

Goodbye “Sashik-Fifty Percent”

ANTI-CORRUPTION TRENDS IN THE NEW ARMENIA

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A major step to reduce the corrupt practices that perpetually flow through the Armenian government is to legally and publicly hold officials responsible for their transgressions. The country’s peaceful 2018 Velvet Revolution presented a rare opportunity to do so. Nikol Pashinyan’s rise to power was fueled by mass resentment over cronyism, corruption, and poor governance. When he became prime minister in May 2018, his administration first took a cautious approach on tackling corruption, but soon enough, profound audits were launched into the dealings of former president Serzh Sargsyan’s clan of corrupt officials, businesspeople, and oligarchs. The ex-president’s brother, Alexander Sargsyan, perhaps best embodies the gray dealings of the former administration due to his regularly received illicit cuts of financial flows.

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 blocks to Armenia’s better future. Still, 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.

“Sashik” Taxes and Decayed Party-of-Power

Before Pashinyan became prime minister, a group of businesspeople and authorities departed the country, presumably out of fear of being investigated. One of those individuals was Alexander Sargsyan, whose [reputation](#) was that “everyone who had business with him knows that he always demands his 50 percent.” His nickname in Armenian is *Hisun-Hisun* (“50/50”) leading to his moniker of “Sashik-50 percent.” There

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are many jokes about him in popular culture, such as, “When Sashik went to the moon, it immediately turned into a crescent,” (i.e., he stole half of it).²

Sashik’s justification for asking for a large share of business profits was the classic post-Soviet space offering of “protection” (*krysha*) for that business. In short, he exploited his close connection to the inner sanctum of the ruling clan to embezzle national and private resources. He was reviled in Armenia. One story stands out. Sashik managed to get a share of the money pulled in from Armenia’s relatively new roadway speed and intersection vehicle camera system. During Pashinyan’s march from Gyumri to Yerevan on April 4, 2018, under “anti-Sashik-2 [actions](#),” protesters [covered](#) these cameras with stickers not only to disable them but to publicly deprive Sashik of this blatant source of revenue. (An activist and a member of Pashinyan’s cohort, Anush Lalayan, [covered](#) speed cameras with her underwear as a rather unique form of protest.) These kinds of anti-establishment political actions during the dawn of the revolution sent a very strong message that the Pashinyan camp was decidedly interested in anti-corruption measures and that cronyism would be investigated if power changed hands.

Corruption at Customs

Business integrity is a critical challenge in Armenia, as Christoph Stefes from the University of Colorado at Denver (and others) have [detailed](#). As in many post-Soviet states, the merger of political and economic elites interferes with equal opportunity, fair play, and anti-corruption programs.

Arthur Vanetsyan, when he was appointed by Pashinyan as the new head of Armenia’s National Security Service (NSS), emphasized the need to tackle corruption. The new administration took office in early May 2018 and by the end of that summer, increasing evidence was presented by the NSS of serious misdeeds, such as customs service and tax fraud, committed by organizations, officials, and parliamentary members of the former party in power, the Republican Party of Armenia (RPA).

Vanetsyan began by investigating Norfolk Consulting, the customs broker monopolist, and [uncovered](#) a large amount of tax evasion and fraud. The company had been registered only in the summer of 2017 and it quickly became famous for being persistent in offering importers customs papers exclusively through them and for creating “problems” for those that refused their services. It pushed many other companies out of business. The NSS conducted searches in the company’s offices and in the private home of the company’s general manager, Armen Hunanyan, who was a former chief

² Here is an example of “New Armenia” humor that sees real change as hopelessly elusive: *A rabbit is surprised to see a raven flying backwards and asks him, “What’s going on?” The raven replies that things have changed in “New Armenia” and this is how things are now done. So the rabbit starts to hop backwards but soon falls into the mouth of a wolf! The resentful rabbit cries out to the wolf, “What’s going on? Don’t we all have to walk backwards now?” The wolf says, “Things have only changed at the top end. Everything is the same as before at the bottom end.”*

accountant at Gazprom-Armenia. It turned out that Norfolk Consulting was not properly drawing up contracts, and, to put it mildly, was enjoying lucrative, illegal privileges and patronage from top officials. In just nine months of existence, the company had failed to pay millions of dollars in taxes, and half a million dollars in cash was discovered in Hunanyan's house. The main result, apart from the message of "justice" being sent by the new administration, was that the process of goods clearing Armenian customs was reduced to an hour from several days.

