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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Shahnazarian, N. (2020). Post-Velvet Transformations in Armenia: Fighting an Oligarchic Regime. *Caucasus Analytical Digest*, 114, 3-6. <https://doi.org/10.3929/ethz-b-000400500>

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Post-Velvet Transformations in Armenia: Fighting an Oligarchic Regime

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DOI: [10.3929/ethz-b-000400500](https://doi.org/10.3929/ethz-b-000400500)

Abstract

Nikol Pashinyan's rise to power was fuelled by resentment over cronyism, corruption, and poor governance by the ruling elite. The April 2018 revolution that happened in Armenia has garnered many names—the velvet revolution, the white revolution, the revolution of smiles—all of which serve to highlight its non-violent nature. In June 2018, Pashinyan's new team initiated a thorough audit of corrupt former officials and some of the country's oligarchs. This study examines informal economic practices and anti-corruption measures in Armenia through a methodology based on interviews and media analysis.

From a Planned to a 'Moral' Economy

In modern money-based societies, a distinction is commonly made between the formal and the informal economy. Of course, the line between the two can be hard to draw in practice. To put the distinction more simply, the formal economy is the sum of economic exchanges that are regulated by the law and the state, whereas the informal economy exists beyond the control of the state and is regulated by social norms and practices. In the Soviet era, the black-market economy (referred to in Soviet parlance as the “shadow economy”) facilitated the existence of the Soviet state by complementing its official economy. The distribution of goods was promoted by informal social networks, referred to by the Russian word *blat* (Ledeneva, 1998). Strong Soviet power pushed informal institutions out of the public sphere, but these practices continued to dominate in private. In the post-Soviet era, given the “logic” of self-perpetuation, such practices, in particular, institutions of kinship and personal networks, continue to play a vitally important role with only one difference: if in Soviet times they supplemented the economic order, in the post-Soviet period, there was almost a complete substitution of formal interactions with informal ones. Now that the totalitarian regime has fallen, “the panoptical control of the authoritarian state transforms into the individual responsibility of community members” (Хестанов, 2003). The patrimonial order provides a unit of social organization in a “weak” state. Informal economic activities in the post-Soviet period thus gain utmost importance for daily survival. The economic vacuum that was created by the weakening and ultimate collapse of old state institutions, together with destructive wars and conflicts, has given new impulse to “rooted” social relations and personal support networks. In this dubious context, another main characteristic of economic reality is that aspiration to political activity and to power appears in Armenia (and other regional communities) as more of

a means of legitimate access to social goods rather than an opportunity to change society for the better. In this context, power is the effort to legitimize one's advantages within the social structure. The inseparability of the public-political and private spheres in the communities under study has produced new forms of patrimonialism, and as a result, the state is governed like a private possession of the ruling elites (Fisun, 2012).

Corruption and *Dysfunctional Markets*

There are some cultural dimensions of corruption and informality. In some cases, shadow (informal) economic (re)distribution and *clientelism* at the most minimalist level function as the last refuge of democratic relations (Mars and Altman, 1983), namely, the so-called *moral economy*, or *peasant communism* (Scott, 2003, p. 541–544). However, corrupt state institutions and law enforcement significantly increase social cynicism. During the post-Soviet transition to a market economy, in the face of weak state institutions and the failure of the Soviet-style welfare state, claims of representatives of state agencies (law enforcement, judges, and academics) to informal incomes become an indisputable norm in Armenia. The moral economy of corruption places these relations in the wider context of the “corruption complex” and emphasizes their everyday nature and a certain legitimacy recognized by the victims of extortion. This set of complex relations is insensitive to the type of political regime.

Everyday discourses on bribery and evaluations of the phenomenon are contradictory and inconsistent and refer to moral categories: while cruel bribes imposed by regular citizens are condemned, stealing from the state is considered not only irreprehensible but also heroic (this value is certainly inherited from the Soviet era). The metaphors of “nobody's property (*nicheinoe*),” “governmental pie” (*kazyonnyi pirog*), and “feeder” (*kormushka*) have remained current even after the collapse of the

USSR (Голосенко, 1999). The Soviet jail subculture reflected a certain social reasoning and built a specific hierarchy of crimes: the most honourable prisoners were those sentenced for “stealing Socialist property.” This factor would make it easy for them to become “big shots” in structures much larger than a single common cell. In Soviet times, this was one of the ways of overcoming the strong ideological domination by developing alternative thinking. This subculture was immensely popular among common people. It is symbolic that the names of Armenian business magnates, oligarchs, although they had already become members of parliament, were more like prison nicknames: examples of this are the Armenian magnates “Dodi” Gago, “Grzo”, “Tzaghik” Rubo, “Lyfik” Samo, and “Nemets (German)” Rubo.¹

In this context, exchanges that are illegitimate from a legal standpoint are quite legitimate from the viewpoint of customary law. The discourses about corruption and stealing are therefore dualized or even multiplied. Usually, authority as a resource (as a way to pseudo-legitimate corruption) is not questioned in the internal discourse at all. In such a semantic space, officials’ crimes of different degrees tend to become a norm of the state routine.

