the capacity for efficient policy-making and this remains a serious obstacle to the timely and efficient implementation of policy and enforcement of legislation.

There are shortcomings in the cooperation system among and between ministries, which in many cases lead to impasses in the decision-making processes. Moreover, business procedures, such as government procurement is still considered to be incomplete and not up to date. This has a negative impact on the trustworthiness, credibility and integrity of the public sector institutions.

The low salaries and the overall salary system of civil servants is not conducive to retaining qualified staff in the system despite the increases in the salaries paid to them. The Government has made a commitment through the PRSP to link the proportion of the salary raise for civil servants to GDP growth, which may lead to improved competitiveness of the salaries of the civil servants in the near future. However, in addition to focusing on the task of increasing the salaries in real terms, the Government should keep the structure of salary paid to civil servants in the centre of its attention.

Adoption of the law on civil service and the related regulations are but the first steps taken towards a consolidated professional civil service system. An inter-ministerial management information system for human resources is still underdeveloped and management capacities remain weak. This constrains the ability of the CSC to enforce the law on civil service effectively and hinders the establishment of a civil service system based on professional virtues.

Sustained performance of the newly-established structures in the future will require continued support for the ministries in the regulation of services they deliver as well as capacity decentralization. The policy pursued by the ministries should be directed towards making the delivered services more public and accessible for citizens at large by supplying comprehensive information and creating favourable conditions for and ensuring participation of the civil society in these processes.

The external/internal control and audit system also needs to be reformed. Four institutions are charged with oversight, audit and financial control functions. The distribution of authorities among the National Assembly Control Chamber, the President's Oversight Service, the Prime Minister's Oversight Service and the Financial Control Department of the Ministry of Finance and Economy must be clearly defined. There is also a need for building the local professional capacity for conducting oversight, financial control and audit in accordance with internationally recognised standards.

Finally, the capacity building of local self-government bodies becomes a key issue for the public sector reform. The adopted law on local self-government streamlined and expanded

the scope of functions and mandate of the local authorities. However, the low level of administrative capacity in the communities exacerbated by administrative fragmentation hamper the ability of the local authorities to exercise their compulsory and newly-delegated authorities effectively and efficiently.

Obviously, the main directions of the public sector reform activities must be channeled through the major strategies and national policy documents, i.e. the Poverty Reduction Strategy Paper, the Anti-Corruption Strategy Paper and the Medium Term Expenditure Framework for 2005-2008. In view of the fact that these programmes prescribe poverty reduction policies at all levels of governance, it must be noted that the undertaken activities ensure the achievement of the defined objectives in the long run, especially in terms of the new institutional bodies, and the outcome of their activities are expected to be forthcoming within a period of 3-4 years in average estimates.

These documents also contain sections on and measures aimed at undertaking public governance reforms; these provide for administrative capacity building in the central government and local self-government bodies. Specifically, in view of the key challenges and problems facing Armenia's public sector, we find it expedient to recommend:

- Continuing the structural and organizational reforms launched in the government ministries. DFID currently covers only three (Health, Education, and Labour and Social issues). The WB Public Sector Modernisation Project covers the Trade and Economic Development and Finance and Economy, mainly, on e-governance related issues.
- Decentralize the services delivery system, making it a priority especially at the municipal or territorial levels by introducing “one-stop shop” models for delivering services or establishing inter-community unions and developing a system whereby marzpets are to coordinate the activities of the territorial branches of line ministries at the marz level. To this effect, structural and organizational reforms must be launched in territorial administration structures (marzpetarans).
- The experience of recent years shows that the newly-established institution of Heads of Staff needs support and assistance; specifically, their functions need to be streamlined and the scope of responsibilities be clearly defined. Introducing a new concept on the

role and activities of the Heads of Staff will help the Government in furthering its progress towards a reformed public sector.

- Develop new concept notes and draft legal documents for providing individual services. Specifically, the education and science minister requested that such documents be developed on public education, inspection of education, attestation of teachers. The health minister filed a request for developing such documents on the Hygiene and Epidemic Control Service, pharmaceuticals and pharmaceutical technologies, as well as separate laws on health-care, i.e. legal documents on establishing new institutional systems for providing services in these areas. The labour and social affairs minister put in a request for such documents to be developed on a new pension insurance system, new social insurance system, new social security system and the approaches to carrying out its social monitoring function, etc.
- An in-depth and fundamental review of the civil service system is warranted. A new concept and strategy on civil service must be developed. The latter should be aimed at providing an appropriate legal framework for public servants and ensuring a solid base of highly-qualified staff. This is a relevant and pressing issue that should be pursued not only by the ministries but be reflected in the Government's action plans.
- Continue to take measures to ensure delivery of information to citizenry and improve the transparency and publicity of delivered services while stressing the accountability of ministries and the need to establish a monitoring system. Protecting the citizens' rights and entitlement to access public services (social, health-care and education) and assisting ministries in developing high quality and efficient internal and external communication systems in cooperation with other donors, and compiling information databases on services delivered by the ministries.
- Support the consolidation of the monitoring system of the PRSP and develop capacity for participatory monitoring. The challenge is to create a new institutional system of monitoring with a built-in participatory approach and mechanisms. Pilot projects may be launched in several ministries, with the participation and involvement by the authorities at marz and community levels as well as civil society institutions.

Armenia must use the experience of other countries to avoid their mistakes and to develop a more effective model of civil service. In most European countries, the civil service includes various subsystems: state, state service, territorial state service, and hospital state service, which are regulated by different laws, and civil servants are trained by various institutions. Taking into consideration their experience, Armenia could benefit from establishing a career service within a comprehensive system.

Armenia inherited a wide public administration network from the Soviet system, comprised of 44 ministries and agencies, which was reduced to 23 by 2005. However, these reorganizations have not led to a substantial decrease in the number of employees or in expenditures on the state apparatus. This can be ascribed to the fact that many state institutions did not have efficient structures and the strengthening the structures of same old institutions have in some cases been strengthened to meet new needs.

As a result of the establishment of the independent state and development of a market economy in Armenia, the public administration system has been formed and is functioning. At present, mechanisms for effective functioning of this system are being developed. And, since administration is dynamic phenomenon, the political and economic developments in the country will lead to corresponding corrections not only in the reform policy of public administration but also in its institutional structures.

There is a great need in leadership for a non-politicised and accountable civil service, an effective implementation of the Civil Service law and for its vision of excellence in the standard of civil service training, rooted in the values of integrity and professionalism. It has already been realised that the creation of a respected and professional civil service is an important but difficult step on the road to reform.

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