Corruption in Retail

The NSS targeted the large supermarket sector. Masked NSS officials stormed the "Yerevan City" supermarket conglomerate, which is owned by oligarch and MP Samvel Alexanyan who had made a significant financial electoral contribution to former president Serzh Sargsyan and the RPA. It surfaced that "Yerevan City" as well as eleven other major retail chains were [cheating](#) 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 tax 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 like their enterprise was a set of small businesses in order 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 law enforcement and tax authority leaders, Vladimir Gasparyan and Vardan Haruthunyan, certainly knew about this arrangement and most probably patronized it. Alexanyan and other oligarchs, like SAS supermarket chain owner Artak Sargsyan, also used their influence [over](#) their employees to help former government candidates get votes during elections. 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. Some are rather curious. For example, immediately after the revolution, the salaries of each employee at the Grand Candy company, "the largest [enterprise](#) in the food industry in Armenia," increased by 50,000 drams. The popular explanation for these windfalls was because Sashik fled the country and was thus deprived of his regular monthly cut, which thereby allowed employees to receive their wages in full. If this was the case, it added to the impetus and popularity of the revolution.

Corruption by Entrenched Politicians and "Heroes"

In June 2018, the new government's anti-corruption campaign took a more aggressive turn. 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. To bring up an 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" served as a symbol of ubiquitous corruption, lawlessness, and systemic violence. They used to rule the city of Etchmiadzin (Vagharshapat) as a private neo-patrimonial fiefdom. Residents of Etchmiadzin have [described](#) how Grigoryan and his cronies assaulted locals with impunity. The new officials have been discussing how to deprive Grigoryan of his "hero" title (his ill health has prolonged the case).

Some RPA MPs, such as Eduard Sharmazanov and Armen Ashotyan, have accused the new government of a political vendetta (not necessarily pertaining to the Grigoryan case). But as new Deputy Prime Minister Ararat Mirzoyan [said](#), "This is not our fault that 99 percent of all discoveries deal with people from a certain political party."

Corruptive Fear-Mongering

It seems too often that governmental messaging about dangers emanating from (convenient) enemies hides corruption schemes. It became clear that a portion of the externalization of danger and alarmist security dilemma discourses spread by the former regime were about camouflaging endemic corruption schemes. One of the most prevalent pre-2018 social discourses employed by the old elites was the full-on and repeated motif of the external *Other* enemy. The dynamic of this externalization was tremendously intensive and in most cases it worked effectively to deter independent thinking, free speech (particularly among war veterans), and keep people attached to the government through patriotism. This type of messaging from the center has decreased since 2018, although the situation first began to change after the Four Day War in April 2016 when corruption scandals were revealed and citizens began to be wary of psychological manipulation.

Armenia has endured a post-Soviet patronal or neo-patrimonial political system. Officials in this system tend to see holding office as access to resources rather than as an opportunity to change society for the better. Will Pashinyan continue to change this

culture of privilege? The fleeing of Sashik, arrest of Grigoryan, and the public take-down of oligarch Alexanyan have been efforts in the right direction. A more difficult climb will be against the police and judicial institutions. One year after the Velvet Revolution, the prognosis is that many informal, gray, and black businesses have been cleaned up and are now paying their legal share of taxes.