At the same time, in nation states that are not isolated from the democratic world and, moreover, have officially claimed to be democratic, the formal language of the political culture is liberal-democratic. It is possible to observe the distinct dividing line between legal and moral normativity, which leads to constant conflicts in the process of the liberalization of the economic structure. This often engenders ideological and bureaucratic chaos and creates a fertile ground for manipulative approaches equally towards both traditional rules and liberal values. This kind of manipulation coupled with extreme, systematic corruption transformed the previous Armenian political regimes into a mere imitation of democracy.

Oligarchic Structure and Political Clientelism

Business integrity is a critical challenge in Armenia, as Christoph Stefes (2006, p. 29) has detailed. As in many post-Soviet states, the merger of political and economic elites interferes with equal opportunity, fair play, and anti-corruption programmes. As in Russia, the formation of oligarchic structures in Armenia and the CIS countries was facilitated by certain triggers: 1) the lack of a legal framework for new capitalist-style economic

activity and 2) the so-called “voucher privatization”, implemented according to IMF directives (Петросян, 2019). Because Armenia was involved in the processing industry and technology in the USSR, the oligarchic groups in Armenia structurally formed around *siloviki* (primarily defence ministers and representatives of internal affairs, as well as managers of transport communications, including at Zvartnots airport). Initially, the emerging oligarchic structures in economic terms were focused on export-import operations, food industry products, and humanitarian aid. One politician—Vano Siradeghyan—was central to prosecuting post-communist criminals in Armenia. By the mid-1990s, some entrenched politicians (some of them with a Soviet SPSU nomenclature background, who promptly camouflaged themselves as national actors) and local governors had developed several overlapping strategies to circumvent the competition originated by the free market. In Armenia, multiple blockades from neighbouring countries aggravated this process, which resulted in neo-patrimonial political capitalism of a protectionist nature. The merging of the business and political spheres engendered patron-clientelism in the polity. On a regular basis, Samvel Alexanyan and other oligarchs, such as Gagik Tsarukyan and SAS supermarket chain owner Artak Sargsyan, used their influence over their employees to help former government candidates get votes during elections.

However, things changed after the 2018 Velvet Revolution in the country. Kinship networks are one of the many bases of bribery and corruption, among other types of informal exchanges. These are types of *strong ties* (Granovetter, 1983), and among them, along with kinship, is friendship. Friendship acts in a way as a quasi-familial structure to form a loyalist’s network, a circle of trust. For instance, ex-president Serj Sargsyan’s (as well as other officials’) classmates and friends receive exorbitant privileges.

Before Pashinyan became prime minister, a group of businesspeople and authorities fled the country, presumably out of fear of being investigated. One of those individuals was the ex-president’s brother Alexander Sargsyan, whose reputation was that “everyone who had ‘business’ with him knows that he always demands his 50 percent without investing even a penny.” His nickname in Armenian is *Hisun-Hisun* (“50/50”), leading to his moniker of “Sashik-50 percent.” Sashik’s justification for demanding a large share of business profits was the classic post-Soviet offering of “protection” (*kry-*

1 In some cases, there are various explanations for the origins of the nicknames. “Dod” in Armenian slang is “stupid”. Perhaps, in this case, this word has a positive connotation, in the same way that Ivan the Fool is a key positive hero in the Russian fairy tale. Khachatur Sukiyan is called “Grzo” by association with a fellow villager. “Tzaghik” (“flower”) Rubo has a network of flower shops named “Brabion”. “Lyfik” Samo’s nickname comes from the Russian word *lifchik* (“bra”): In Soviet times, he used to have a shadow workshop for the production of bras.

sha) for that business. In short, he exploited his close connections to the inner sanctum of the ruling clan to embezzle national and private resources. He was reviled in Armenia.