Law Enforcers Loved Bribes

Police reformation in Armenia is somewhere in between what occurred in Georgia (radical restructuring) and Russia (decorative-symbolic changes, Kremlin centralization). With the new government's focus on identifying and holding accountable those engaged in corrupt practices, it is important to understand the fundamental links between corruption and economic growth. A key resource may be German economist Johann Lambsdorff's study on the "institutional economics of corruption and reform" that [suggests](#) breaking up corruption into different subcomponents to reveal various associations, solutions, and impacts, such as on productivity.³ In effect, the lower the level of corruption "perception" in any country, the higher the prosperity is, a dynamic applicable to the overall perceptions in "New Armenia."

The above-mentioned roadway camera system debacle is a good example of an effort that on some level was meant to reduce day-to-day corruption: the paying of cash bribes to police officers.⁴ A condition of the camera penalty system was for there to be non-cash payments of fines through a bank. But the system still enriched Sashik (through his "Security Dream LLC") and the steep fines were seen as nothing more than revenue raising and the legalization of bribes and graft by another method. It turned out that as much as 70 percent of the income from the cameras was going to "private companies."

"People have no trust in the judiciary and therefore it lacks legitimacy." - [N. Pashinyan](#)

To what extent can political will be paired with strong mechanisms to combat institutional corruption? Most of the representatives of the old elite were very well versed in finding loopholes in the law or submitting "elastic" bills that served their patrons. In this context, it is necessary to radically reform the dysfunctional judicial system. Removing corrupt judges has become one of the main challenges to Armenia's post-revolutionary reform momentum. Pashinyan moved to purge the judiciary after a Yerevan court controversially ordered former President Robert Kocharyan released from custody on May 18, 2019, pending the outcome of his high-profile trial.

³ Lambsdorff's study used the 2001 Transparency International Corruption Perceptions Index.

⁴ Here is an example of a commonplace "New Armenia" joke about the traffic police:

A policeman pulls over a car for a traffic violation after the Velvet Revolution. He asks the driver, "Do you live in New Armenia or Old Armenia?" If the driver replies, "New Armenia," the policeman starts filling out extensive forms. If he says, "Old Armenia," the policeman says, "Just pay 5,000 drams and be on your way!"

The case of former president Kocharyan became a trigger for Pashinyan to scrutinize all judges. He appealed to the people via Facebook in May 2019 before he [stopped](#) the seating of new judges to all the courts in the country for "[vetting](#)." "I blocked the doors of the courts to show that I do not need a puppet judicial system," [said](#) Pashinyan in his interview to Radio Azatuthyun on June 5, 2019. This action by the prime minister showed that a truly free and independent judicial system was proving hard to achieve and he needed the people's support. Initially, Pashinyan said that he was not going to intervene in the (day-to-day) functioning of the judicial system in the belief that it should be self-reformed and purified from within. However, it is widely acknowledged that the system has been rotten to the core. Many corrupt judges have yet to be replaced and Armenian policymakers are still working on how to implement a fair legal system. To that effect, Pashinyan [stated](#):

"Within three years we will create a new court, for example, an anti-corruption court, we will attract new serious specialists providing them with high salaries, who people can trust to do vetting. Within three years, the public, the opposition, and the government will see that having an independent judiciary is really good for everyone, good for the state and for the economy."

Conclusion

The fight against corruption was the main political driver of Armenia's Velvet Revolution. Citizens had become increasingly aggravated with unethical legislators and with the fact that almost every economic sector was used as an instrument to extract enormous amounts of money from an impoverished population. This discontent was central to the Pashinyan revolution. This is also what separates Armenia from other states that have significant natural resource wealth upon which corrupt elites feed. In his first 100-day report, Pashinyan had warned that there would be no immediate improvements because the entire economic, business, and judicial model was outdated. Even the October 2018 "[counter-revolution](#)" against him may have helped his cause because he was able to show that citizens support him and that he can mobilize them immediately. That October crisis demonstrated, however, that the old elites, some of whom may have switched to supporting Pashinyan, still expect privileges. And when one looks at patronage networks, a major hurdle yet to be truly tackled is the freeing of the Armenian economy from sticky oligarchic controls.