Tycoons and “Heroes”—Veterans of Karabakh War

Immediately after the Velvet Revolution, the National Security Service (NSS) targeted the large supermarket sector. Masked NSS officials stormed the “Yerevan City” supermarket conglomerate, owned by oligarch and MP Samvel Alexanyan, who had made a significant financial electoral contribution to former president Serzh Sargsyan and the RPA [Republican Party of Armenia]. It surfaced that “Yerevan City” as well as eleven other major retail chains were committing fraud in their accounting and avoiding paying taxes. In Armenia, for a small business with a turnover that does not exceed 240,000 drams, there is a simplified taxation scheme: instead of paying a certain VAT, they pay a turnover tax of two percent. The supermarket and retail owners took advantage of this and had registered hundreds of fake individual “entrepreneurs” to make it seem that their enterprise was a set of small businesses to pay low taxes. This scheme had been in use for years and had caused millions of dollars in losses to the Armenian state. The previous heads of law enforcement and the tax authority, Vladimir Gasparian and Vardan Haruthunyan, certainly knew about this arrangement and most likely supported it. The NSS called in for questioning practically all of the officials who had any associations with retail conglomerates. In the end, Alexanyan left the RPA parliamentary faction, and his case was resolved by his willingness to cooperate with the investigation and provide reimbursements. There have been hundreds of scandals in a similar vein since the 2018 revolution.

Revolutionary prime minister Nikol Pashinyan ordered a series of raids and arrests that predominantly targeted members of the RPA. Although it is not especially constructive for society at large when a new administration uses its new powers to comprehensively attack a former administration, the Armenian government in this case needed a clean sweep. For example, on June 14, 2018, the NSS arrested General Manvel Grigoryan, a senior official in the Yerevan city government, which was then controlled by the RPA. Grigoryan was a Karabakh fighter and the head of Erkrpah, Armenia’s largest organization of war veterans. Prosecutors stated that Grigoryan misappropriated state goods and donations for the army. He was arrested after the NSS released footage of the raid on his home where large quantities of weapons, food, and ammunition were found and confiscated. Items discovered on his property included vehicles meant for the military and, rather astoundingly, donated food items

for troops that he was apparently feeding to animals in his private zoo. For decades, the Grigoryan “clan” had served as a symbol of ubiquitous corruption, lawlessness, and systemic violence. They used to rule the city of Etchmiadzin as a private neo-patrimonial fiefdom. While representatives of the former authorities have accused the new government of a political vendetta, affiliation with a certain political party was actually a key mechanism of that kind of state-sponsored theft and plunder.

Conclusion

Corruption was one of the critical reasons for the recent revolution in Armenia. The country is now fighting corruption with a case-by-case formula with all the investigative bodies at its disposal. The Ministry of Justice has an anti-corruption strategic plan for 2019–2022. The main directions are the prevention of corruption, investigations of corruption, and anti-corruption education and awareness. However, Pashinyan’s administration has been criticized for not implementing institutional changes in the fight against corruption. In November 2019, the highly ineffective ethics committee was replaced with a new committee for corruption prevention. The decision to create the committee was made in 2017 but was delayed because of the revolution. The candidates were proposed by the government, parliament and supreme judicial council. On November 26, 2019, Haykuhi Harutyunyan, suggested by the opposition party “Bright Armenia”, was elected as head of the committee. This committee has no legal authority and will not be able to prosecute; instead, it will examine declarations from high-ranking officials and establish conflicts of interest. The anti-corruption body that will have legal authority will be set up only in 2021 with a separate corruption court.

The reduction of informal exchanges and the fight against corruption and crime, as the Georgian case clearly showed, is directly related to national security. Steps have been taken in the right direction over the past year: abuses of office by high-level officials have been publicly revealed, and major criminal cases have been brought to court. However, some parliamentarians, institutions, and, without a doubt, some oligarchs persist as obstacles to Armenia’s genuine democratic reform. Nevertheless, the new rules of the economic game—in particular, the strong call for more transparency by the new Armenian government—have resulted in a reduction of the shadow economy to the benefit of the treasury. The process is underway.

See overleaf for information about the author and bibliography

About the Author

Nona Shahnazarian is a social anthropologist who is a Senior Research Fellow at The Institute of Archeology and Ethnography, National Academy of Sciences, Yerevan, Armenia. She is also affiliated with the Center for Independent Social Research, St. Petersburg, Russia. In 2017, she was a Visiting Carnegie Fellow at Stanford University. She has published extensively on the issues of gender, war, migration, economic anthropology, memory and diaspora in the Caucasus, including a book chapter *National Ideologies, Survival Strategies and Gender Identity in the Political and Symbolic Contexts of Karabakh War* (2010), as well as a monograph in Russian “*In the Tight Embrace of Tradition: War and Patriarchy*” (2011). Her most recent publications include *The Republic of Armenia* (with Kristin Cavoukian), which appeared in *The Palgrave Handbook of Women’s Political Rights* (2018), and “*Goodbye ‘Sashik-Fifty Percent’: Anti-Corruption Trends in the New Armenia*,” PONARS Eurasia Policy Memo 611, 2019, <http://www.ponarseurasia.org/memo/goodbye-sashik-fifty-percent-anti-corruption-trends-new-armenia>

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